INVs' Choice of Entry Mode in Emerging Markets

Jyoti Sharma

Industrial Economics and Technology Management
Submission date: May 2011
Supervisor: Øystein Moen, IØT

Norwegian University of Science and Technology
Department of Industrial Economics and Technology Management

MASTERKONTRAKT

- uttak av masteroppgave

1. Studentens personalia

Etternavn, fornavn **Sharma, Jyoti**	Fødselsdato **05. jun 1987**
E-post **jsharma569@gmail.com**	Telefon **92405684**

2. Studieopplysninger

Fakultet **Fakultet for Samfunnsvitenskap og teknologiledelse**	
Institutt **Institutt for industriell økonomi og teknologiledelse**	
Studieprogram **Industriell økonomi og teknologiledelse**	Hovedprofil **Strategi og internasjonal forretningsutvikling**

3. Masteroppgave

Oppstartsdato **17. jan 2011**	Innleveringsfrist **13. jun 2011**
Oppgavens (foreløpige) tittel **INVs' Choice of Entry Mode in Emerging Markets**	
Oppgavetekst/Problembeskrivelse Emerging markets' rapid growth has emphasized their importance in the world. Firms wanting to exploit the opportunities represented by these markets often have to consider when and how to enter. The choice of entry mode is not something a firm can choose freely in a particular market at any given time. There are many aspects to consider when deciding on an entry mode. This study examines the entry mode decision of INVs entering emerging markets by performing a qualitative research on a small sample of firms.	
Hovedveileder ved institutt **Professor Øystein Moen**	Biveileder(e) ved institutt
Merknader **1 uke ekstra p.g.a påske.**	

4. Underskrift

Student: Jeg erklærer herved at jeg har satt meg inn i gjeldende bestemmelser for mastergradsstudiet og at jeg oppfyller kravene for adgang til å påbegynne oppgaven, herunder eventuelle praksiskrav.

Partene er gjort kjent med avtalens vilkår, samt kapitlene i studiehåndboken om generelle regler og aktuell studieplan for masterstudiet.

24/01/11 TRONDHEIM
Sted og dato

Jyoti Sharma
Student

[signature]
Hovedveileder

Originalen oppbevares på fakultetet. Kopi av avtalen sendes til instituttet og studenten.

NORWEGIAN UNIVERSITY OF TECHNOLOGY AND SCIENCE, NTNU

INVS' CHOICE OF ENTRY MODE IN EMERGING MARKETS

JYOTI SHARMA

Trondheim 2011

2

"Buying a stake in emerging markets

is like buying a stake in the future"

Buttonwood - The Economist

4

I Preface

This paper is a diploma study in the field of international business written in the spring of 2011. Qualitative research has been conducted to cover the topic of international new ventures' choice of entry mode in emerging markets. It has been a pleasure working with this topic, especially since the shift in the global environment makes studying emerging markets highly relevant. I hope the paper reflects my interest in the subject and that the reader will get useful insight into how market entry progresses in emerging markets for small firms.

My interest in this field has mostly been revived through being a student at Industrial Economics and Technology Management at the Norwegian University of Technology and Science (NTNU). Thanks to Professor Aspelund's lectures, I have become more aware of the changed worldview in international business. As the global integration between firms and countries marches forward, it is no longer "the white man's burden" to help the rest. Emerging markets are redrawing the global picture, and according to the Economist: "Buying a stake in emerging markets is like buying a stake in the future". This is what makes studying how firms from developed markets can exploit the opportunities in emerging markets highly interesting.

I would like to thank my professor, Arild Aspelund, for providing good guidance and feedback throughout the semester. Additionally, my current position in the start-up company Authente has also spurred my interest in this subject. The start-up is considering a born global path to cover new markets, and I feel privileged to be a part of this. Hence, I would also like to thank Christian Testman (CEO of Authente) for presenting the opportunity to work with this topic.

Trondheim, 25th May 2011

____

Jyoti Sharma

6

II Abstract

The rapid growth and development of emerging markets have made them noteworthy actors in today's globalized world. These markets are no longer restricted to resourceful MNCs. The potential these markets represent has also been captured by an increasing number of opportunity seeking INVs. Meanwhile, INVs are different from MNCs. Hence, what influences the entry mode decision of MNCs may not be the case for INVs. Furthermore, studies on INVs present a dilemma between alternative governance structures and FDIs. The objective of this paper is therefore to examine how the different factors influence the entry mode decision of INVs in emerging markets. The factors considered are taken from the conceptual model of Lin (2000). These are entering firm, market environment, partner factor, transaction-specific factor, and competitive strategy. This paper performs qualitative research by conducting semi-structured interviews with four INVs from different emerging markets to address the objective.

The findings of this paper support the use of HRC modes, especially wholly-owned subsidiaries, in emerging markets. This decision is mostly influenced by transaction-specific and competitive strategic concerns. Knowledge-based INVs have to protect against leakages and expropriation of their valuable assets. This is why partner factors are of less significance when deciding on an entry mode. The risk of losing knowledge to partners is considered greater than the benefits of sharing risks. Furthermore, local presence signifies long-term commitment and makes it easier to seize emerging opportunities. Moreover, entering firm variables are also significant influencers of the decision. An international orientation is vital for the firm to risk using complex modes in highly uncertain markets. The market environment factor is therefore of less significance because the firms acknowledge that emerging markets are inevitable for niche-serving INVs.

Considering the entry mode dilemma for INVs, this paper supports the use of FDIs. INVs need to take strategically optimal choices, despite their being start-ups. Alternative governance structures are not supported due to transaction-specific and competitive strategic variables. The argument supporting alternative governance structures, namely resource and power constraints, can be overcome through leveraging on other sources. The financial constraints are also of less significance due to the low-cost nature of emerging markets. Efficiency and context-specific knowledge can be learnt over time. Meanwhile, control is important in uncertain environments marked by unpredictable conditions. Hence, extant research on this area supporting the use of alternative governance structures is discarded due to the conflicting findings, especially when considering emerging markets. However, this field needs further research to support the findings of this study. Researchers eager to explore this relatively untouched field have more than enough to keep themselves occupied with.

8

III List of Contents

I PREFACE 5
II ABSTRACT 7
III LIST OF CONTENTS 9
1. INTRODUCTION 11
1.1 OBJECTIVE OF PAPER 12
1.2 DEFINITIONS 12
1.3 STRUCTURE 13
2. CONCEPTUAL BACKGROUND 14
2.1 INTERNATIONAL NEW VENTURES 14
2.2 THE ENTRY MODE DECISION OF INVS 15
2.3 EMERGING MARKETS 16
2.4 INVS ENTRY MODE CHOICE IN EMERGING MARKETS 18
2.5 CONCEPTUAL MODEL 25
3. METHODOLOGY 27
3.1 RESEARCH STRATEGY AND DESIGN 27
3.2 SAMPLING 28
3.3 DATA COLLECTION AND ANALYSIS 28
3.4 EVALUATION OF SAMPLE FIRMS 30
3.5 EVALUATION OF RESEARCH PROCESS 30
4. RESULTS 32
4.1 SAMPLE DESCRIPTION 32
4.2 ENTERING FIRM 34
4.3 MARKET ENVIRONMENT 36
4.4 PARTNER FACTORS 38
4.5 TRANSACTION SPECIFIC 41
4.6 COMPETITIVE STRATEGY 43
4.7 MAIN INFLUENCING VARIABLES 45
5. DISCUSSION 46
5.1 MAIN FINDINGS 46
5.2 IMPLICATIONS FOR MANAGERS 52
5.3 IMPLICATIONS FOR POLICY MAKERS 53
5.4 LIMITATIONS AND FURTHER RESEARCH 54
6. CONCLUSION 55
7. REFERENCES 56
APPENDIX 1: ENTRY MODE THEORY 59
APPENDIX 2: INTERVIEW GUIDE 61

10

1. Introduction

Emerging markets' rapid growth and industrialization during the past decade has made the Western world notice their less-developed counterparts, and made countries like China and India major players in the world. Many emerging markets have also begun to produce global firms that are fast becoming key actors worldwide. Emerging markets are becoming the source of future growth. Several firms have already seen the potential these markets represent. Firms from developed countries that are tired of their highly competitive and often saturated markets exploit the opportunities represented by the somewhat unexplored countries of Asia, Latin-America, and Eastern and Central Europe (CEE). Globalization and the resulting integration have opened up a landscape of opportunities, but in order to exploit these, firms need to reevaluate their strategies.

Burgel & Murray's (2000) research found that the majority of high-tech start-up firms chose Western countries for their first market entry, US being the most frequently targeted country. However, emerging economies are becoming attractive markets with low-cost labor, knowledge workers, government support, low-cost capital, and powerful networked conglomerates. Meanwhile, many emerging markets also have unstable governments, weak legal systems, poor infrastructure, inadequate communication and distribution systems, limited managerial resources and significant cultural differences. [Hoskisson et al. (2010)] What most firms from developed countries would regard as basic marketing infrastructure, is largely absent in emerging markets [Arnold & Quelch (1998)]. Yet, this has not stopped foreign firms from doing business in these countries. Thus, emerging markets presents both tremendous opportunities and unique challenges.

Today, the important question is often when and how to enter, rather than to enter foreign markets or not. When selecting an entry strategy, decision makers typically consider the goals and objectives of the firm, the resources and capabilities available to the firm, unique conditions in the target country, inherent risks when pursuing internationalization, the nature and extent of competition, and the characteristics of their product or service offering [Cavusgil et al. (2008): 383]. Although much has been written about emerging markets and choice of entry mode, past studies have often focused on large firms [Rasheed (2005)]. Yet, emerging markets have lately also attracted international new ventures (INV). The relatively unexplored markets and the low-cost nature of emerging nations provide favorable conditions for international start-ups as well.

Extant literature reveals that internationalization is often a necessity for small firms due to insufficient domestic market size and significant domestic competition, thus fueling the emergence of INVs [Crick & Jones (2000), Aspelund et al. (2007)]. Especially, firms in fast-moving, technology-intensive industries have short window of opportunities and therefore seek rapid and broad market penetration to capitalize on their innovation [Aspelund et al. (2007)]. This leaves emerging markets as viable options. Meanwhile, there are differing opinions as to how INVs internationalize. The general view argues that alternative governance structures are more feasible in order to overcome resource and power limitations that characterize new ventures [Oviatt & McDougall (1994)]. However, there are some opposing arguments to this view. The ability to enhance the knowledge base and political concerns, such as power imbalance and the risk of expropriation, favor higher commitment modes [Aspelund & Moen (2010)], like FDIs. In addition, some of the traditional arguments regarding resource constraints might weaken in the context of low-cost emerging markets. These views clearly present a dilemma concerning the entry mode choice of INVs, especially in emerging markets.

1.1 Objective of Paper

As already mentioned, the views on this subject are opposing and gives rise to a dilemma for INVs. Furthermore, none of the articles mentioned focus on emerging markets. However, this subject has become highly relevant in international business in time. Are all the arguments strongly favoring low commitment modes still valid in the context of emerging markets, or does the changed context alter the decision variables? This is clearly an area that needs further research. That is why it would be valuable to gain further insight into the subject and explore how western INVs make their entry mode decision in emerging markets. This paper uses Lin's (2000) five influencing factors as basis in order to explore how the entry mode decision is made. The five factors are connected to the entering firm, market environment, partners, transaction-specific concerns and competitive strategy. A study of this kind will hopefully offer a solution to the dilemma presented, as well as highlight the main aspects to consider when entering emerging markets.

The objective of this paper is to examine how the five different factors influence the entry mode decision of international new ventures in emerging markets.

1.2 Definitions

The most cited definition of emerging markets is taken from Arnold & Quelch (1998). According to their definition, an emerging economy is a country that satisfies two criteria: (1) a rapid pace of economic development, (2) and government policies favoring economic liberalization and the adoption of a free-market system. They are a subset of former developing countries that have achieved substantial industrialization, modernization and rapid economic growth. The economies are differentiated by degree of economic development and per-capita income. [Cavusgil et al. (2008): 257] These high growth, high-potential and high-risk markets are often categorized as emerging markets, emerging economies, emerging financial markets and big emerging markets (BEM) [Arnold & Quelch (1998)]. These terms are used interchangeably throughout the paper.

Transition economies are a subset of emerging economies. These are economies that have transformed from a centrally planned economy into liberalized markets. The term is often used on countries in Central and Eastern Europe after the fall of Communism. [Hoskisson et al. (2010)]

Advanced, or developed, economies are post-industrial countries characterized by high per-capita income, highly competitive industries, and well-developed commercial infrastructure. These are the world's richest countries, such as the United States, Japan, Australia and most of the European countries. Meanwhile, developing economies are low-income countries characterized by limited industrialization and stagnant economies, like Bangladesh, Nicaragua and Zaire. [Cavusgil et al. (2008): 256-257]

BRIC is an acronym that refers to Brazil, Russia, India and China. These are seen as the major developing economies in the world, in that they are all in the same stage of their development process. The four BRIC countries combined currently account for more than a quarter of the world's land area and more than 40 percent of the world's population. Goldman Sachs speculated that these four economies would be wealthier than most of the current major economic powers by 2050. [Goldman Sachs (2003)] South Africa was formally added on April 13, 2011, extending the acronym to

BRICS[1]. The acronym symbolizes the shift in global economic power away from the major developed economies towards the developing world.

1.3 Structure

The structure of this paper is as follows:

The Conceptual Background chapter combines extant literature to derive propositions relating to the objective of this paper. International new ventures and emerging markets are further described, as well as the entry mode research that combines these fields. Next, the Methodology chapter describes the research process of this paper and how the results were found. The Results chapter outlines the results gained from the sample gathered, and compares the findings to detect association patterns. This chapter is followed by the Discussion chapter, which discusses the results compared to the conceptual background and the propositions deduced. Implications for managers and policy makers are highlighted, as well as suggested further research and the limitations of this paper. Finally, the Conclusion sums up the main findings of this paper, while an Appendix is attached to further support some topics.

[1] http://online.wsj.com/article/SB10001424052748703841904576256413453368944.html?KEYWORDS=brics *(The Wall Street Journal, 13th April 2011)*

2. Conceptual Background

This chapter combines extant literature on three different fields, namely international new ventures, entry mode theory and emerging markets. The theories on the fields are briefly presented where appropriate, but the main focus lies in combining existing work to deduce relationships between the different factors considered in the context of INVs. The chapter explains what characterizes international new ventures and their entry mode choice. Next, the conditions in emerging markets are outlined. What follows is an explanation of INVs' entry mode decision in emerging markets. The propositions deduce the relationships between entry mode and the five factors considered. Finally, the chapter rounds off with expected findings based on the suggested propositions.

2.1 International New Ventures

The international business literature consists of different theoretical models that describe the internationalization process of firms. The traditional view of this process is the stage models that show how firms go through a succession of stages as they slowly develop their international activities. [Aspelund & Moen (2010)] The two most recognized models are the Swedish Uppsala internationalization model (U-M) and the American innovation-related internationalization model (IR-M). Both propose a slow and incremental internationalization process, where internationalization is initiated after domestic establishment. [Aspelund et al. (2007)] The process is slow due to risk aversion and lack of experiential knowledge (U-M) and organizational inertia (IR-M). The stage models predict that international market experience is a decisive factor for how firms choose to govern and develop their international activities. [Aspelund & Moen (2010)] Hence, the entry mode decision into foreign markets is a succession of stages from low to high commitment modes [Johanson & Vahlne (1977)].

Meanwhile, the phenomenon known as "International New Ventures" (INV) has changed the internationalization process [Gleason & Wiggenhorn (2007)]. These are also known as "Born Globals", "Instant Internationals" and "Global Start-ups" [Gleason & Wiggenhorn (2007)]. Oviatt & McDougall (1994) describe INVs as business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. It is their age, and not their size, that is in focus. They state four necessary and sufficient elements for the existence of INVs: (1) organizational formation through internalization of some transactions, (2) strong reliance on alternative governance structures to access resources, (3) establishment of foreign location advantages, and (4) control over unique resources. [Oviatt & McDougall (1994)] Internationalization is no longer seen as a slow or incremental stage-wise model. Rather, firms can expand right from inception. [Gleason & Wiggenhorn (2007)] Shrader, Oviatt & McDougall (2000) characterize INVs as new ventures that internationalize within six years of their inception. INVs are often pushed to internationalize by their need for growth and domestic market constraints. There is also a pull effect from attractive foreign market conditions and frequent foreign initiatives. [Aspelund & Moen (2005)] Meanwhile, this has implications for the entry mode decision as well. Rather than gradually increasing commitment, firms have to choose an appropriate entry mode from the start. The general view supports the use of alternative governance structures or hybrid structures. However, there are some opposing views that lend support to higher commitment modes, like foreign direct investments (FDI), as well. The different mode categories are tried illustrated in figure 1, representing the dilemma.

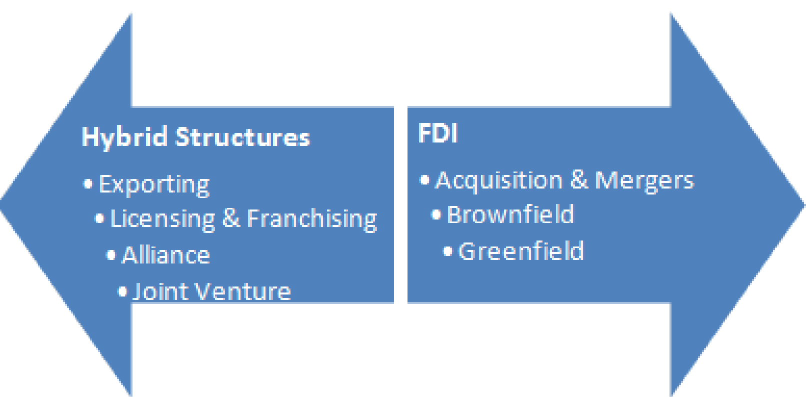

Figure 1: The entry modes that fall under the two different categories of mode choice for INVs

2.2 The Entry Mode Decision of INVs

An entry mode is an institutional arrangement that makes entry of a firm's products, technology, human skills, management, or other resources into a foreign country possible [Sharma (2002)]. Firms need to be very cautious in their choice of entry modes, in that they affect how firms face challenges of entering a new country and deploying new skills to market their products or services successfully. [Johnson & Tellis (2008)] Each entry mode has its own advantages and disadvantages, and its own characteristics in terms of resource commitment, control, flexibility and efficiency [Cavusgil et al. (2008): 419-421]. Existing entry modes listed in order of commitment are exporting, licensing, franchising, strategic alliance, joint venture, acquisition and wholly-owned subsidiary [Cavusgil et al. (2008): 402-405, Johnson & Tellis (2008)]. The latter three comprise high resource commitment (HRC) modes, while the others are characterized as low resource commitment modes (LRC) [Cavusgil et al. (2008): 420]. A brief explanation of each mode can be found in Appendix 1.

INVs should generally choose alternative governance structures in order to overcome resource and power limitations [Oviatt & McDougall (1994), Burgel & Murray (2000)]. Low resource commitment modes are necessary in order to overcome these constraints, handle risk and to better meet local demands [Burgel & Murray (2000)]. FDIs are considered unrealistic in the early stages, even though these are the most competitive strategies. INVs should use specially accommodated entry modes instead in order to achieve a broad and rapid international market penetration. [Aspelund et al. (2007)] Less capital intensive entry modes, such as direct export and intermediaries like agents or distributors, are more suitable. [Burgel & Murray (2000)] Collaborating with partners with complementary competencies is a usual practice due to insufficient competences and routines in the entering firm alone. [Madsen & Servais (1997)]

The network structure is considered a powerful resource conserving alternative governance structure because it depends on social control of behavior through trust and moral obligation, instead of formal contracts. It also includes informal communication instead of formal contracts. [Oviatt & McDougall (1994)] Furthermore, networks facilitate acquisition of necessary resources, exploitation of informal benefits and an increased ability to execute strategies. They also offer some combined benefits to new ventures through provision of information, credibility and the creation of exchange relationships. [Aspelund & Moen (2010)] Cooperation dominates opportunism because business and personal reputations are at stake [Oviatt & McDougall (1994)]. Contracting is viewed as a less

feasible governance mechanism for INVs. Trust is a more decisive factor in that these ventures often rely on partners to succeed in global markets. [Madsen & Servais (1997)]

Nevertheless, alternative governance structures also involve some risk. LRC modes often result in reduced learning, which is often a consequence of using partners that are responsible for the direct contact with foreign customers. HRC modes contribute more to learning. Hence, LRC modes might inhibit further international development and profitability in the long run. [Aspelund et al. (2007)] HRC modes may be favorable in order to meet local demands for implementation [Crick & Jones (2000)]. The risk is also high when the power balance is skew. The smaller partner may risk expropriation by the larger partners of the valuable assets they own. [Oviatt & McDougall (1994)] In addition, Johnson & Tellis (2008) found that increased commitment may increase firm performance as well.

2.3 Emerging Markets

In the early 1980's some countries started to grow and industrialize. These markets have become attractive mainly due to their emergence as open and market-oriented countries. These measures were driven by several factors including the end of the Cold War, demise of Communism, the consequent reduced aid from the superpowers, and global factors like competition among firms in the maturing markets of developed countries. [Arnold & Quelch (1998)] The five BRICS countries are leading the way, while other countries are following the same development path but in their own pace. Emerging markets are found in Asia, Central and Eastern Europe, South Africa, Latin America and the Middle East. As of May 2010, Dow Jones classified the following 35 countries as emerging markets[2]:

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

Figure 2: Emerging Markets May 2010 (Dow Jones)

2.3.1 The attractiveness of emerging markets

Historically, multinational corporations (MNC) from the West have been the main driving power for economic growth. Their participation in emerging economies prior to this decade has been limited to low resource commitment modes, such as exporting, and marginal market activity. Now they focus on the revenue-generating potential of these markets, and their major basis of competition has shifted to creating and capturing the huge latent value [Arnold & Quelch (1998)], which has resulted in higher resource commitment modes like joint ventures and FDIs [Chandrasekaran & Ryans (1996)].

These markets are attractive for foreign firms as target markets, manufacturing bases and sourcing destinations [Cavusgil et al. (2008): 265]. Most emerging markets are characterized by a young

[2] http://en.wikipedia.org/wiki/Emerging_markets *(Wikipedia, 10th December 2010)*

population and a growing middle class, with increasing spending power. By 2025 it is predicted that the middle class in China alone will consist of 520 million, while the Indian middle class will be 200-300 million. [Inkpen & Ramaswamy (2007)] The increasing spending power also increases the demand for a variety of products and services. In addition, new technology is often adapted at a faster rate in these countries. This is a huge opportunity for foreign firms from saturated or highly competitive markets. [Cavusgil et al. (2008): 265]

Emerging economies have long served as platforms for manufacturing by MNCs. Firms from advanced markets have made significant investments in developing manufacturing facilities in these markets due to their low-cost and high-quality labor. In addition, some emerging markets have large reserves of raw materials and natural resources. In addition, global sourcing from foreign countries has also made emerging markets excellent platforms for sourcing. The emergence of Bangalore as India's Silicon Valley provides solid evidence of this fact. Foreign investments benefit these economies through job creation, production capacity, technology and know-how transfer, and linkages to the global market. [Cavusgil et al. (2008): 265-266]

2.3.2 The uncertainty connected to emerging markets

While emerging markets represent attractive markets and low-cost manufacturing bases, they also tend to exhibit certain risks. The pace of political change and the size of economic gains differ across the different countries. Foreign investors face several issues such as political, environmental, legal and economic risk. [Hoskisson et al. (2010)]

Many emerging economies have unstable governments, which adds to business costs, increases risks and reduces firms' ability to forecast business conditions. Political instability often comes with weak legal frameworks and corruption, which slows down the development of a reliable business environment. Weak property protection is also an issue. The property rights judicial process may be too slow or not enforced at all. Counterfeiting of software or media, for instance, is common in China and Russia. [Cavusgil et al. (2008): 271] Weak legal frameworks and property protection has also allowed the increase in opportunism, bribery and corruption [Javorcik & Wei (2009)], which cause further difficulties for foreign firms. In addition, cumbersome administrative rules and requirements delay business activities. The unnecessary bureaucracy suggests that the legal and political systems are not open for the public, and may lead to lack of transparency. Furthermore, suitable partners are not readily available in these economies either, especially in smaller countries. These markets are also often dominated by family conglomerates who can either become capable partners or strong competitors. [Cavusgil et al. (2008): 271-272]

2.3.3 The road ahead: The future of emerging markets

In contrast to developed economies, emerging markets like Brazil, China, India, Mexico and Turkey are experiencing rapid economic growth, industrialization and modernization. Their economies are growing much faster than those in developed countries. Emerging markets account for over 40 percent of world GDP, and receive over 20 percent of FDI combined. [Cavusgil et al. (2008): 262] They even had a higher share, 51.6 percent, of FDIs compared to developed markets in 2009[3]. Emerging economies make up 84 percent of the world's population, and it is expected that these markets will

[3] http://economictimes.indiatimes.com/news/economy/indicators/Emerging-markets-grab-higher-share-of-FDI-in-2009/articleshow/5550365.cms *(The Economic Times, 9th February 2010)*

comprise 26 percent of the global economy in 2015 [Vital Wave Consulting (2008)]. This merely adds to the fact that there is money to be made in these markets for those who dare to enter them.

The occurrence of foreign investment broadens the industrial bases of these nations. The countries' governments are trying to attract foreign investment by making the institutions and regulations open and market friendly. Nevertheless, important issues include different rules and regulations, customs, culture, technology and infrastructure. This makes conventional frameworks useless and foreign firms have to rethink business strategies before applying them to emerging markets. [Arnold & Quelch (1998), London & Hart (2004)]

2.4 INVs Entry Mode Choice in Emerging Markets

Studies have found that LRC modes like direct sales and foreign agents are the preferred entry modes for INVs [Aspelund & Moen (2005), Burgel & Murray (2000)]. However, none specialize in emerging markets in general. Present work on entry mode choice in emerging markets has mostly focused on MNCs. These firms prefer joint ventures, followed by wholly-owned subsidiaries, when entering emerging markets [Johnson & Tellis (2008)]. Furthermore, several studies have argued that HRC modes are the most suitable modes in these markets [Luo et al. (2001), Sharma (2002)]. These modes may present intrinsic opportunities, despite environmental uncertainties. Firms have to enter emerging markets with a long-term orientation, leaving HRC modes as the most appropriate entry modes. [Sharma (2002)] Moreover, Johnson & Tellis (2008) found that success is greater with greater control of the entry mode in India and China, thus supporting the use of HRC modes in emerging markets. This might suggest that joint ventures are the most preferred entry mode for INVs in these economies. However, what applies for MNCs may not necessarily apply for INVs. Therefore, the most convenient approach is to compare the opposing views with what exists on MNCs in emerging markets. The comparison is done according to Lin's (2000) conceptual model. Lin (2000) describes five sets of complementary and overlapping factors that each influences the entry mode decision in emerging markets. These are aspects associated with the entering firm, market environment, partner factors, transaction cost concerns and competitive strategy. Figure 3 is an attempt to illustrate the comparison of the three different research areas.

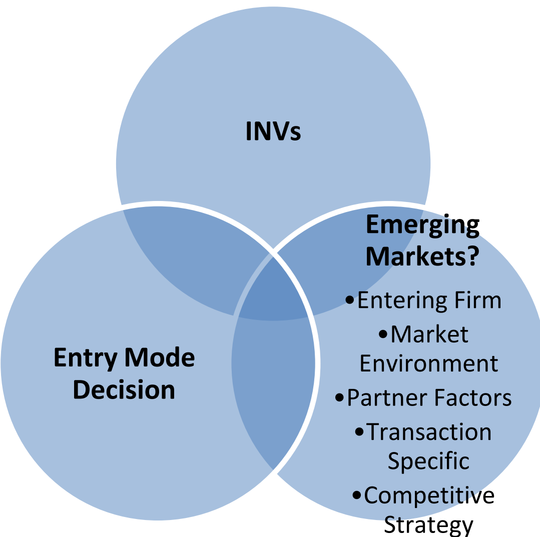

Figure 3: The three different research areas combined to explain INVs entry mode decision in emerging markets

2.4.1 Entering Firm

An organization is a bundle of capabilities and knowledge where individual skills, organization and technology are fully woven together [Zhang et al. (2007)]. Firm resources include all assets, capabilities, processes, attributes, information, knowledge and such, controlled by a firm that enables it to consider and implement strategies that improve its efficiency and effectiveness. An organization's capabilities have to be valuable, rare, inimitable and non-substitutable to provide the strongest competitive advantage. [Barney (1991)] When investing abroad, firms must decide whether their capabilities and knowledge of the host country environment enables them to set up and manage their operations. There has to be compatibility between the required resources of the environment and the resources a firm already has. [Zhang et al. (2007)] Entry mode decisions depend on whether or to what degree foreign entrants require context-specific resources. The decision should therefore be made with consideration for the deployment and development of a firm's capabilities. [Luo (2001)] Entry by acquisitions or joint ventures gives access to pooled resources between the firm and local partners, while a firm has to rely on its own resources in Greenfield projects [Meyer et al. (2009)].

The general consensus is that prior international experience and enhanced market-specific knowledge results in more resource-intensive modes [Lin (2000), Luo (2001), Zhang et al. (2007)], often wholly-owned subsidiaries [Freeman & Sandwell (2008)]. Experience has a learning effect in that joint ventures often serve as a foothold for acquisitions or Greenfield investments [Xia et al. (2009), Zhang et al. (2007)]. This supports the internationalization process model since firms gradually shift to higher commitment modes as their understanding of the local context increases. This happens when MNCs (1) benefit from joint ventures with local partners, (2) accumulate enough knowledge and experience about foreign markets, (3) build preferable relations with local governments and firms, and (4) become more confident of their capacities and the environment. [Zhang et al. (2007)]

Meanwhile, being start-ups, INVs do not necessarily have international firm experience. Nevertheless, Burgel & Murray (2000) found that the domestic sales mode of the firm often is the strongest predictor of the chosen foreign entry mode. This may suggest path dependency and somewhat relation to the internationalization process model. Moreover, experience is often related to the entrepreneur [Burgel & Murray (2000)], who is a decisive factor for the establishment of INVs. [Aspelund et al. (2007)] A study of American firms found that INVs have significantly higher levels of managerial and board international experience than purely domestic firms [Gleason & Wiggenhorn (2007)]. The strong international managerial orientation is therefore one of the most distinguishing features of an INV. The entrepreneurs are able to combine resources from different markets in order to exploit international business opportunities. Their alertness to these opportunities comes from their previously developed competences rooted in their network, knowledge and background. [Aspelund et al. (2007)] The entrepreneurs have developed experience in dealing with complexities of international operations, and they appreciate the risk and resource implications. Their network of contacts and customers can become a starting point for their own firm [Crick & Jones (2000)], relying on alliances, and hence the network structure. Burgel & Murray (2000) found that managers who have lived abroad are more likely to operate independently, without intermediaries, and rely more on their own knowledge and experience. However, they concluded that experiential knowledge is of limited value to explain the entry mode decision of INVs. This may be true, in that firms can to some degree rely on other sources for context-specific knowledge. Meanwhile, they only reviewed the use

of intermediaries versus direct exporting. This commitment difference is not as great as the decision between FDI and alternative governance structures. Firms often seek local partners in order to overcome their liability of foreignness and obstacles connected to lack of knowledge [Zhang et al. (2007)]. Meanwhile, HRC modes contribute more to learning than LRC modes. Entrepreneurs or founder teams with significant international experience may have a wider network and might initiate foreign activities using more complex modes. Thus, it seems that experience, whether firm or entrepreneur experience, favors higher resource commitment modes for both MNCs and INVs in emerging markets.

Proposition 1: An INV with a founder team or entrepreneur with significant international experience is more likely to choose a high commitment mode, such as FDIs, in emerging markets.

2.4.2 Market Environment

Institutional theory emphasizes the influences of the systems surrounding organizations that shape social and organizational behavior [Hoskisson et al. (2000)]. Institutional forces affect organizations' processes and decision making. Organizations tend to align with the institutional environment to gain external support and legitimacy [Xia et al. (2009)]. Institutional differences are particularly significant for firms operating in multiple institutional contexts, in that changes in national institutional environments are likely to cause organizational changes as well. [Meyer et al. (2009)] Both formal and informal institutions influence entry choices. Formal rules may restrict control and commitment, while informal norms in the society might favor local firms. [Estrin et al. (2009)] Studies list political, legal and economic factors as important for MNCs when making the entry mode decision in emerging markets [Prasad (2006), Kirsch et al. (2000), Laird et al. (2003)]. Even cultural distances are mentioned [Kirsch et al. (2000)]. Additionally, market potential is also an influencing variable to consider [Laird et al. (2003)]. Meanwhile, the initial market selection and entry mode choice of INVs often depends on the entrepreneurs experience and their established network of contacts [Aspelund et al. (2007)]. This may suggest that environmental concerns are not as dominating for INVs' entry mode decision as MNCs'.

Formal institutions set the rules by which firms have to interact. These institutions include the legal framework and its enforcement, property rights, information systems, and regulatory regimes among others. Investors entering unfamiliar legal contexts for the first time have to adapt their business practices, such as their contracts with employees, agents and distributors. [Estrin et al. (2009)] Some institutions even restrict the allowed entry modes for foreign firms entering their country. The institutions role, however, is to reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions [Hoskisson et al. (2000)]. The strengthening of the institutional framework therefore lowers cost of doing business, and influences entry mode decisions by moderating the costs of alternative organizational forms. [Meyer et al. (2009)] Institutional transformation facilitates Greenfield investments or acquisitions for MNCs [Meyer et al. (2009), Xia et al. (2009)], while joint ventures are used to access resources in a weaker institutional framework. A transformation strengthening the current institutional framework renders joint ventures less favorable, and increases the likelihood of FDIs. [Meyer et al. (2009)]

Political uncertainty favors joint ventures [Lin (2000), Luo (2001)]. Furthermore, Lin (2000) and Luo (2001) found that risk of government intervention increases the likelihood of joint ventures, especially if the firms have experience from previous relations with governments. Joint ventures also

place the risk on local firms. Governments that are sensitive to domestic firms may think twice before expropriating joint venture assets. Furthermore, corruption is an important aspect to consider in emerging markets, in that it increases the costs of doing business. No foreign investment in any ownership form takes place when corruption is sufficiently high. Meanwhile, if an investment is to take place, the investor should prefer a wholly-owned form if the technology is sophisticated. However, holding the level of technology sophistication constant, joint ventures become more likely the higher the corruption. [Javorcik & Wei (2009)] These arguments support the use of alternative governance structures, in that FDIs are more vulnerable to expropriation, and foreign investors have less experience in handling corruption alone. Meanwhile, weak property protection in the host country favors wholly-owned subsidiaries, especially if the foreign firms have proprietary technology [Estrin et al. (2009), Lin (2000), Luo (2001)]. Internalization reduces the risk of leakage of intellectual property and capabilities that give firms their competitive advantage. INVs are often technology-oriented firms [Oviatt & McDougall (1994), Gabrielsson & Kirpalani (2004)]. Many INVs are knowledge-based and have to protect this knowledge by limiting its use by outsiders [Oviatt & McDougall (1994)]. Weak property protection may therefore favor wholly-owned subsidiaries for INVs as well. However, it is also possible to rely on network structures in that these tend to control the risk. The network relationships can have high value because the members usually share rents, and the relationships contrasts with the usual background of economic opportunism [Oviatt & McDougall (1994)]. This also supports the use of alternative governance structures. However, dealing with other actors may pose some challenges in markets with significant psychic distance.

Informal institutions are social constraints like norms, values and beliefs of a society. They may pose strong restrictions on individual actors, and they are often very persistent even when formal institutions change. Engagements across culturally different environments may require intensive cross-cultural communication, in that knowledge about informal institutions often is tacit. Informal rules strongly influence economic behavior because they moderate, for instance, the transfer and management of knowledge. The larger the difference between home and host countries, the greater is the need for local knowledge. Meanwhile, the difficulty of cooperating with those with local knowledge also increases. Informal institutional distance suggests a curvilinear likelihood of Greenfield, meaning that the likelihood of Greenfield decreases at high informal distances. The likelihood of joint ventures and acquisitions increases at these levels. First-time investors have to deal with opposing forces of greater need to access local business networks, while at the same time managing the costs of such relationships. [Estrin et al. (2009)] High distance in informal institutions also supports the use of alternative governance structures, or acquisitions, which give access to local resources. Meanwhile, the decision to enter markets with a perceived low psychic distance is less important for INVs [Crick & Jones (2000)]. This may suggest that informal distance is less significant for their entry mode decision. Additionally, it is possible to combine wholly-owned subsidiaries with partners in some areas to gain local knowledge.

Organizational capability is a source of competitive advantage as well as a constraint [Luo (2001)]. Comparing experienced with first-time investors, Xia, Boal & Delios (2009) found that organizational experience can represent an inertial force besides the learning effect. Firms with international experience tend to resist environmental change, while first-time investors often adapt themselves according to the shifts in the environment. Johnson & Tellis' (2008) found that smaller firms tend to be more successful in India and China than larger firms. This is much due to their adaptability and deployment of resources, since India and China are characterized by rapid environmental changes

that require continuous adaptability and learning. The mere size of resources is not a success factor in itself. Control of these resources and how they are deployed is more important. Small firms with less bureaucratic burden adapt more quickly and are more flexible. [Johnson & Tellis (2008)] This suggests that the argument concerning limited resources is weakened in emerging markets. INVs choose entry modes based on their available resources [Crick & Jones (2000)]. However, the low-cost nature of these markets may weaken the financial constraints, supporting the use of FDIs. Meanwhile, INVs often lack the competencies to operate abroad, making FDIs harder to manage. Furthermore, the institutional framework in these markets also favors joint ventures for the time being. Nevertheless, the shift of growth from the West to the East makes emerging markets unavoidable. The institutions are also developing at a fast pace in order to accommodate international business. Therefore, the market environment factor may be less significant when explaining the entry mode decision. Firms have to trade in these markets despite the uncertainties they represent in order to maintain significant growth. This is especially the case for niche-focused INVs. Furthermore, as already mentioned, HRCs are more favorable than LRCs in emerging markets due to learning effects. Thus, INVs are more likely to choose HRC modes, especially FDIs, in emerging markets because these are more suitable when dealing with uncertainties and unknown variables in a market.

Proposition 2: INVs are more likely to choose high resource commitment modes, such as FDIs, despite resource constraints in the domestic market because these modes are more adept at handling the uncertainties in emerging markets.

2.4.3 Partner Factors

As mentioned previously under market environment, joint ventures are beneficial when the risk of government intervention is high. Joint ventures with local partners allow sharing risk and gives access to the partner's network. Making alliances with a domestic firm may reduce the risk of expropriation from the host government, since the domestic firm will also suffer in the event of expropriation of joint venture assets. This reduces the risk if the government is sensible to local investments. [Rodríguez (2007)] Furthermore, high institutional distance between home and host country increases the need for local relations [Estrin et al. (2009)]. Resource needs increase the preference for both acquisitions and joint ventures, but not Greenfield projects [Meyer et al. (2009)]. Joint ventures are especially valuable if foreign firms lack market-specific knowledge, since partnerships help enhance both firms' knowledge and capability base. [Chandrasekaran & Ryans (1996), Luo (2001)] Small firms frequently use joint ventures as a method for sharing costs and risk. [Freeman & Reid (2006)]

INVs are urged to use alternative governance structures, in that hybrid partners share complementary assets to their mutual benefit. This suggests the use of alternative governance structures. However, an uneven power balance with partners may lead to expropriation by the larger partner. [Oviatt & McDougall (1994)] Oviatt & McDougall (1994) suggest a network structure to overcome this risk. Network connections reduce the time and local knowledge required by the foreign firm to expand its operations [Freeman & Reid (2006), Hatani (2009)]. Furthermore, alliances are important to overcome social barriers, competition and uncertainties in emerging markets [Freeman & Sandwell (2008), Hatani (2009)]. In networks, actors like buyers and sellers become bound to each other through ongoing linkages. Continued interaction among the partners helps form stable relationships based on cooperation. These relations create value and competitive advantage

for firms. Mutually beneficial relations provide advantages to all of the partners and reduce uncertainty and transaction costs. [Cavusgil et al. (2008): 116] This suggests the network structure. Meanwhile, partnerships are formed only if suitable partners are available in the market. This isn't always the case in emerging markets. Also, cooperation poses challenges in markets with high psychic distance. Furthermore, the risk of becoming a submissive partner is also viable when firms are highly dependent on their local partners. The lack of knowledge can be somewhat overcome by hiring local personnel. Moreover, the governments in western countries often dedicate institutions whose sole purpose is to further international business for their firms. These institutions have regional offices in different markets with their own network of contacts. Internationalizing ventures can seek their help as well. Additionally, it is also possible to use firms in emerging markets that live off helping foreign firms get established in their market. These options suggest that partner factors become less significant when there are other options to rely on. Furthermore, it is possible to work with partners with FDIs as well. The role of the partner becomes less significant, but it is still possible to access the partner's network if there are some mutual benefits.

Proposition 3: When INVs have several options to attain context-specific knowledge, partner factors become less significant, and the INV is more likely to choose a foreign direct investment.

2.4.4 Transaction Specific

Transaction cost theory (TCE) focuses on the choice of governance structure, whether it should be market, hybrid or hierarchy. The purpose is to analyze the costs of operations under alternative governance structures. Firms should choose governance structures that minimize their transaction costs. The basic underlying assumptions are bounded rationality, opportunistic behavior and asset specificity. Bounded rationality infers that people intend to be rational, but are only limitedly so. Opportunistic behavior is self-interest seeking with guile, while asset specificity affects the nature of transactions. The basic principle is to choose the market solution, which consists of simple contracts. Hybrid structures include implicit and relational contracts. Meanwhile, hierarchy comprises internal contracts. This structure is preferred when there (1) are high transaction-specific investments, (2) is high task frequency compared to market, (3) are low scale economies/ experience effects, and (4) is high product complexity. [Rindfleisch & Heide (1997)]

Mode choice depends on the resources required for the operation, the resources available in local firms, the investing firm, and on local markets [Meyer & Estrin (2001)]. The firm's core competences are vital for competitive advantage, in that they are the collective learning in the organization. Many scholars argue that firms compete with each other based on their ability to learn and apply knowledge. [Zhang et al. (2007)] INVs are more focused on niche markets and seek to differentiate their products from competing products. They compete on product features and product quality internationally. [Aspelund & Moen (2005)] Proprietary technology and knowledge favors wholly-owned subsidiaries [Luo (2009), Tian (2009)]. Internalization reduces the outflow of valuable knowledge or technology. Other advantages are the ability to control how products are produced and marketed, and the ability to reduce buyer uncertainty about the value of the firm's offerings. [Cavusgil et al. (2008): 115] Appell, Jenner & Hebert (1999) suggest to set up a small wholly-owned subsidiary that can be tightly controlled, rather than taking on a partner in a joint venture. However, ownership modes are not always an alternative. Governments might pose some restrictions demanding cooperation with local firms. [Tian (2009)] Meanwhile, Appell, Jenner & Hebert (1999) argue that if a joint venture is chosen, firms should enter with a dominant control of the venture.

Joint ventures attain superior economic performance in emerging markets the greater the resource commitment to technology transfer and the faster the entry. The foreign partner may make stronger commitment to the transfer of updated technology and specialized technical staff when it can maintain relatively strong control over the alliance. [Isobe et al. (2000)]

Meanwhile, dominant control of the venture isn't always practical when entering unknown markets. This is especially so if the firm lacks context-specific knowledge. Foreign firms have to give partners more control in order to gain their full support. [Isobe et al. (2000)] In this case, investments should be in the form of intangible assets, the project should employ skilled labor, and develop new products that are export-oriented. These are not always viable options though, in that firms may need to deal with tangible products or employ unskilled labor. Firms have to balance their spillover concerns with other contextual matters. [Tian (2009)] Meanwhile, resource constraint start-ups do not always have the freedom to choose the optimal governance structure. They are often inclined to select collaborative relations in order to access vital assets they do not own. [Burgel & Murray (2000)]

Lin (2000) argues that the relationships between external environmental factors and entry mode are much more complex than what the transaction cost or competitive strategic perspective propose for MNCs. This however, seems unlikely in the case of INVs. The INV risks being run over by its local partners due to its smaller size or lack of context-specific knowledge. Its strength lies in the firm's core competence, which is knowledge-based. Once the local partner learns the INV's secret, it can market the offering without the foreign firm. Thus, protecting this proprietary knowledge is vital for the INV's survival. This is especially true in the uncertain markets of emerging economies. Control and protection of proprietary knowledge favors the use of wholly-owned subsidiaries.

Proposition 4: Transaction-specific concerns like control and knowledge protection have significant influence on the entry mode decision of INVs in emerging markets, favoring wholly-owned subsidiaries.

2.4.5 Competitive Strategy

Global integration is the coordination of the firm's value chain activities across countries to achieve worldwide efficiency, synergy, and cross-fertilization in order to take maximum advantage of similarities between countries. The purpose is to seek economic efficiency on a worldwide scale, promote learning and cross-fertilization within the global network and reduce redundancy. Meanwhile, local responsiveness is to meet the specific needs of buyers in individual countries. The firm's practices are adjusted to suit distinctive conditions in each market, like customer needs, the competitive environment, and the local distribution structure. [Cavusgil et al. (2008): 317] Studies argue that firms should adapt themselves according to the different environments of emerging markets [London & Hart (2004), Laird et al. (2003)]. This will make it easier to exploit the full potential of the two different economies that usually exist in emerging markets, namely urban and rural. An emerging country consists of several different markets that may have unique characteristics. It is therefore ill advised to use generic strategies for the whole country [London & Hart (2004)].

Adaptation refers to the efforts to modify elements of the international products or services to accommodate specific customer requirements in a particular market. Standardization, on the other hand, comprises the efforts to make the elements uniform, in order to target markets with a similar

product or service. [Cavusgil et al. (2008): 519] Local adaptation requires relations with locals [London & Hart (2004)], while global integration favors wholly-owned subsidiaries [Luo (2001)]. London & Hart (2004) suggest that firms should customize their solutions for the bottom-of-the-pyramid in order to reap the full benefits of emerging markets. This is best done by developing relationships with non-traditional partners and co-inventing custom solutions. Social contracts and social institutions dominate the low-end markets. This requires a capability to understand the benefits of existing social infrastructure. Furthermore, traditional partners, who often deal with the urban elite, may lack relevant experience. Thus, other agents may play an important role in business development in these markets. Even societal performance matters, since global firms are increasingly being expected to consider the societal and environmental impacts of their activities. Firms without the capacity to appreciate social value and become embedded in the social infrastructure may struggle to overcome their liability of foreignness. Entry strategies may therefore require more reliance on inclusiveness, trust, social capital and knowledge sharing, and less reliance on protecting knowledge and technology. [London & Hart (2004)]

Meyer & Tran (2006) argue that MNCs can combine local and global strategies in a multi-tier strategy, to serve both premium and mass markets, as long as they have both a global brand and operational capabilities. To build a market position, foreign investors need complementary context-specific resources that can be obtained through joint ventures or by acquiring local firms. Foreign investors must design, not select, an appropriate entry mode that provides access to local resources needed to support the chosen entry strategy. [Meyer & Tran (2006)] Meanwhile, resource constraint INVs focusing on niche markets may not have the resources to carry out a multi-tier strategy. Their target markets consist of customers with the same need for their products and services. It suffices to focus on a niche market and to gain context-specific knowledge about that specific market. Only a HRC mode can provide an in-depth understanding of local consumers, and allow the firm to create value for these customers [Sharma (2002)]. The low-cost nature of emerging markets makes HRC modes less capital intensive. Hiring local personnel in subsidiaries or acquiring firms injects context-specific knowledge into the firm. Furthermore, FDIs also signify long-term commitment, which is highly valuable when dealing with local firms and customers. The economic boom of emerging markets has made the local people more appreciative of what happens on their soil. Local presence reassures the locals that the firm isn't there to make a quick profit and leave. These arguments make the competitive strategic variables significant influencers of the entry mode decision.

Proposition 5: INVs focusing on niche markets are more likely to choose FDIs in emerging markets to signify long-term commitment and obtain a profound understanding of the local market and customers.

2.5 Conceptual Model

The conceptual model presented in figure 4 is inspired by Lin's (2000) conceptual model. It summarizes the main variables under each of the factors considered. There are five factors: entering firm, market environment, partner factors, transaction-specific and competitive strategy, which have to be considered in light of what characterizes INVs. Their limited resources and power, along with the factors mentioned, together influence the entry mode decision in the direction of alternative governance structures or FDIs. The different factors may influence the decision in various ways. This paper seeks to find out how and why the factors influence the entry mode decision of INVs.

In the case of MNCs in emerging markets, the greatest influence comes from firm level factors, followed by those from the national environment [Lin (2000), Luo (2001)]. Meanwhile, it is expected that entering firm, transaction-specific and competitive strategic concerns are the most influencing factors for INVs. Market environment and partner factors are considered less significant. It is therefore expected that INVs will choose FDIs, mostly wholly-owned subsidiaries, in emerging markets. This is feasible because the low-cost nature of the emerging markets makes it possible for INVs to make strategic choices, well-suited the uncertain markets.

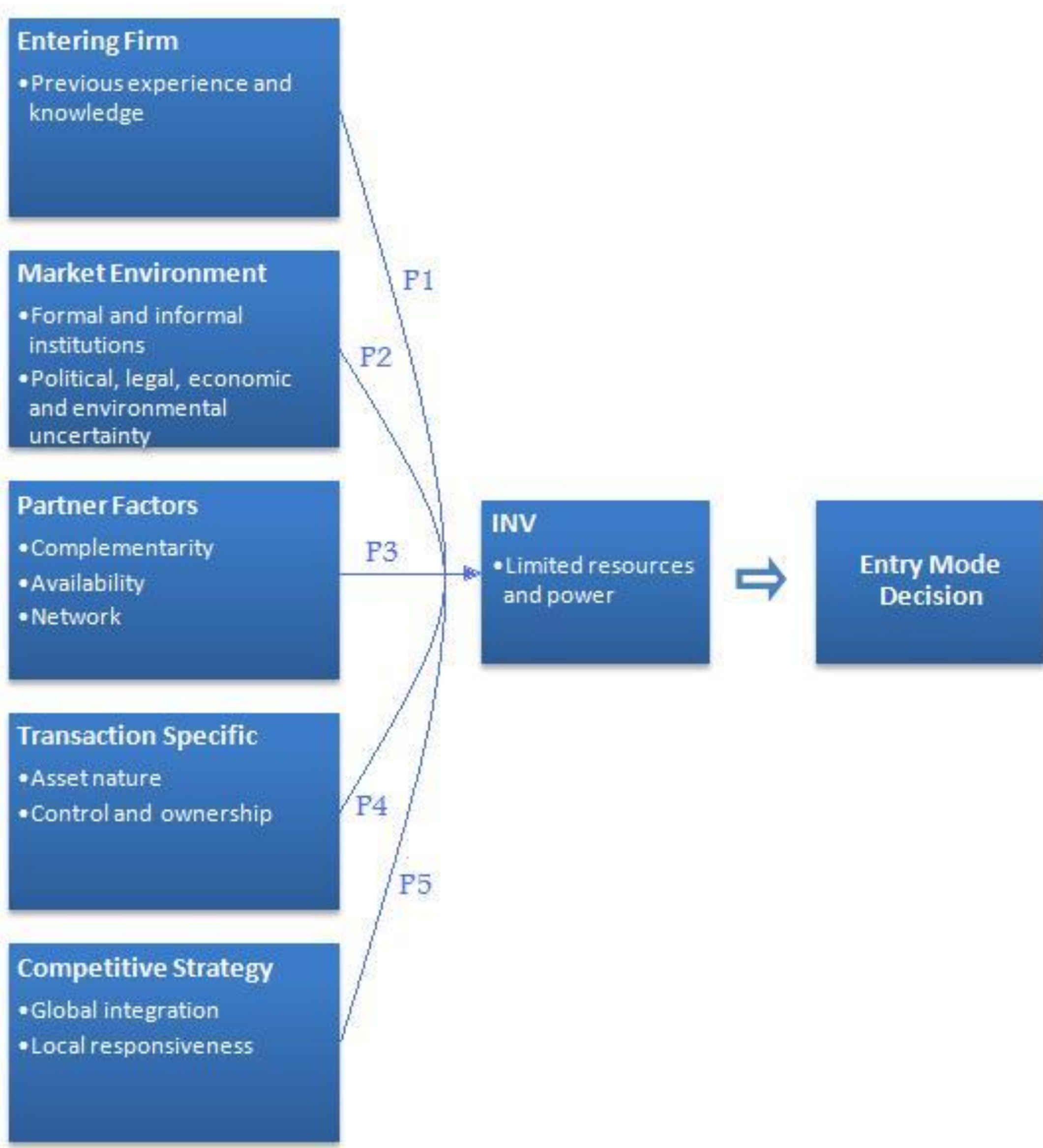

Figure 4: The conceptual model of INVs' entry mode decision in emerging markets

3. Methodology

The aim of this paper is to explore how the five factors influence INVs' entry mode decision in emerging markets. Several studies touch upon the subject, but none focus solely on emerging economies. There exists research on entry mode decisions in emerging markets, but these studies only consider MNCs. This paper takes a qualitative approach to address the objective. Four firms, characterized as INVs, with significant operations in different emerging markets, have been interviewed for the purpose of this paper. The sample firms are currently operating in Brazil, India and the Baltic States, namely Estonia, Latvia and Lithuania. An inductive approach is chosen, in that working propositions have been formulated based on the objective and observations of emerging trends. The propositions deduce the relationships between different influencing factors and their impact on the entry mode decision of INVs in emerging markets. Semi-structured interviews have been performed in order to collect data and to test the propositions. The data was collected and analyzed by comparing different categories. The underlying framework is inspired by Lin's (2000) conceptual model and was presented in the previous chapter. Hence, the information has been categorized based on the five factors already introduced, namely entering firm, market environment, partner factors, transaction-specific factors and competitive strategy. The research process has been structured according to the suggestions of Bryman (2008), which states that an organized research strategy should entail selection of research design, sampling method, research method, and an analysis scheme. This chapter explains the methods selected, and evaluates the sample and research process.

3.1 Research Strategy and Design

Qualitative research emphasizes words rather than quantification when collecting and analyzing data [Bryman (2008): 21-23]. Ringdal (2001) characterizes qualitative research as an exploratory approach answering questions like "how" and "why". This paper seeks to explain *how,* including *why,* different factors influence the entry mode decision of INVs in emerging markets based on interviews. The research strategy employed in this paper is therefore best identified as qualitative. Furthermore, qualitative research accentuates an interpretive orientation where individuals interpret their social world [Bryman (2008): 21-23]. This is relevant for this paper, in that the understanding attained is based on the views and interpretations of the person interviewed. Moreover, qualitative research also highlights an inductive approach where theory is viewed as an outcome of research [Bryman (2008): 11]. This paper seeks to provide findings and theories based on an analysis of the collected data, in that there is no extant literature researching the specific field in question. This is in compliance with an inductive approach. The main steps followed are according to Bryman's (2008) qualitative research process, namely:

1. General research questions (in this case propositions)
2. Selection of relevant sites and subjects (sampling of Norwegian firms in Brazil, India and the Baltic States through Innovation Norway's foreign offices)
3. Collection of relevant data (semi-structured interviews of sample firms)
4. Interpretation of data (helped by the five categories)
5. Conceptual and theoretical work (suggested conceptual model)
6. Writing up findings/ conclusions

The research design provides a framework for the collection and analysis of data [Bryman (2008): 31]. It is a plan outlining the steps from initial research questions to reaching conclusions. The survey

design involves the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data. The data is often examined to detect patterns of association between several variables. [Bryman (2008): 44]. Time considerations rendered several points in time infeasible, and more than one case was necessary in order to obtain varied data. Quantification provides a consistent benchmark [Bryman (2008): 44], which is necessary to find patterns of association when exploring the suggested propositions. Thus, the survey design was assumed to be the most appropriate design for this paper.

3.2 Sampling

The idea was to use Norwegian sample firms operating in all of the BRIC countries. However, China has dominated all research on emerging markets and was therefore omitted in this paper. Furthermore, Russia was exchanged with countries in the Baltic region due to the attractiveness of this region. Thus, the emerging markets selected were Brazil, India and the Baltic States: Estonia, Latvia and Lithuania. After choosing sample countries, inquiries were sent to Innovation Norway in Brazil, India and the Baltic in order to find Norwegian firms operating in the three regions. Innovation Norway[4] is a body helping Norwegian firms, promoting nationwide industrial development profitable to both the business economy and Norway's national economy.

The three agencies of Innovation Norway returned a list of Norwegian companies operating in their respective region. The list from Brazil and the Baltic was dated 2010 with 20 firms in each list, while the list from India was dated 2008 with 38 firms. These lists were then filtered and sorted according to set criteria. *proff.no* and *purehelp.no* were used to gather information about the firms.

First, and foremost, the firms had to fit the characteristics of INVs. They had to be small firms with significant operations abroad, and that internationalized within six years of their inception. Ideally, they should have been younger than six years, that is younger than 2005. However, this resulted in too few entries. The criteria were therefore widened to include firms that had internationalized within six years of their inception, regardless age. Meanwhile, the list contained many firms that had major parent companies. These were eliminated in order to only represent independent firms. Furthermore, some of the firms didn't even exist anymore. These were also discarded.

The final list was ranked according to age. It was narrowed to six firms in Brazil, four firms in India and four in the Baltic region. An email was sent to Innovation Norway in order to obtain updated contact information for these firms. Upon receiving the contact information of six firms, an interview inquiry was sent to all of these firms per email, of which four agreed to do a telephone interview. The other two firms never replied and were therefore left out. The sample firms who agreed wanted to remain anonymous in the paper. They also wanted to proof read the material about their firms.

3.3 Data Collection and Analysis

Qualitative interviews emphasize a greater generality in the formulation of initial research ideas and on the interviewees' own perspectives [Bryman (2008): 437]. For the purpose of this paper, it was important to catch the firms' point of view and get insight into what they saw as relevant. Interviews offer flexibility to pursue interesting points. However, it was necessary to cover the specific categories of interest to this paper. The research method selected for data collection was therefore

---

[4] http://www.innovasjonnorge.no/system/Global-toppmeny/English/ (*Innovation Norway, 20th January 2005*)

semi-structured interviews. Four firms were interviewed between the time period 22nd March and 11th April, 2011.

An interview guide was prepared with a list of guiding questions addressing each category, see Appendix 2. The guide was therefore ordered according to the five factors outlined in the conceptual model. The questions were tried formulated in a way that would relate to the propositions. Additionally, general supplementary questions were added to round up the interview. The guide was meant to provide a framework for the interview. The questions were therefore intended to be open, while leading questions were avoided. It was intended to give the interviewee firm leeway when responding. The questions didn't necessarily have to follow the outlined schedule, and it was allowed to ask additional questions to follow up on interesting points. The same interview guide was used for all of the firms because this would make it easier to compare the findings when analyzing the results.

Secondary data was gathered to learn as much as possible about the sample firms in order to prepare for the interviews. The firms' websites were visited to learn about their focus areas, products and services, partners and markets. This would make it easier to understand the context of their replies and help reveal other aspects that could be further probed during the interviews.

All of the interviews were conducted by Skype calls on scheduled time, and the conversation was recorded. The interviews were conducted in Norwegian and were transcribed after each interview. While interviewing, it was apparent that the interviewees confused entry modes with market selection. They were therefore given a brief introduction on what entry modes denote, and the distinction between market and entry mode selection, in the beginning of each interview.

During the interviews, it was quickly discovered that the leeway intended wasn't used by three of the four firms. Their answers were short and concise, and it seemed like they didn't have much to say about the subject. Only one of the firms provided rich, detailed answers. The interview guide was therefore extensively used in order to probe for elaborations. However, leads were followed when the interviewees said something of interest. The grand and mini tour framework of Spradley & McCurdy (1972) was used in order to preserve flexibility. The grand tour was mainly the focus on the different factors' influence on the entry mode decision, while the mini tours were the probing questions following interesting points. Inconsistencies were also cleared. In many events the firms answered many of the guiding questions in one reply. Sometimes the order of the questions also varied. Not all of the questions were asked, while sometimes other questions were added due to the probing. The firms were followed through the five different categories with the intention to interrupt as little as possible. The interviewer tried to retain flexibility, but was constantly challenged by most of the firms' to-the-point response.

Qualitative research applies grounded theory and the tool of coding for data analysis [Bryman (2008): 541-543]. To analyze the interviews, the transcripts were coded in order to label significant parts. In this case, the interviews were pre-coded according to the five categories mentioned. The response varied from one firm to another and the different leads followed, but the categorization made it easier to compare their replies for each factor. Since the same interview guide was used for all of the firms, the data provided a good foundation for comparing results. The replies were compared to find recurring patterns or deviating replies. In this case, this applies to which entry mode the firms chose, and how the same factors influenced their entry mode decision. The comparison also intended to find which factors influence selection of entry modes the most, by comparing influencing variables

emphasized by the sample firms. The deviations are also explained if they occur. These results are then evaluated against the conceptual background outlined in the previous chapter, and the propositions are either rejected or supported. The findings are then transferred to theory, which is discussed in the Discussion chapter.

3.4 Evaluation of Sample Firms

The firms have been labeled by letters in order to preserve anonymity. Figure 5 is a description of these firms in order to set the scene for further analysis of the results in the next chapter. The firms have experience from other markets, but the main markets in focus are Brazil, India and the Baltic States, namely Estonia, Latvia and Lithuania.

Sample Firm	A	B	C	D
Offering	Software (service)	Software	Technology	Service
Market	Estonia, Latvia & Lithuania	Estonia	India	Brazil

Figure 5: Description of product nature and market selection of the sample firms

All of the firms are knowledge-based. Firm A's business involves software providing suppliers for their different buyers, while firm B develops software for recording solutions, mostly for the justice sector. Meanwhile, firm C is a research and development centre for plastics, supplying product development services related to plastics. Finally, firm D leverages on their knowledge of the Brazilian market, helping foreign firms establishing operations in the Brazilian market.

The sample firms can all be characterized as INVs due to several reasons. First of all, they all internationalized within six years of their inception, as is characteristic for INVs according to Shrader, Oviatt & McDougall (2000). The founders and the firms seem to have an international orientation based on the interviews conducted. Most of the sample firms expanded within one year after establishment, while the latest expanded within four years. Furthermore, most of the sample firms operate in several foreign markets employing a market-spread strategy, which is also an INV trait according to Aspelund & Moen (2005). In addition, the firms are relatively small in size and they claim to serve niche markets. This is in accordance with Moen's (2000) characteristic of INVs.

3.5 Evaluation of Research Process

There are many other options than the survey design. However, none of them served the purpose of this paper. The longitudinal design was rejected since only one occasion was of interest. The case study was rendered infeasible because more than one case is necessary to support generalization. Moreover, the comparative design was inappropriate because this study doesn't intend to compare contrasting cases. The nature of the sample cases was unknown prior to the interviews, and none are found to be completely distinct. Additionally, there are other qualitative research methods as well. However, focus groups and ethnographic research were inapt due to the different locations of the firms. It would be difficult to gather the founders for a focus group, and the outcome of such a meeting is uncertain. Hearing each other's viewpoint could have influenced the participants recount or it could have triggered them to reflect more on the situation. Participant observation urges the researcher to get more involved in the firms' everyday life to observe. Meanwhile, it is difficult to observe something that has already occurred. This paper requires a recount of and the reflections around that occasion. As mentioned before, the interviews were intended to be open, but they had

to touch upon pre-defined categories. Thus, the survey design with semi-structured interviews emerged as the most fitting research design and method.

When evaluating the sampling method applied, it is apparent that the sample firms could have been collected differently. Purposive sampling [Bryman (2008): 458-462] was used in order to interview subjects that are relevant for the objective of this paper. However, only the references of Innovation Norway's international agencies were followed when finding appropriate firms. There are some disadvantages to this snowball sampling. The lists with suitable sample firms were short because Innovation Norway didn't have the contact information of all of the firms. Besides, there weren't many firms on the lists to begin with. An intensive search on the web could have resulted in more firms. This could also result in a newer list of firms in India, than 2008. This was tried for the Baltic firms, but didn't result in many entries. The searches turned out to be time consuming tasks resulting in too few relevant INVs. Nevertheless, Innovation Norway has thorough knowledge of Norwegian firms abroad, and their foreign offices have good references. Hence, following their leads seemed like a reasonable idea.

It is arguable whether the findings can be generalized to the wider population since only four cases have been used. From the list of firms received, four firms seem like a sufficient sample size to generalize the findings to other INVs in emerging markets. In hindsight, the sample should have included more firms in order to provide more credibility and strengthen external validity. However, this has been a time consuming task due to the involvement of a third party, Innovation Norway, when finding firms and retrieving contact information. Furthermore, some of the firms used long time before responding to the inquiries. They were reminded once or twice before a schedule was set. Thus, timing issues limited the size of the sample. Nevertheless, the sample should be sufficient to give the findings credibility.

With firms operating in three different regions, telephone interviews seemed like the most viable option. However, telephone interviews may result in shorter interviews than those conducted face-to-face [Bryman (2008): 457]. Three of the interviews were indeed very short and to-the-point compared to the fourth. This may have been disadvantageous, in that further elaborations were omitted by the interviewees. There is no answer to the question of whether something of significance was left out. However, the repetition of some of the points gives the content credibility. The questions in the guide and the probing questions were meant to cover all aspects of the entry mode decision. These were all answered. Thus, it seems like the main points of importance are covered. Furthermore, the inquiries were deliberately sent to the founders because they have been through the whole process and know the firm inside-out. They are able to give valuable information and reflected answers few others in the firm can provide.

Qualitative research is often criticized for being too subjective. The significance of data is often decided solely by the researcher. [Bryman (2008): 391] The interviews were indeed analyzed by one person, without the critical eyes of others. This may give poor inter-observer consistency. Furthermore, the interviews were conducted in Norwegian, increasing the risks of misinterpretation when translating the transcripts. However, the findings were reviewed by the firms themselves for respondent validation. This preserves the confirmability [Bryman (2008): 379] of the interviews. Furthermore, nothing was left out when transcribing since the interviews were recorded. The short interviews resulted in less transcription, and consequently, fewer potential misconceptions.

4. Results

This chapter presents the results obtained from the interviews with the sample firms. The sample is described by highlighting the firms' market selection, entry mode choice and funding. The next is a recount of how the different firms perceived the influence of the five factors on their entry mode decision. These follow the structure of the conceptual model and propositions presented. Finally, the main findings are summarized to highlight the most influencing variables.

4.1 Sample Description

4.1.1 Market Selection

Figure 6 outlines the different markets the sample firms are currently operating in and when they were established as firms. The figure shows that the firms have internationalized within one year after their inception, with the only exception being firm B that waited four years. The firms have internationalized to several different countries. Nevertheless, the main markets in focus are Brazil, India and the Baltic States, namely Estonia, Latvia and Lithuania. It appears that some firms expanded to countries closer to home before other more distant countries, like firm A and C.

Firm	A	B	C	D
Established	*1999*	*2002*	*2007*	*2008*
First entry	Denmark (2000)	Great Britain, Denmark & Estonia (2006)	Europe (2007)	Brazil (2008)
Second entry	Sweden (2004)		USA, Korea, Japan (2008)	
Third entry	Estonia, Latvia & Lithuania (2006)		India (2011)	

Figure 6: Time of establishment and internationalization of the sample firms

Firm A started out in Scandinavia before expanding to the Baltic States. They explained their expansion as a natural next step for the firm, since their Norwegian customers were demanding Danish and Swedish suppliers. Denmark could become an easy to access main office for the rest of Europe since it borders to several countries. Next, their customers started demanding Baltic suppliers and the firm decided to expand to the Baltic States. So far, all of the expansions have been initiated by buyers' demand for new suppliers.

Similarly, firm B established their presence in three different countries in parallel when they decided to internationalize. They asked Innovation Norway to get an overview of the countries that could provide the wanted cost information and competence level. Estonia was different than the other alternatives due to its relatively western culture and competence. It is also closer to the home market, and the cost level is highly favorable in Tallinn.

Firm C expanded to other European countries before the US, Korea, Japan and finally, India. They aimed at emerging markets due to the immense growth in consumption of their product. The western markets are saturated or have found other substitutes. Meanwhile, there is a growing need for their competence and expertise in emerging markets. India became the winner because of some cultural similarities. Additionally, NORAD recommended India through their matchmaking program

that helps Norwegian firms establish operations in India to further the country's economic growth[5]. Being a former British colony, its institutions resemble the British system. India was therefore considered closer to the West than other Asian alternatives.

Finally, firm D is the only firm that started operations in an emerging market, which has a completely different environment than Norway. Brazil was the natural choice since the two founders have over ten years experience with business development in Latin America and other countries. This experience is gained through previous employments and has given them thorough knowledge and understanding of the local business context. The location also became the obvious choice when both of the founders decided to move to Brazil permanently. Their business takes place in Brazil, but they chose to establish the company in Norway because the employees are Norwegian and had to apply for necessary permits.

4.1.2 Entry Mode

Figure 7 shows the entry mode choice of the firms in their respective markets. It appears that all of the sample firms have chosen HRC modes, mainly wholly-owned subsidiaries. Furthermore, although not illustrated in the figure, firm B and C are the only ones that have changed their entry modes in subsequent markets. Additionally, only firm A regrets its first entry mode choice. It went from establishing wholly-owned subsidiaries to downsizing to one person, and using partners as sales channels.

Sample Firm	Chosen Entry Mode
A (the Baltic States)	Greenfield (wholly-owned subsidiary)
B (Estonia)	Production unit (wholly-owned subsidiary)
C (India)	Greenfield (wholly-owned subsidiary)
D (Brazil)	Main office (wholly-owned firm)

Figure 7: The entry mode choice of the sample firms

Firm A has chosen subsidiary companies in Denmark, Sweden and the three different Baltic States. They chose to hire a regional executive for Estonia, Latvia and Lithuania. Similarly, firm B has chosen regional offices in England and Denmark. Meanwhile, they have established their production unit in Estonia. The subsidiary in Denmark was supposed to become a hub for all European business, but the operations have been downscaled due to hardships encountered with distant control of personnel. It became difficult to utilize resources to their full potential. In hindsight, the firm wouldn't have established sales organizations to cover different regions. Today, the operations have been downscaled to one executive who controls business in Denmark, Sweden, the Baltic and shortly Germany as well. Similarly, one person handles business for Great Britain. The company rents offices at Innovation Norway's premises. These executives work with partners and scan the market for potential undertakings. The products are sold through the partners.

Firm C started out with general agreements and formal contracts with their customers in Europe, USA, Korea and Japan. The industry they are operating in is quite international and it was pretty random were they landed different contracts. However, India is the first country where they have established a subsidiary company. This process has taken long time and is still in progress. Finally, firm D is the only firm that placed their main office abroad. They are currently operating from Brazil and don't have any units in the Norwegian market.

[5] http://www.norad.no/Om+Norad/Nyhetsarkiv/Nyhetsside?key=108512 *(NORAD, 30th January 2003)*

4.1.3 Funding

Figure 8 shows how the different firms funded their internationalization. It seems that the companies are able to partly fund their expansions on their own and partly by external funding.

Sample Firm	Funding
A (the Baltic States)	Equity, support schemes
B (Estonia)	Investor funding
C (India)	Equity, support schemes
D (Brazil)	Equity

Figure 8: Funding source of the sample firms

Three of the four firms have used their company equity to fund their expansion. However, firm A and C have also resorted to different support schemes offered by Innovation Norway. Firm A acknowledges that they have chosen a capital intensive mode, but their buyers are also responsible for paying a registration fee for the suppliers they want represented in the system. Furthermore, firm C participated in the matchmaking program arranged by NORAD, which also grants funding support for different missions, such as personnel training. The resource constrained firms can also resort to investor funding, as done by firm B.

Firm D reckons that if it were resource constrained, it would have considered cooperative modes, such as joint ventures. However, this is not the case. Besides, establishing a firm in itself doesn't represent big costs, they are rather marginal. Instead, the costs are connected to doing business in Brazil over time because small foreign firms often struggle with continuity. Foreign firms want to keep their own people in management positions, rather than employing locals. However, this is difficult because expatriates most often return home after a couple of years. Hence, the expenses are connected to maintaining the continuity. There has to be an overlap in order to transfer knowledge over to the replacement. It is difficult to maintain growth when dealing with the challenges on the personnel side of the firm. Decent long-term expert solutions are expensive, and this worsens in Brazil due to the pressurized labor market. Finding key figures locally is expensive. However, this is not the case for firm D since the founders are there on a permanent basis.

Continuity may become a challenge for some of the other firms, depending on the labor market in their target markets and the organizational structure. Some of the firms are remotely controlling their subsidiaries and this has worked fine for them until now. Meanwhile, the sample does not seem to be heavily resource constrained. Institutions like Innovation Norway and NORAD have different support schemes for firms wanting to invest in foreign markets. Most of the firms are able to cope on their own, in that only one firm was limited by its financial resources. However, the firm could cover an expansion to a low-cost Baltic market. Thus, financial resources may not be the most eminent restraining factor for INVs in low-cost emerging markets.

4.2 Entering Firm

In the context of INVs, there is a distinction between firm and entrepreneur experience, in that the entrepreneurs might have gained valuable insight through previous employments, living abroad or other activities. From figure 9 it seems that none of the firms have any previous experience from the same market, except firm D where the entrepreneurs have gained valuable experience from previous employments. Three of the firms have established operations in an unknown market without any

experience from those markets. Meanwhile, two of them have some experience from other markets than the target market in focus.

Sample Firm	A	B	C	D
Other Markets	Firm experience	-	Firm experience and entrepreneur experience	Entrepreneur experience
Same Market	-	-	-	Entrepreneur experience

Figure 9: Previous firm or entrepreneur experience from other or same markets

Firm A felt that it was a natural course to further expand to the Baltic States after gaining experience in Scandinavia. The target market for their products and services is similar in the Baltic and Scandinavia. This meant that they knew much of the business context prior to entry due to the similarities. This reduced much of the risk connected to lack of knowledge and experience. Additionally, the firm's customers started demanding Baltic suppliers in their system as well. According to the firm, the next natural step would be to expand to Poland and Germany because trading mostly happens between neighboring countries.

The only firm with no experience at all, has relied heavily on Innovation Norway and gained the relevant knowledge through them. Despite absence of previous international experience, firm B claims it has made the right choices and done well based on the information they got. They were very pleased with Innovation Norway's references and contacts. By leveraging on Innovation Norway they reduced much of the risk connected to lack of context-specific knowledge. The fact that they didn't have any international experience didn't feel like a deterrent. The firm set out on their mission with the attitude that if other Norwegian firms can make it, they can too.

According to the founder, firm C has had an international orientation from start. This has given them a competitive edge, in that they know how to deal with different nationalities. Furthermore, some of the employees have had previous experience with establishing their own firms. However, none have experience with this mode in foreign markets. They consider themselves a bunch of technologists, some with more market-specific knowledge than others, who are learning by doing. They have experience from other markets, but it was inadequate when establishing operations in India. The firm relied on Innovation Norway's office in New Delhi for support. In addition, they participated in NORAD's matchmaking program. In order to obtain relevant knowledge of the local market, they hired consultancy firms as advised by NORAD. They also asked other small local firms that help foreign firms in India. Additionally, the firm has also relied on the knowledge and experience of other Norwegian firms that have been in the market for a while. The firm was advised to enter with full control, and avoid cooperative modes. A wholly-owned subsidiary has taken a while to build, but it feels like the right choice for them. So far, they feel that the advice received has been in accordance with their experience.

The last firm stands out due to the founders experience profile. Both of the founders of firm D have over ten years experience with business development in Latin America. They have also worked in several European countries, while one of them also has experience from Asian markets. Their background and knowledge of the Brazilian market made sure they knew what they got themselves into when establishing a firm in Brazil. This made it easier to do business in an efficient way and avoid

unnecessary costs. Their presence in Latin American markets earlier has also given them advantageous network connections, which also helps reduce the risks connected to doing business in unpredictable markets. These network relations are frequently utilized when hiring personnel or acquiring other relevant knowledge. Their knowledge and experience has been vital for the firm.

It is evident that thorough context-specific understanding is important for the firms. However, their experience profile shows that most of the entrepreneurs do not have significant international experience from previous endowments, especially not in the same market. Instead, they have relied on the expertise of other organizations. Many have experience from other markets, mostly Western countries, but this has not helped much when expanding to emerging markets. This increases the risk of doing business because most of them are operating in unknown markets and relying on external parties for knowledge. Interestingly, the two firms with least international experience did both expand to the Baltic States. These are considered closer to their home market than countries like India or Brazil. Firm A did indeed benefit from the similarities, while firm B could rely on references provided by the Baltic office of Innovation Norway. Meanwhile, the firm expanding to India had to resort to several sources in addition to Innovation Norway, such as NORAD, other Norwegian firms or other matchmaking firms. They required more knowledge, in that the Indian market can be described as more uncertain than the Baltic States. The other firm targeting a distant market, Brazil, had lots of local knowledge and experience from the Brazilian market. Interestingly, firm D was also the only firm that internationalized right away to an emerging market. This was much due to the background of the entrepreneurs. All of the firms chose high commitment modes despite different experience profiles. The three firms without significant experience started out with known Scandinavian or European markets closer to home. The only firm with significant entrepreneur experience started out in a distant emerging market, namely Brazil. This may suggest that entrepreneurs with significant international experience are more prone to enter distant emerging markets with HRC modes.

4.3 Market Environment

Market-specific variables, such as political, economic, legal and environmental uncertainty, are often considered when selecting markets to enter. However, figure 10 shows that these variables didn't affect the entry mode decision of the sample firms. The aspects that did influence the decision somewhat are related to cultural concerns, corruption, cost issues and institutional issues.

Firm	A	B	C	D
Political, economic, legal and environmental uncertainty	No	No	No	No
Institutional differences	No	No	To some degree	No
Cultural differences	No	To some degree	To some degree	No
Risk of corruption	No	To some degree	No	No
Low-cost nature	No	Yes	No	No

Figure 10: Market environment variables influence on the entry mode decision

Firm A claimed that variables concerning the market environment didn't affect their entry mode decision. They did consider corruption a problem in the Baltic States, but didn't give it much thought. The firm acknowledges that the institutional framework is different in the Baltic. However, it didn't influence their decision because most of the European countries, including the Baltic States, are regulated by rules set by the European Union. This is especially so for their industry. Thus, the main business context functions like some of the Scandinavian markets. However, this isn't always the case, but small differences are easy to cope with and do not affect the decision.

Firm B is another firm that declined the influence of market-specific variables and institutional framework. Culture was considered an important factor when considering market selection. They didn't consider other entry modes, so it was important to choose a market with a culture that resembled the one in their home country. Meanwhile, they emphasized that the low-cost nature of these markets has been a vital variable. They wouldn't have survived in a high-cost environment because they couldn't have been able to access the same amount of resources. The cost level would have choked the business since the higher costs could have halved the development team. This would also have strangled the product development progress. The investor isn't interested in funding solutions that takes forever to develop. Thus, placing the production unit in Estonia became the most sensible choice for the firm.

Furthermore, the firm knew that the corruption level is higher in the Baltic than their domestic market. However, this didn't affect the decision of market or entry mode. Corruption has to some degree been avoided much due to the nature of their subsidiary. The firm argues that a commercial unit dealing with sales and marketing would have been more vulnerable for foul play than a production unit. They have experienced some low level corruption, but have learnt to deal with it.

Even firm C rejected the influence of market-specific variables. They also declined that the low-cost nature of the market influenced the decision. In fact, they have experienced an opposite effect because most of the supply comes from the parent firm in Norway. In this sense, products developed in high-cost environments are sold in a low-cost market.

The firm has experienced situations where they have felt a certain pressure to engage in low-level corruption. Business in India is highly based on relations and more or less formal networks with common interests. Situations like these often occur when business depends on relations. However, the company has a strict policy to totally avoid these circumstances. The Norwegian government, Innovation Norway and NORAD, all have set criteria for firm behavior when considering child labor, corruption, women's rights etc. It is simply easier to avoid such situations than getting involved in them. They knew that black economy is a big problem in India. That is why they have chosen their current entry mode and organizational structure to avoid this risk. Until they have gained thorough local understanding and experience, one of the founders functions as managing director and controls the financial aspects of the company. A local employee has been hired as country manager, who reports to the managing director. The country manager operates locally and controls hiring processes. The company is therefore remotely controlled from Norway for the time being. This is done to retain simplicity and follow a safer approach.

Considering cultural aspects, they have rather reassured the firm than anything else. Being a former British colony, India has much of the same institutional framework and business mindset as Great Britain. Even though most Norwegians prefer a continental law than a British one, it is still easier to

comprehend and deal with than what is the case in many other emerging markets. However, not knowing the institutional framework and the way of life in India was one of the reasons why the firm chose to have full control of its operations. They wanted to proceed in a safe manner. The lack of knowledge about the country raised the risk level for the firm, since it didn't know the local context.

Firm D also replied that market-specific variables didn't influence the decision, nor did the different institutional environment or the low-cost nature matter. Their experience and knowledge of the market overcomes all of these barriers. They are aware of the corruption level, but have put in place clear guiding rules to prevent situations from arising. They are also aware of the cultural differences through their previous experience. Still, cultural differences do appear in everyday life. However, they try to avoid encountering problems related to differences by structuring the organization to minimize and moderate these differences. The entrepreneurs' background has made it easier for them to find a balance between their own business morale and the business context in Brazil.

Interestingly, few firms seem to have been influenced by the market environment when considering entry modes. Naturally, the only firm influenced by the low-cost aspect established a production unit in the foreign market. Production is often less expensive in emerging markets because costs can get significantly higher in high-cost environments. Meanwhile, none of the firms were influenced by the political, legal, economic or environmental uncertainty emerging markets represents. Moreover, few firms considered the different institutional framework and corruption as important. However, the effects of these variables may have been moderated since all of the firms chose to have full control over their units. Additionally, the lack of knowledge about the market may have made it difficult to assess the market risk. Interestingly, many of the firms considered culture as a somewhat important aspect. Two of the firms chose to do business in markets that resembled their home market. One of the firms choosing a distant market already had thorough knowledge of this market, while the other settled for what resembled the British framework. The development of the world has shifted demand, and thereby growth, to emerging markets. It is only natural that firms follow these developments despite the hurdles presented by uncertainties in these markets. Thus, they have to bear the uncertainties and act strategically in order to minimize risks. Full control seems like a suitable strategy in unpredictable markets with many uncertainties.

4.4 Partner Factors

Figure 11 illustrates if the firms have leveraged on previous partner experience or networks when entering the target markets in question. Both firm B and C have partners in other markets. However, these partners haven't been much help when expanding. At the time of writing, both of the firms are currently in the process of formalizing contracts with new partners in their target markets. Interestingly, firm A has never had any specific partner experience, nor do they have any extant partners in Estonia. Meanwhile, firm D leveraged on previous experience with partners and their previous network in their target market.

Sample Firm	A	B	C	D
Previous Partners	No	Yes	Yes	Yes
Extant partners	No	Yes (informal)	Yes (informal)	Yes
Previous Network	No	No	Yes (limited)	Yes

Figure 11: Previous and extant partner experience and network contacts leveraged in target market

Firm A has worked very little with partners and has concentrated on doing things on their own. They argue that this is much due to their focus on software development rather than commercial processes like sales. The firm did have a network of contacts that has helped them indirectly in the Baltic. It was the Danish embassy's network that helped them through in the Baltic States. However, they were not all that useful. New relations were formed after the decision was made to enter the Baltic region. Some of the contacts are common for the Scandinavian countries as well, while some are more locally oriented to the Baltic States. They restricted the involvement of partners since they wanted to engage in sales themselves, instead of depending on external parties with different motivations to sell their products. Nevertheless, the firm wants to consider franchising or other partner alternatives to sell their products and services in future arrangements. In time, they have become more service-oriented than software-focused, and the changed nature of their offering has made them consider other entry modes.

Firm B has two partners in Lithuania, but several more outside of the Baltic region. They reckon that there isn't much difference between those in Lithuania and the ones in other countries because the partners are highly internationalized. The firm operates with a partner strategy, in that their products are sold through the partners. Their software is only a small part of the whole solution offered by the partners. The firm cannot afford to widen their focus to cover sales as well. They cannot afford to hire more specialists and cover the costs for sales channels. It is more beneficial to rely on partners. This is also true when finding customers. The partners have easier access to different customers through existing general agreements. It is local partners who have the necessary knowledge and contacts in large official segments. These are important segments for the firm. It is therefore important to engage in partnerships in order to access these segments. The firm acknowledges that it is too small to deal with the agreements directly. Starting from scratch in new regions is difficult and time consuming. It is better to rely on partners for local knowledge and leverage on their experience. Meanwhile, the firm has been lucky in that partners have approached them for different cases and projects. Thus, compatible partners have been available in the market. They didn't have any network to leverage on when entering the Baltic. They have more or less evaluated the proposals that came from different partners. Additionally, the firm has relied heavily on Innovation Norway's expertise in the three states. They helped the firm with a market scan to find potential partners and target segments. This has resulted in dialogs with one or two potential partners in Estonia. Strategically, the firm would have wished to build the firm without involving other partners, but this seems infeasible due to time and cost issues.

Another firm that considered cooperative modes like joint ventures was advised to enter with full control instead, since joint ventures can be difficult to manage in India and involve certain risks. Firm C was told that Indians are very interested in collaboration to start with, but by the time they get the technology they become the dominant partner. Since the Indians are better than foreigners commercially, they often squeeze out their foreign partners. Another option is that the foreign partner, feeling left out and far away, withdraws from the partnership.

The firm doesn't have any partners in India yet, but they are planning to include a partner network. This is important because India is built on relations, and the firm can see the potential benefits of working with partners. In India, many people leave their jobs in big companies to start their own consulting companies. However, most of these don't have any facilities. Their specialty is to find new deals and probe the market for their customers. The firm wants to find business development

partners in a short-term perspective. However, in a long-term perspective, it is possible to include partners in product development as well. This will reduce the dependence on the main office, and available capacity can be utilized in the Indian subsidiary in the future.

They knew some Indian firms before they entered the Indian market, but they haven't relied on the previously existing network that much. The old network has been extremely important for the firm, but in India they had to build a new one. The firm is currently working with a huge international actor in an industry that is in growth in India. The partners they have came relatively early in the process, and were found through Innovation Norway's network. Furthermore, there are several firms in India who rely solely on matchmaking or deal making. They help different firms meet and do business. This has helped the firm building their own network in India. Meanwhile, networks and partners were important in the beginning, when the firm had to gain a thorough understanding of the market. This led the firm to discover new segments and product offerings. These were offerings that couldn't have been sold in Europe because of differences in mentality. The partnerships have led to new ideas and better knowledge, but the firm would have succeeded without partners as well due to their core competence. Partners have been helpful, but not vital for the firm.

Firm D also has some experience with partners, both from previous engagements and the existing firm. They need to work with partners to increase their own capacity and to attend projects were they don't have the necessary core competence. Partners are also important when pursuing new areas because they have the competence, network and admittance the firm lacks in certain fields. They have leveraged on the network they built up during the entrepreneurs' stay in Latin America. Meanwhile, partners have been beneficial, but not necessary for the firm to acquire the desired position in the market.

Most of the firms' established networks weren't as vital when expanding to the target markets. Firm D is the only firm that could use previous connections because it is the only firm with experience from the chosen target market. The three other firms had to build new networks in their target markets. Innovation Norway's regional offices have been very helpful for two of them. The organization has been an important support unit in the internationalization process of the firms, more so than their already established network of contacts. Finding suitable partners became easier due to the organization's vast network. This also reduced the risk of finding unsuitable partners. Complementary partners have been important because of their knowledge and experience in the market. Still, three of the firms have limited their dependence on partners. They wanted to retain full control over their business and avoid risks arising from working with unknown actors. Only one firm used partners as sales channel. However, the firm wanted to do things on their own, but were bound due to timing and cost issues. The others mostly used partners to access their networks and customers. One of them is considering partner strategies to release capacity, but this lies in the future. For now, they have all benefitted from both wholly-owned and cooperative modes. This is only possible with high resource commitment modes. Wholly-owned subsidiaries make it easier to exploit advantages connected to operating alone and with other partners. With other sources present and the possibility to work with partners despite the use of FDI, wholly-owned subsidiaries became the most strategic choice for the firms.

4.5 Transaction Specific

The following figure illustrates what the firms considered as important when choosing their entry mode. Figure 12 shows that the sample firms emphasized control and ownership as important variables. Furthermore, all of the firms are knowledge-based. Therefore, most of the firms also considered preventing technology and knowledge leakage. Interestingly, two of the firms knew right away that they wanted the chosen entry mode.

Sample Firm	A	B	C	D
Asset nature	Software (service)	Software	Technology	Service
Other entry modes considered	Yes	No	Yes	No
Leakage concerns	No	Yes	Yes	To some degree
Control and ownership	Yes	Yes	Yes	Yes

Figure 12: Overview of the different transaction-specific aspects the sample firms considered

Firm A considered different entry modes, but can't remember whether knowledge protection was addressed. Rather, the firm wanted to establish a wholly-owned subsidiary because of the nature of its offering. They wanted to do things on their own in order to give enough attention to the different markets they are operating in, instead of relying on partners with different motivations. They chose a wholly-owned subsidiary because they needed local presence in the Baltic States to find Baltic suppliers for their Scandinavian buyers. Greenfield was considered the easiest mode for this, rather than hiring the capacity of partners and educating them. The firm wanted full control over its own operations. Additionally, they wanted to test this mode in a smaller market before entering larger markets in the future, despite this being a resource-intensive mode. The firm doesn't have any experience with other entry modes, and didn't know how to operate with another mode. Furthermore, a subsidiary was also preferred because they needed to focus on core areas and perform tasks assigned by the parent company in Norway. Their internationalization process has been driven by the buyers' demand for foreign suppliers. The buyers may demand other markets in the future. Therefore, the firm is considering including other markets through partners instead of establishing subsidiaries in all of the future markets.

Firm B explored several locations for their production unit. For instance, they went to India to assess different facilities there. A production unit in India would be less expensive than Estonia, but they discarded the idea because of the distance, impersonality and cultural differences. It didn't seem worth it, despite the lower costs. Furthermore, the firm considered full control of their unique software as vital for their business. As of today, there are no real competitors in the market. Therefore, it became very important to protect the software. This has been the main reason for establishing a wholly-owned subsidiary. Protecting the software led the firm to hire their own people, and keep knowledge and technology inside the company.

Firm C listened to the advice given by other Norwegian firms in India, NORAD and Innovation Norway. All of them had advised the firm to avoid cooperative forms due to partner risks. That is why they didn't consider joint ventures and like. They did however consider a liaison office and a branch office. Meanwhile, both offices posed some restrictions. A liaison office can only represent a firm and

restricts the right to sell the firm's products and services. This would have been disadvantageous for the firm because they need to trade with local firms in their own currency. Moreover, the local presence signifies long-term commitment, which is very advantageous. A branch office brings with it higher taxation due to agreements between the home and foreign country, which is unfavorable as well. Another option considered involved hiring a person that could have worked for the firm through another company. This is what the firm has done until the subsidiary is fully up and running. Meanwhile, this requires invoicing from Norway. Due to tax agreements between Norway and India, a certain percentage is withheld as service tax. This delays revenues until the tax statement is ready, which is unfavorable for the firm in the long-run.

The patents for the developed technology are currently owned by the firm's customers. Meanwhile, they are considering investing in patents of their own in the future. This is also a possibility in India. Furthermore, it is possible to consider other subsidiaries involving other local firms in India as well. When dealing with technology, it is vital to prevent leakages. This makes it extremely important to protect the technology by having full control of the firm. That is why the firm chose to internalize all transactions in a wholly-owned subsidiary.

Another firm that didn't consider other entry modes is firm D. The founders were completely certain that they wanted to establish their own firm in Brazil. They wanted to make all the decisions on their own and have full control of their operations. They state that it is impossible to do what they do without a wholly-owned company. Meanwhile, this is a special case since their parent company is in Brazil. The firm acknowledges that knowledge leakages can have detrimental effects on firms, but it doesn't apply that much in their case. Their business is built on an understanding of the Brazilian market and this is difficult to copy. However, they try to avoid these situations through formal contracts with personnel and customers, and by staying alert.

As of today, there are no competitors or firms doing the same. That is why they couldn't sell through other actors or acquire other firms. Besides, if they were to acquire another firm in Brazil, they would have had to acquire more than 75 percent of that firm to make all the decisions themselves. Beneath this level of commitment, the acquired firm can still deny to go through with the desired changes. Things get more complicated and expensive with other modes. Thus, the entry mode options are limited for firms wanting full control in Brazil. There are two options, either establishing a wholly-owned firm, or acquiring large portions of other firms, which may be too expensive for INVs.

Interestingly, all of the firms interviewed mentioned full control as the most important variable when deciding on entry mode. This isn't a surprising revelation because all of the firms are knowledge-based, despite different types of offerings and asset nature. That is why many of them also emphasized the importance of protecting this knowledge. Strategically, this is best done through wholly-owned units. Firms have to decide what suits them best, internalization or using external partners. The sample firms recognize the advantages external partners with context-specific knowledge represents, but most vouch for internalization nevertheless. Some have even combined their wholly-owned units with loosely connected partners. They utilize partners in areas that are unfamiliar for the firm itself, such as market scanning and customer contacts. Internalization has several benefits. The sample firms are mostly concerned with dissemination of proprietary knowledge, and the ability to control product and business development. Moreover, high resource

commitment also signifies long-term commitment, which is reassuring for the local firms and customers.

4.6 Competitive Strategy

Figure 13 shows the sample firms' competitive strategic concerns. According to the figure, local presence and responsiveness are important variables in emerging markets. Moreover, all of the firms replied that they have a niche focus in their respective markets, which is a typical INV trait.

Sample Firm	A	B	C	D
Niche focus	Yes	Yes	Yes	Yes
Local presence	Yes	To some degree	Yes	Yes
Local responsiveness	Yes	To some degree	Yes	Yes
Local adaption	N/A	Yes	To some degree	N/A

Figure 13: The sample firms' competitive strategic concerns

Firm A emphasizes local presence as highly important and favors local responsiveness. They've organized their organization such that one subsidiary supplies the rest of the companies with software. However, their product doesn't need much local adaptation. The software is similar in all the markets. Furthermore, local relations are important to understand the market. However, in firm A's case, the business context is regulated by rules set by the European Union (EU). These are conditions all firms have to abide by. The rules cover most of the major areas of their business. The other local variants are discovered and tried solved through consulting firms that know the market. There are some national adjustments, but the main course is outlined by the EU regulations. Local presence was important to search markets for suppliers that could be represented in the system. It is unknown if a wholly-owned subsidiary will be chosen in subsequent markets. However, at least one person has to be locally present if a firm really wants to establish itself in a market. According to the firm it is infeasible to solely rely on remote partners.

According to firm B, different requirements are the reason they exist. They have to adapt their solutions to local needs. Large corporations offering the same kind of solutions don't care to adapt their solutions, and thus focus more on global integration. Local adaptation is the key for firm B's solutions. Countries have different requirements for their technical equipment. Being small and flexible is highly beneficial in this case, in that the firm can make small adjustments immediately. However, their product doesn't require much local understanding because the product in itself is developed according to the customers' specifications. Only the requirements change from one customer to another. Meanwhile, the firm has customers who don't know what requirements that apply to them. The firm can help them out on that area as well. However, the firm needs local knowledge to do so. This makes local relations important because it is a small firm without a recognized brand. So far, partners have come to them to integrate their products with the partners' in whole solutions. End users contact their partners, who then search the market for potential integrators, like firm B. However, there are many potential customers who don't know about firm B.

When they started out, firm C said yes to all new business, but as the number of customers and work load increased they had to narrow down and focus on what they did best. However, they still had to seize emerging opportunities. This is done from the parent firm in Norway, while sticking to the core competence in India. The firm has learnt where in the value chain they can make most profits from

previous operations. This knowledge will also be applied in India when considering different segments. Meanwhile, the Indian market is quite different from those in Europe and the US. While core competence and core business are key elements in business in the West, diversification is the key to business in India. It is important to adjust to these local differences because they open up for other opportunities. The country is experiencing a significant economic growth, which leads to huge changes. Many companies are making significant profits, many of them family-owned. The mentality is different. Companies with excess capital can decide to invest in a completely different branch or industry just because it is experiencing growth. They enter segments they don't know anything about. This represents new opportunities for firm C, which can help them out with everything from business plans to set up different facilities. This is a product that couldn't have been sold in the West, and demonstrates the local responsiveness required. A firm has to be able to launch into these kinds of innovative projects rapidly. This might have been difficult with modes involving other parties. In a joint venture the firm has to deal with another partner that may not want the same things.

The firm's products are a combination of local adaptation and standardization. The technology is similar, but local knowledge is important when it comes to solutions for innovative projects. For this the firm needs local employees, they are vital. Western employees would have been a waste because the firm needs local personnel who know how to do business in India. Additionally, relations are very important and patience is indeed a virtue in India. The market is marked by formalities, bureaucracy, signatures and stamps. Informal nurturing of business contacts and customers is extremely important. This would have been difficult without local understanding since Western firms seldom know the prevailing customs. These are also difficult to follow up from distant locations, favoring local presence in some form. Furthermore, the firm has learnt that wholly-owned subsidiaries represent a valuable signal effect. It signalizes long-term commitment and presence, which is beneficial because it eludes the "quick win" stamp. The firm isn't looked upon as just another foreign firm looking for quick gains. This is valuable when dealing with local firms and selling to customers, in that the company leaves a different and valuable footprint in the market.

Firm D operates in the interface between Brazil and other foreign countries. This definitely requires local responsiveness because their business aims to help foreign firms doing business in Brazil. The firm's competence can help companies from different foreign countries, not only Norwegian firms. Their knowledge and expertise can easily be used towards different markets. What they do not know, they acquire through the industry environment they are operating in. Local presence through a wholly-owned firm is vital in order to capture the changes in the market and update the knowledge base. Furthermore, it signals commitment to the market, and reassures the foreign firms that the firm has profound understanding of the market. It also makes it easier to access and nurture their existing network connections. The service offered is often adapted to the needs of the customers, which in their case are foreign firms entering the Brazilian market.

All of the firms agreed that local presence has been one of the most influencing variables for their entry mode decision. Local presence signifies long-term commitment, which is valuable when dealing with local people. Furthermore, by being in the field, a firm can pick up new ideas and act on them. It is also important to pick up changes in the markets and to constantly keep the firm updated. This favors wholly-owned subsidiaries because they retain the freedom to control the firm in any direction it wants. Furthermore, local responsiveness is also relevant because of the differences in markets. New opportunities emerge when adapting to the local market, and firms can make

significant profits by responding to these opportunities. Meanwhile, local knowledge is important in order to understand context-specific customs for how to do business. That is why the firms recommend hiring local employees as well. Thus, wholly-owned subsidiaries retain the decision-making power to seize innovative opportunities, while still making it possible to hire local expertise.

4.7 Main Influencing Variables

The following is a summary of what the sample firms have highlighted as the most influencing variables considering their entry mode decision. Figure 14 emphasizes full control, protection of proprietary knowledge and local presence as the most important variables, which all resulted in wholly-owned units.

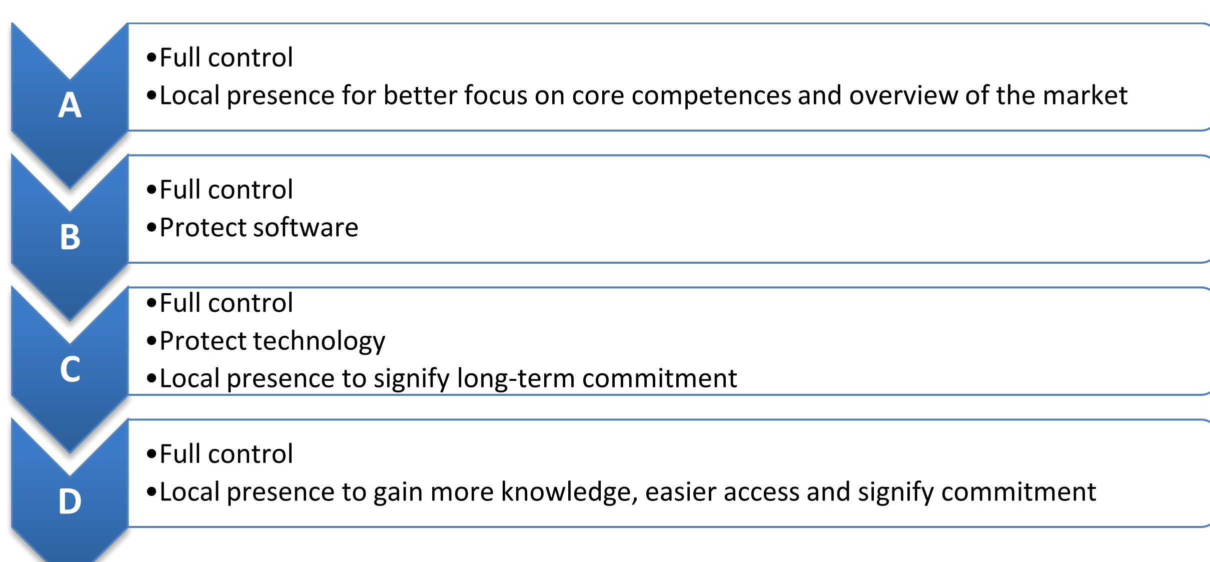

Figure 14: The main influencing variables on the sample firms' entry mode decision

It appears that transaction-specific and competitive strategic concerns are the most important influencing factors of the entry mode decision. These factors are followed by entering firm variables, making previous international experience and knowledge, or leveraging on other sources, an important aspect. The firms need to have an international orientation in order to appreciate and seize the opportunities emerging markets represent. Interestingly, the market environment factor and partner factors were not considered as significant influencers of the entry mode decision. These factors were not as significant as the other ones, in that other concerns weigh more than environmental and partner variables.

All of the factors mentioned, and their corresponding variables, represent certain risks the firms have to cope with. From a risk perspective, it seems that the sample firms have mentioned strategic reasons for their entry mode choice, e.g. local presence for better focus. Only one of the firms explicitly stated partner risk, and thereby protection of knowledge, as an important influencing variable. Meanwhile, the lack of experience for most of the sample firms may have made it difficult to assess different risks and make different trade-offs. Three of the firms didn't even know the local context and how it works. The lack of knowledge may have increased the perceived level of risk for these firms, and indirectly affected their entry mode decision.

5. Discussion

This paper examines how the different factors found in Lin's (2000) conceptual model influence INVs' entry mode decision in emerging markets. The first subchapter examines the main findings of this paper, and analyzes the empirical data compared to the conceptual background in order to address the objective. The data is tried analyzed as objectively as possible without any predetermined bias. The next two subchapters explain the findings' implications for management and policy makers by highlighting the main points to consider. This chapter ends with a description of the limitations of this paper, along with suggestions for further research.

5.1 Main Findings

This subchapter begins with an analysis of the empirical data introduced in light of the five different propositions outlined in the conceptual background. The validity of the propositions is discussed, along with the most influencing variables for each factor. What follows is an illustration of the revised conceptual model, which is in line with the results. The most influential factors are examined to check if the expectations formulated prior to the data collection are in accordance with the findings. The subchapter ends with arguments supporting one of the sides of the dilemma presented in this paper.

5.1.1 Entering Firm

Considering the entering firm factor and the validity of Proposition 1, most of the entrepreneurs in the sample didn't have significant international experience from previous engagements. Instead, they leveraged on other organizations like Innovation Norway. Nevertheless, all of the INVs entered with FDIs, more specifically wholly-owned units. However, it seems that founder teams or entrepreneurs with significant international experience aren't a requirement for high resource commitment modes. Even firms with less experience chose FDIs. One of the firms even chose this mode simply because they didn't have any experience with other modes. They wanted to learn from their operations for future expansions. Interestingly, the only firm with significant entrepreneur experience from the same market decided to enter a distant emerging market like Brazil right away. In line with Burgel & Murray's (2000) reasoning, their independence is much due to their residence in this market. Meanwhile, the firms with less previous experience chose markets closer to home to begin with. In this sense, it seems that previous experience from the same market does influence the decision. Meanwhile, Burgel & Murray (2000) suggest that the domestic sales mode may be the strongest predictor of the foreign entry mode, supporting the idea of path dependency to some degree. However, some of the firms didn't have any experience with this mode, thus, leaping into unknown terrain when establishing a subsidiary in a foreign market.

Entering firm variables are important for firms internationalizing to emerging markets. However, they aren't vital, provided that there are other trustworthy sources that can supply important context-specific knowledge. The firms didn't seek out local partners in joint ventures despite their lack of knowledge, as is suggested by existing literature on both MNCs and INVs. Furthermore, the firms didn't increase their commitment gradually. Most of them started out with wholly-owned subsidiaries. Thus, the entering firm factor emphasizing knowledge and experience may not be the most influencing factor, supportive of Burgel & Murray's (2000) suggestion. All of the INVs had an international orientation and a zeal for international business. This seems to be enough to pursue opportunities abroad with complex modes. Experience does indeed have a learning effect, but isn't vital for the decision making in that some hurdles connected to lack of context-specific knowledge

can be coped with. This reasoning supports *Proposition* 1, even though significant previous experience isn't vital for the internationalization if other sources are available.

5.1.2 Market Environment

Besides economic growth, market environment variables do not influence the entry mode decision. Political, legal, economic and environmental uncertainty are mentioned as important variables for MNCs, but this is apparently not so for INVs. Furthermore, political uncertainty and corruption were thought of, but were not considered as important for the entry mode decision. Meanwhile, the effects of these variables may have been moderated since all of the firms chose wholly-owned units. Additionally, this may have something to do with some of the firms' lack of experience in the different markets. They didn't know how to assess the market risk due to lack of knowledge. Furthermore, the differences between MNCs and INVs may result from the fact that the latter firms are smaller and less recognized than large global multinationals. This may reduce the risk of asset expropriation by political uncertainty. Since new ventures are less visible than large MNCs, they may also avoid high-level corruption. Meanwhile, being the smaller part does indeed increase partner risk, especially if the power balance is skew. However, all of the firms in the sample avoided involving partners by choosing FDIs.

Interestingly, many of the firms considered culture as an important aspect, especially when selecting a market to enter. Considering entry modes, the cultural differences have made some of the firms hire Norwegian managers to control the operations until they are better acquainted with the local workforce. This supports the use of wholly-owned units. They have gained the local knowledge through hiring local employees, and using partners to cover areas where they lack relevant information, thus, avoiding collaborative modes like joint ventures. Meanwhile, this may lead to continuity problems in the future if the expatriates wish to return home. Still, by that time the firms will know their workforce and whom to trust, or the knowledge may be transferred to another expatriate. Meanwhile, this is out of the scope of this paper.

The deterrent to FDIs, namely financial constraints, didn't seem to be an important factor, in that most of the firms declined the influence of the low-cost aspect. This may be in accordance with Johnson & Tellis (2008), in that control of these resources and how they are deployed is more important. The argument concerning limited resources is weakened in the context of emerging markets. Only one of the firms experienced financial constraints, but chose a production unit with partners as sales channels nonetheless. Most of the firms were able to fund their expansion on their own with the help of some support schemes. The sample firms chose HRC modes despite potential resource constraints in the domestic market. These modes are more adept at handling the uncertainties in emerging markets. The strengthening of the institutional frameworks in some of these markets favors FDIs, supporting the views of Meyer, Estrin, Bhaumik & Peng (2009) and Xia, Boal & Delios (2009). This has lowered the costs of doing business in emerging markets. However, firms still experience uncertainties absent in advanced markets. Nevertheless, they acknowledge that they have to encounter uncertainties in order to seize profitable opportunities. Unfortunately for the risk-averse firms, these opportunities are to be found in emerging markets of today's globalized world. They have to enter these markets despite different market-specific worries like uncertainties, corruption, cultural differences and institutional frameworks. This weakens the influence of the market environment factor. These arguments lend support to *Proposition 2*.

5.1.3 Partner Factors

Most of the firms wanted to control their business without significant involvement of partners. Many of them regard partners as positive, but not vital for the firms' success. There are some partner risks to consider when choosing entry modes. The firms established new networks after deciding on their target market. As previously mentioned, the only firm with previous experience from the same market could use its previously established network. This is the only firm that moved to a distant target market right away. The other firms leveraged on Innovation Norway's references. The organization has been vital when scanning the market for potential partners and other contacts. All of the firms have limited their dependence on their partners, except the firm that chose a production unit. The firms have mostly used partners to access the partners' networks and customers. Only one of the firms is considering subsequent entries with more involvement of partners, and this is mainly due to the changed nature of its offering.

Established theory suggests the use of joint ventures when the firm lacks context-specific knowledge, or when there is a risk of government intervention. However, firms have to weigh the risk sharing benefits against the risk of becoming the latent partner and losing core competence. Most of the sample firms vouched for Innovation Norway and network alliances to overcome the lack of knowledge, thus avoiding partner risks. All of the firms have benefitted from both wholly-owned and cooperative modes. This has been possible due to their choice of wholly-owned subsidiaries. These modes enable exploitation of advantages of operating alone and loosely with other parties. It is still possible to access the partner's network if there are some mutual benefits for all of the parties. Hence, partner factors are of less importance and have less influence on the entry mode decision of INVs in emerging markets. These considerations suggest that *Proposition 3* is supported.

5.1.4 Transaction Specific

Considering transaction-specific concerns, all of the firms declared full control as the most important variable when deciding on entry mode. This emphasizes the influence of the transaction-specific factor, which is often considered of less importance in the case of MNCs. This is apparently not so for INVs. Nevertheless, this isn't surprising since all of the sample firms are knowledge-based. As argued by Luo (2009) and Tian (2009), proprietary knowledge and technology favors HRC modes, especially wholly-owned subsidiaries. It seems that all of the firms found wholly-owned subsidiaries to be the soundest choice and therefore internalized. The firms emphasized the importance of operating independently and controlling the decision making. They also highlighted the importance of protecting their core competence, which is vital for their survival. Consequently, INVs' risk trade-offs are most often based on firm survival.

Based on their needs, firms have to decide what suits them best, internalization or using external partners. Researchers argue that internalization or dominant control of the joint venture is necessary when proprietary knowledge is at stake. Alternative governance structures are infeasible due to the involvement of external parties. Meanwhile, dominant control of the joint venture is difficult due to the INV's small size and lack of local knowledge. The risk of knowledge dissemination and being squeezed out of the partnership is viable. The INV's knowledge is its only valuable asset in the partnership. Hence, loosing this asset renders its participation unnecessary. Furthermore, different countries have their own rules of ownership when considering FDIs. For instance, Brazil requires a foreign firm to acquire at least 75 percent of the local firm in order to become the dominant decision-maker. This may be too capital-intensive for small INVs. Thus, unless the firms have the

financial strength, acquisitions are often rendered infeasible if the firm wants dominant decision-making power. This leaves wholly-owned subsidiaries as the most viable option. The creation of the subsidiary isn't as expensive as running operations in an unknown market. Meanwhile, efficiency can be learnt and resource constraints can be overcome by other means, such as loosely connected partners, government organizations like Innovation Norway, hiring local employees and like. Furthermore, this mode has several positive side effects as well, like signifying long-term commitment and local presence, which is highly appreciated by the local community. Hence, it seems that *Proposition 4* is supported.

5.1.5 Competitive Strategy

In addition to full control, all of the firms also highlighted local presence as an important variable considering their entry mode decision. Local presence signifies long-term commitment, which is beneficial when dealing with local firms and customers. The firms' presence is necessary to capture emerging opportunities, and keep the firms up to date on the market. This is especially important in emerging economies that are characterized by rapid growth and various changes. These changes are best caught when the firm is physically present. Thus, only HRC modes provide the necessary in-depth knowledge of the prevailing conditions in the economies. Furthermore, since INVs are niche-focused, it suffices with local knowledge of these niche markets. Relations are important, but do not need to be formally binding. In the case of INVs, the lack of context-specific knowledge can be acquired through local personnel or other contacts. Firms need flexibility to carry out emerging strategies on unique opportunities represented by emerging markets. Local responsiveness is why many of these firms survive, since larger firms mainly aim at global integration. This favors the use of wholly-owned subsidiaries. Only this mode gives the freedom to steer the firm in wanted direction without any restrictions, while still making it possible to inject local expertise into the firm. These considerations support *Proposition 5*.

5.1.6 Revised Conceptual Model

As already stated, all of the firms chose wholly-owned units, supporting the views of Luo, Tan & O'Connor (2001) and Sharma (2002), arguing that high resource commitment modes are the most suitable modes in emerging markets. Hence, this paper tends towards the use of FDIs, especially wholly-owned subsidiaries, when considering the dilemma presented previously in this paper. Figure 15 illustrates the revised model, which was earlier derived in the conceptual background. The figure shows the significance of the different factors, as well as the most influencing variables. The entering firm factor is faded, while market environment and partner factors are grayed out. With the factors grayed out, the propositions are also omitted from the figure. The explanations are given in the reasoning below.

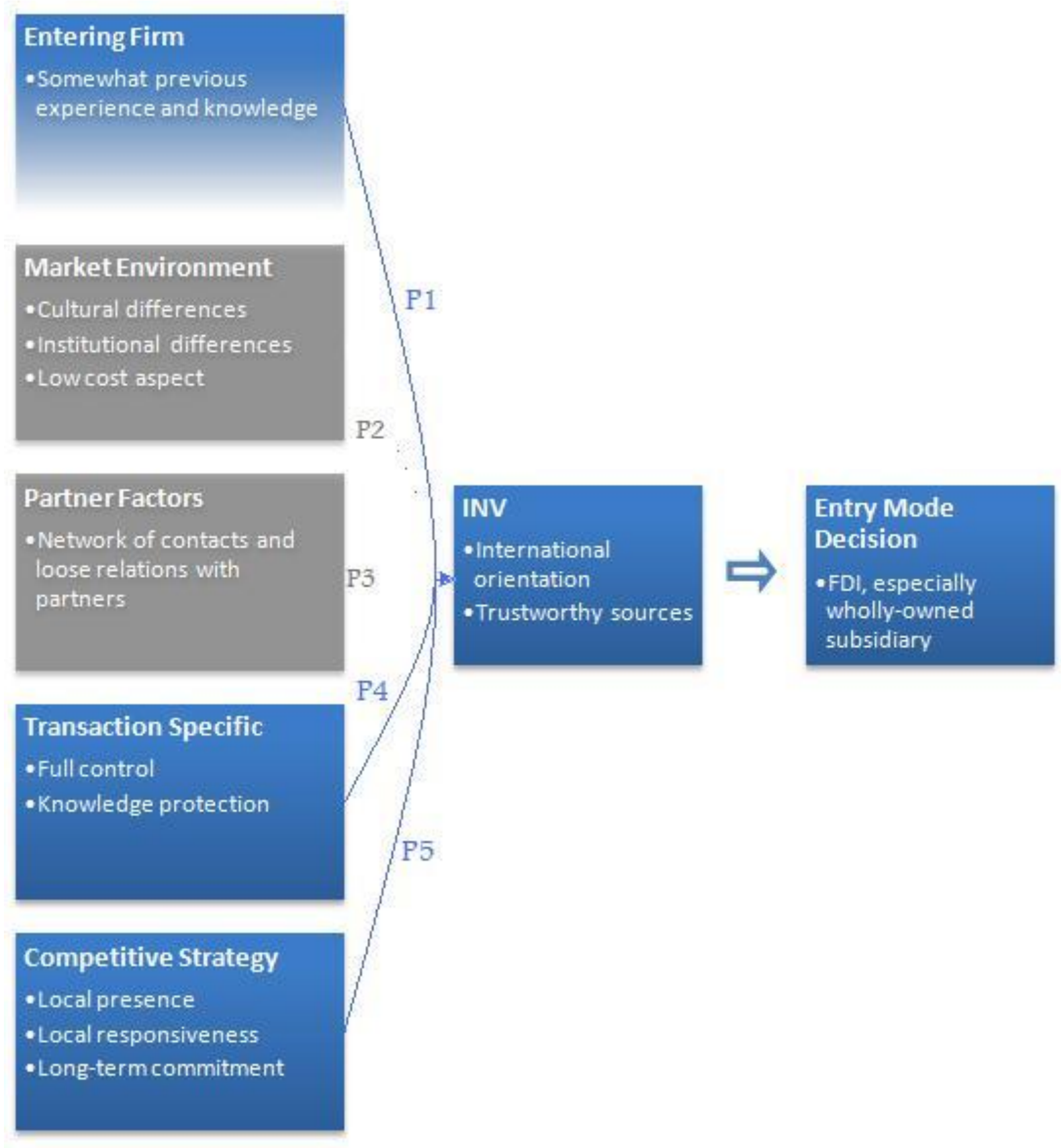

Figure 15: The main influencing factors and variables

Considering the propositions, the above mentioned reasoning seems to support all of the propositions outlined in the conceptual background. Proposition 1 is supported, but significant previous experience isn't vital if other sources are available. However, an international orientation is important for firms to risk the expansion. Proposition 2 is also supported, but the market environment factor is of less significance since emerging markets often are unavoidable for INVs. Furthermore, the improved framework also reduces certain institutional risks. Moreover, Proposition 3 is supported as well. However, partner factors are of less significance since firms can rely on other sources or loose alliances to gain relevant context-specific knowledge. The transaction-specific factor is highly influential, and the findings lend support to Proposition 4. This is also the case for Proposition 5, with the highly influential competitive strategic factor. Since all of the propositions are supported, it appears that the expectations outlined in the conceptual background also are in line with the findings.

Transaction-specific and competitive strategic variables appear to be the most influencing factors of the entry mode decision in emerging markets. This does not support the views of Lin (2000), arguing that the relationships between external environmental factors and entry mode are much more complex than what the transaction cost or competitive strategic perspective propose for MNCs. There seems to be a difference in what influences the decision of MNCs and INVs. As expected, strategic issues like control, knowledge protection and local presence were considered as the most influencing variables for the entry mode decision of INVs. Entering firm variables like knowledge and experience are also considered influential. However, previous experience isn't vital provided there are other sources that can supply this knowledge. Hence, the somewhat faded color in the figure. What is considered vital is the firms' international orientation and eagerness to seize opportunities. The market environment and partner factors were less significant. These are therefore grayed out in the figure. This does not mean that these factors can be totally omitted from future references. However, they do not have the same influence as the other three factors. This is in accordance with the expectations stating that INVs are more likely to choose FDIs, mostly wholly-owned subsidiaries, in emerging markets to control their own fate, while influenced by transaction-specific and strategic concerns. The decision was also expected to be influenced by the entering firm factor, in that the firms need to have a predisposition for international business.

5.1.7 Solving the Dilemma

The findings of this paper seem to favor the side of FDIs, instead of alternative governance structures, when faced with the entry mode dilemma for INVs. Many INVs enter distant emerging markets without significant previous experience. This lack of knowledge may result in an increased perceived risk level when considering entry strategies. It appears that partner risk is an important variable to consider, as well as local absence. FDIs represent a strategically more sound choice in the context of uncertain emerging markets. These modes provide more control over operations and internalization of vital assets. The main argument supporting the use of alternative governance structures, namely resource constraints, can be coped with in other manners in the low-cost markets. Furthermore, there are other sources to rely on than the firm alone or partners in joint ventures. Informal network contacts play an important role, as well as different government organizations. These actors can supply valuable resources, and also help reduce the perceived risk level of INVs.

Eliminating the main argument favoring alternative governance structures, leaves FDIs as the most suitable entry modes for INVs in emerging markets. However, considering FDIs, acquisitions may be infeasible due to financial concerns for firms wanting to retain control of their operations. This is mainly due to the different requirements posed by the institutions in the economies. Thus, *wholly-owned subsidiaries* emerge as the most strategic choice for INVs. Meanwhile, this may not be the case when internationalizing to other European or Northern American markets. This paper only considers emerging markets. Thus, it is possible that these differences have risen because extant literature also considers Western markets. The general consensus supporting the use of alternative governance structures may include advanced markets as well. However, this paper only concludes findings related to emerging markets. As a result, it is evident that available research on INVs' entry mode decision cannot be applied in the context of emerging markets.

5.2 Implications for Managers

Based on the discussion above, three implications for managers can be deduced from the findings of this paper. These implications apply to INVs internationalizing to emerging markets.

1. Enter with dominant control if knowledge-based

Knowledge-based INVs should enter emerging markets with full control of their operations in order to protect their core competences. They should focus on controlling their operations without depending on other parties due to partner risk. Their knowledge is their most valuable contribution to any partnership, thus, disseminating this knowledge can be risky business. MNCs often risk political risk or other environmental risk because they have well-recognized brands and are in the spotlight. This isn't the case for small INVs. They have some leeway before they get noticed. Firms have to act strategically according to what suits their business best. Resource and power concerns can be overcome through other sources in low-cost emerging markets. Matchmaking firms, network contacts and government organizations can assist the INVs in areas where they lack knowledge or contacts. However, knowledge and technology becomes ever more important in a constantly changing world. It is therefore vital to protect these valuable assets.

2. Choose HRC modes, especially wholly-owned subsidiaries

INVs entering emerging markets should consider HRC modes, especially wholly-owned subsidiaries, when deciding on entry mode. These modes emphasize local presence and signify long-term commitment. These traits are highly appreciated by the local firms and customers in these markets. Their history has been characterized by oppression and imperialism, and the economic booms the countries are experiencing have made them more nationalistic towards their countries. Western firms who are there for quick wins aren't appreciated by the local communities. An understanding of the social infrastructure and some sort of corporate social responsibility is highly beneficial when gaining customers in these markets. Their pride is nurtured when they comprehend that the shift in international business is leading their former rulers to their doorsteps to do business. Come to that, Western products and services are popular among the people and are seen as quality products.

Meanwhile, emerging markets often comprise of several different markets with their own economies, either urban or rural. These markets may present opportunities that are nonexistent in the saturated and more advanced markets in Europe and the US. An understanding of this local context is important when doing business. It is easier to learn how to do business and get to know the market when the firm is locally present. Since INVs often are niche-focused, they have the advantage to get to know their market thoroughly. Local presence is also important in order to keep the firm updated on the changes in the environment. The firms therefore need control and decision-making power to seize new opportunities when they emerge. INVs' flexibility and small size also favors the required adaptability. Additionally, it is easier to catch intrinsic opportunities with HRC modes. However, different markets may have certain requirements for entry modes, for instance equity percentage of acquisitions. Firms therefore have to evaluate these modes and choose the mode that suits them best strategically. The findings of this paper support the use of wholly-owned subsidiaries for INVs in these markets.

3. Leverage on trustworthy sources for context-specific knowledge

INVs lacking significant experience or knowledge about an emerging market may rely on other sources than forming joint ventures with local partners. There are other trustworthy sources that can

provide context-specific knowledge and contacts. Areas where the firms lack context-specific knowledge can be covered through hiring local personnel and managers, different government institutions, for instance NORAD and Innovation Norway, or matchmaking firms relying on this kind of knowledge to do business. Partners are also another source of knowledge. Wholly-owned subsidiaries may use partners, as well as being independent. More or less formal networks of contacts with mutual interests are highly important in some emerging markets, which can be highly relation-based. These contacts are important when doing business in these economies. Meanwhile, partners are beneficial, but not vital. Their role need not be as formal as in a joint venture. Thus, lack of experience, and thereby networks, in a market should not restrict the range of entry modes considered when INVs enter emerging markets.

5.3 Implications for Policy Makers

Government support organizations, like Innovation Norway and NORAD, are heavily relied upon by INVs without any prior experience. Doing business in unknown and unpredictable markets contains different risks for the INVs. Many of the firms rely on government organizations to reduce the risks exposed by uncertain markets they want to enter. Meanwhile, there are also certain risks involved in relying on external parties, such as government organizations. The organizations should therefore support the INVs by reducing their perceived risk level. This also means having thorough understanding and keeping themselves updated on the different fields they are helping out with.

The findings of this paper suggest FDIs, mostly wholly-owned subsidiaries, for knowledge-based INVs in emerging markets. The organizations should therefore help the INVs encounter obstacles and risks connected to these modes due to the sunk costs they represent. FDIs are difficult to reverse and are therefore riskier than alternative governance structures. Small mistakes can have devastating consequences for resource-constrained INVs. High resource commitment modes often require more extensive market scanning in order to reveal the true potential of the market, and find the right niche market. Leveraging of network contacts also becomes important when positioning the firm in the right place in the value chain. The firms also have to find the most suitable facilities, and invest more capital than what is necessary for hybrid structures. This means that the organizations have to tailor their programs to best fit the needs of INVs in emerging markets, especially considering these modes. The support programs are suggested to consider the following:

1. Market scanning

The organizations can help INVs (1) examine the potential of the firms' findings, (2) map prevailing business customs and restrictions posed by different institutions, and (3) by supplying needed context-specific knowledge. The bureaucratic process with numerous signatures and stamps may progress a little faster with the help of someone who knows the system, and what kind of people to contact. This will also help find the right markets to target, and how to capture the potential segments.

2. Potential network contacts

The organizations can also help the INVs (1) find contacts and compatible partners for collaboration, (2) build relations with their references, (3) find target markets to cover, and (3) hire and train suitable personnel. More or less formal relations are important in emerging markets. INVs without extensive networks need to rely on trustworthy government organizations with several suitable references. The organizations can help the firms get in touch with necessary contacts. This also helps

reducing partner risks since the organization knows the partner. Furthermore, it will make it easier for the firms to find their own position in the value chain of their suppliers and buyers.

3. **FINDING FACILITIES**

INVs opting for wholly-owned subsidiaries need help to find an ideal location for the subsidiary and procure needed equipment. The organizations can help out with finding these facilities and equipment by leveraging on their understanding of the market. This will help reduce the risk of establishing the firm in the wrong location, amongst unfitting suppliers and customer segments.

4. **FUNDING SCHEMES**

The findings reveal that some resource constrained INVs rely on different support schemes to cover their expenses. Thus, despite the low-cost nature of emerging markets, some funding support is needed. The organizations can help INVs fund different parts of their operations like finding suitable employees, personnel training, facilities, and help cover the costs of registering wholly-owned subsidiaries etc. In this way, the INVs may overcome some of the costs of doing business in an unknown emerging economy.

5.4 Limitations and Further Research

This paper contradicts existing literature and supports the FDI side of the dilemma. However, this paper solely considers emerging markets, which is not the case for extant literature. Furthermore, there isn't any other research addressing the same objective. Thus, further research is needed in order to further support the findings. This means involving more sample firms from other western countries as well, and performing both qualitative and quantitative research. Future research on several sample firms may provide more solidity to the findings.

Additionally, this paper only considers Norwegian sample firms. As is evident, Norway as a wealthy nation has several support mechanisms for its firms in order to further international business. This may, however, not be the case for other western firms. The financial constraints may be experienced differently in other nations. The sample of Norwegian firms is still considered trustworthy and generalizable to the rest of the Western nations. Meanwhile, further studies could examine firms from different western countries to further support the findings of this paper.

In hindsight, it appears that some modes may be somewhat restricted due to certain rules by the different institutions. This may affect the entry mode selection, since not all of the modes can be considered. Firms wanting full control for instance have to buy 75 percent of the local firm in order to gain dominant power. This restricts the alternatives for financially weak INVs. Further studies could map out which regulations restrict the different entry modes and in what market. This requires an additional focus on institutional theory when researching INVs in emerging markets. Additionally, it is possible to find out if there are certain restrictions that are recurring for the different markets or not, and what effects this may have for business.

This study only considers emerging markets, and concludes that the results contradict extant literature considering the entry mode selection of INVs in these markets. This may however not be the case in more advanced economies. The available literature may still apply for these markets. The stage is set for further research to address this issue, and find the distinctions between emerging and advanced markets.

6. Conclusion

The objective of this study was to examine how the different factors influence the entry mode decision of INVs in emerging markets. This is a relatively new subject, in that papers focusing on emerging markets mostly consider MNCs. Few studies have pursued this field, and the ones that do consider INVs do not limit their research to emerging economies. These markets are different than developed markets, in that the entry mode decision becomes more complex due to the major differences. Furthermore, what applies for MNCs does not necessarily apply for INVs in these environments.

HRC modes, especially wholly-owned subsidiaries, are the preferred modes in emerging markets. This decision is influenced by several variables, but transaction-specific and competitive strategic concerns are found to be the most influential variables. This is due to the nature of INVs' core competence, which is often knowledge-based. This knowledge has to be protected from leakage or expropriation. This is why partner factors are of less significance when deciding on an entry mode, in that firms want to avoid partner risks. Furthermore, local presence signifies long-term commitment, which is beneficial considering the local community. Local responsiveness helps firms seize emerging opportunities, which become visible through HRC modes. Moreover, entering firm variables are also significant influencers of the decision. An international orientation is vital for the firm to risk using complex modes in highly uncertain markets. The market environment factor is therefore less significant because the firms acknowledge that emerging markets represent viable opportunities. These markets are inevitable for niche-serving INVs. This gives rise to three general implications for managers. First, enter with dominant control if knowledge-based. Second, choose HRC modes, especially wholly-owned subsidiaries. Third, leverage on trustworthy sources for context-specific knowledge. The implications for policy makers suggest support programs to focus on market scanning, potential network contacts, finding facilities and funding schemes.

Considering the entry mode dilemma for INVs, presenting a choice between alternative governance structures and FDIs, this paper supports the use of FDIs. The altered context of emerging markets changes the decision variables. INVs need to take strategically optimal choices, despite their being start-ups. Alternative governance structures are not supported due to transaction-specific and competitive strategic variables. The argument supporting alternative governance structures, namely resource and power constraints, can be overcome through leveraging on other sources, like hiring local personnel, loosely cooperating with local partners or other network contacts, relying on local matchmaking firms, or government organizations like Innovation Norway. The financial constraints are also of less significance due to the low-cost nature of emerging markets. Efficiency and context-specific knowledge can be learnt over time. Meanwhile, control is important in uncertain environments marked by unpredictable conditions. Hence, extant research on this area supporting the use of alternative governance structures is discarded due to the conflicting findings, especially when considering emerging markets. However, this field needs more research to further support the findings of this study.

7. References

1. Appell, A., Jenner, R. & Hebert, L. (1999), *Take a Conservative Approach When Entering the China Market,* Journal of Global Marketing, 12 (4): 65-78

2. Arnold D. J. & Quelch, J. A. (1998), *New Strategies in Emerging Markets,* Sloan Management Review, 40 (1): 7-20

3. Aspelund, A. & Moen, C. F. (2010), *International new ventures and governance structures – are international entrepreneurs strategic or entrepreneurial?*, Journal of Management and Governance

4. Aspelund, A. & Moen, Ø. (2005), *Small International Firms: Typology, Performance and Implications,* Management International Review, 45 (3): 37-57

5. Aspelund, A., Madsen, T. K. & Moen, Ø. (2007), *A review of the foundation, international marketing strategies, and performance of international new ventures*, European Journal of Marketing, 41 (11/12): 1423-1448

6. Barney, J. (1991), *Firm Resources and Sustained Competitive Advantage*, Journal of Management, 17 (1): 99-120

7. Bryman, A. (2008), *Social Research Methods,* 3rd edition, Oxford University Press

8. Burgel, O. & Murray, G. C. (2000), *The international market entry choices of start-up companies in high-technology industries*, Journal of International Marketing, 8 (2): 33-49

9. Cavusgil, S. T., Knight, G. & Riesenberger, J. R. (2008), *International Business - Strategy, Management and the New Realities,* Pearson International Edition

10. Chandrasekaran, A. & Ryans, Jr. J. K. (1996), *US Foreign Direct Investment in India: Emerging Trends in MNC Entry Strategies,* The International Executive, 38 (5): 599-612

11. Crick, D. & Jones, M. (2000), *Small high-technology firms and international high-technology markets, Journal of International Marketing*, 8 (2): 63-85

12. Estrin, S., Baghdasaryan, D. & Meyer, K. E. (2009), *The Impact of Institutional and Human Resource Distance on International Entry Strategies,* Journal of Management Studies, 46 (7): 1171-1196

13. Freeman, S. & Reid, I. (2006), *Constraints facing small western firms in transitional markets,* European Business Review, 18 (3): 187-213

14. Freeman, S. & Sandwell, M. (2008), *Professional service firms entering emerging markets: the role of network relationships,* Journal of Services Marketing, 22 (3): 198-212

15. Gabrielsson, M. & Kirpalani, V. H. M. (2004), *Born Globals: How to Reach New Business Space Rapidly*, International Business Review, 13 (5): 555-571

16. Gleason, K. C. & Wiggenhorn, J. (2007), *Born globals, the choice of globalization strategy, and the market's perception of performance*, Journal of World Business, 42 (3): 322-335

17. Goldman Sachs (2003), *Dreaming With BRICs: The Path to 2050*, *Goldman Sachs* Global Economics, Paper No. 99, pp. 1-24

18. Hatani, F. (2009), *Pre-Clusterization in emerging markets: the Toyota group's entry process in China,* Asia Pacific Business Review, 15 (3): 369-387

19. Hoskisson, R. E., Eden, L., Lau, C. M. & Wright, M. (2010), *Strategy in Emerging Economies,* The Academy of Management, 43 (3): 249-267

20. Inkpen, A. & Ramaswamy, K. (2007), *End of the multinational: emerging markets redraw the picture,* The Journal of Business Strategy, 28 (5): 4-12

21. Isobe, T., Makino, S. & Montgomery, D. B. (2000), *Resource commitment, entry timing, and market performance of foreign direct investments in emerging economies: The case of Japanese international joint ventures in China,* Academy of Management Journal, 43 (3): 468-484

22. Javorcik, B. S. & Wei, S. (2009), *Corruption and cross-border investment in emerging markets: Firm-level evidence,* Journal of International Money and Finance, 28 (4): 605-624

23. Johanson, J. & Vahlne, J. (1977), *The internationalization process of the firm: a model of knowledge development and increasing foreign market commitment*, Journal of International Business Studies, 8 (1): 23-32

24. Johnson, J. & Tellis, G. J. (2008), *Drivers of Success for Market Entry into China and India,* Journal of Marketing, 72 (3):1-13

25. Kirsch, R. J., Laird, K. R. & Evans, T. G. (2000), *The Entry of International CPA Firms into Emerging Markets: Motivational Factors and Growth Strategies,* The International Journal of Accounting, 35 (1): 99-119

26. Laird, K. R., Kirsch, R. J. & Evans, T. G. (2003), *A Marketing Resource-based Model of International Market Entry and Expansion for Professional Services Firms,* Services Marketing Quarterly, 24 (4): 1-15

27. Lin, H. (2000), *Choice of Market Entry Mode in Emerging Markets,* Journal of Global Marketing, 14 (1): 83-109

28. London, T. & Hart, S. L. (2004), *Reinventing Strategies for Emerging Markets: Beyond the Transnational Model,* Journal of International Business Studies, 35 (5): 350-370

29. Luo, Y. (2001), *Determinants of Entry in an Emerging Economy: A Multinational Approach,* Journal of Management Studies, 38 (3): 443-472

30. Luo, Y., Tan, J. J. & O'Connor, N. G. (2001), *Strategic Response to a Volatile Environment: The Case of Cross-Cultural Cooperative Ventures,* Asia Pacific Journal of Management, 18 (1): 7-25

31. Madsen, T. & Servais, P. (1997), *The Internationalization of Born Globals: An Evolutionary Process?*, International Business Review, 6 (6): 561-583

32. Meyer, K. E. & Estrin, S. (2001), *Brownfield Entry in Emerging Markets,* Journal of International Business, 32 (3): 575-584

33. Meyer, K. E. & Tran, Y. T. T. (2006), *Market Penetration and Acquisition Strategies for Emerging Economies,* Long Range Planning Journal, 39 (2): 177-197

34. Meyer, K. E., Estrin, S., Bhaumik, S. K. & Peng, M. W. (2009), *Institutions, Resources, and Entry Strategies in Emerging Economies,* Strategic Management Journal, 30 (1): 61-80

35. Moen, Ø. (2000), *SMEs and International Marketing: Investigating the Differences in Export Strategy Between Firms of Different Size*, Journal of Global Marketing, 13 (4): 7-14

36. Oviatt, B. M. & McDougall, P. P. (1994), *Toward a theory of international new ventures,* Journal of International Business Studies, 25 (1): 45-64

37. Prasad, A. (2006), *Market Entry Decisions: Success and Failure Factors in International Business,* Journal of Management Research, 6 (3): 137-144

38. Rasheed, H. S. (2005), *Foreign Entry Mode and Performance: The Moderating Effects of Environment*, Journal of Small Business Management, 43 (1): 41-54

39. Rindfleish, A. & Heide, J. B. (1997), *Transaction Cost Analysis: Past, present and future applications,* Journal of Marketing, 61 (4): 30-54

40. Ringdal, K. (2001), *Forhandlinger,* 2nd edition, Universitetsforlaget, Oslo

41. Rodríguez, E. (2007), *Cooperative ventures in emerging markets,* Journal of Business Research, 61 (6): 640-647

42. Sharma, V. M. (2002), *Entry into Latin American BEMs: High or Low Resource Commitment Modes?,* International Journal of Commerce and Management, 12 (1): 41-67

43. Shrader, R., Oviatt, B. & McDougall, P. (2000), *How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century*, Academy of Management Journal, 43 (6): 1227-1247

44. Spradley, J. P & McCurdy, D. W. (1972), The Cultural Experience: Ethnography in Complex Society, Chicago: Science Research Associates

45. Tian, X. (2009), *Managing FDI technology spillovers: A challenge to TNCs in emerging markets,* Journal of World Business, 45 (3): 276-284

46. Vital Wave Consulting (2008), *10 Facts about Emerging Markets*, 10 Facts, Vital Wave Consulting, pp. 1-4

47. Xia, J., Boal, K. & Delios, A. (2009), *When experience meets national institutional environmental change: Foreign entry attempts of US firms in the Central and Eastern European region,* Strategic Management Journal, 30 (12): 1286-1309

48. Zhang, Y., Zhang, Z. & Liu, Z. (2007), *Choice of entry modes in sequential FDI in an emerging economy,* Management Decision, 45 (4): 749-772

Appendix 1: Entry Mode Theory

An entry mode is an institutional arrangement that makes entry of a firm's products, technology, human skills, management, or other resources into a foreign country possible. It is a way of organizing a firm's business activities in a foreign country. [Sharma (2002)] Entry modes also affect how firms face challenges of entering a new country and deploying new skills to market their products or services successfully. Existing entry modes listed in order of commitment are exporting, licensing, franchising, strategic alliances, joint venture, acquisition and wholly-owned subsidiary. [Johnson & Tellis (2008)]

Exporting is the strategy of producing products or services in the home country, and selling and distributing them to customers located in other countries [Cavusgil et al. (2008): 382]. Exporting can be both indirect and direct. Indirect exporting is accomplished by contracting with intermediaries located in the firm's home market, such as a trading company, export management company or online intermediary. Meanwhile, direct exporting is accomplished by contracting with intermediaries in the foreign market, such as a sales representative, foreign distributor, broker or online intermediary. [Cavusgil et al. (2008): 392]

Licensing is 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 is an arrangement where the firm allows another the right to use an entire business system in exchange for fees, royalties or other forms of compensation. [Cavusgil et al. (2008): 452]

A strategic alliance is 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 [Johnson & Tellis (2008)]. International collaborative ventures are cross-border business alliances in which partnering firms pool their resources and share costs and risks of the venture. A joint venture (JV) is a form of collaboration between two or more firms to create a jointly-owned enterprise. These are normally formed when no one party possesses all of the resources needed to exploit an opportunity. [Cavusgil et al. (2008): 418-419]

Foreign direct investment (FDI) is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant and equipment [Cavusgil et al. (2008): 418]. FDIs can be either wholly-owned investments in which the investor fully owns the foreign assets, like Greenfield investment, or they can be joint ventures, like mergers and acquisitions. An acquisition is a direct investment to purchase an existing company or facility, whereas a merger is a special type of acquisition in which two firms join to form a new larger firm. A Greenfield investment is a direct investment to build a new manufacturing, marketing or administrative facility, as opposed to acquiring existing facilities. [Cavusgil et al. (2008): 429] Brownfield investment is another form related to Greenfield. It is a special case of acquisition in which the resources are primarily provided by the investor. In this entry mode, the restructuring of the acquired company and its facilities are so extensive that the new operation resembles a Greenfield investment. [Meyer & Estrin (2001)]

Each entry mode has its own advantages and disadvantages, and its own characteristics in terms of resource commitment, control, flexibility and efficiency. JVs and FDIs are all high-control strategies where the investing firm attains maximum control by establishing a physical presence in the foreign market. Furthermore, high-control strategies also require substantial resource commitments.

Therefore, these are also high resource commitment modes, compared to the low resource commitment modes exporting, licensing, franchising and alliances. High-control strategies have less flexibility to reconfigure operations. The firms are in it for the long run, which implies considerable risk due to political and customer uncertainty. [Cavusgil et al. (2008): 419-421] Low resource commitment modes along with joint ventures are also known as alternative governance structures or hybrid structures. Figure 16 illustrates the control and commitment connected to each entry mode.

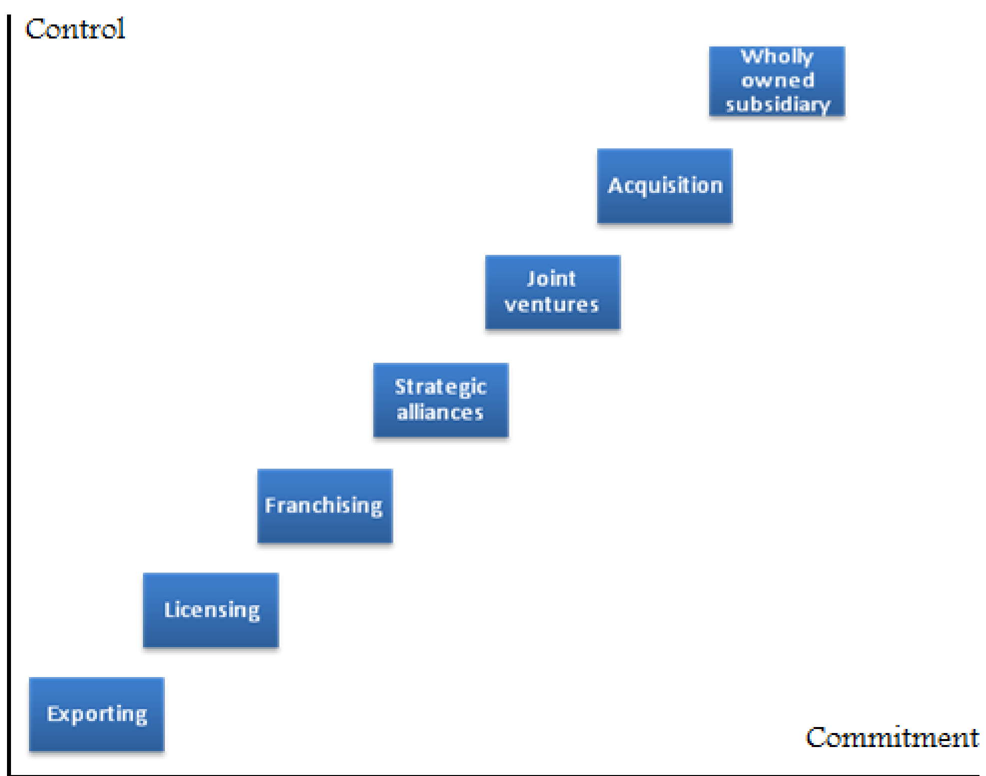

Figure 16: Arrangement of entry modes according to control and commitment

---

Cavusgil, S. T., Knight, G. & Riesenberger, J. R. (2008), *International Business - Strategy, Management and the New Realities,* Pearson International Edition

Johnson, J. & Tellis, G. J. (2008), *Drivers of Success for Market Entry into China and India,* Journal of Marketing, 72 (3):1-13

Meyer, K. E. & Estrin, S. (2001), *Brownfield Entry in Emerging Markets,* Journal of International Business, 32 (3): 575-584

Sharma, V. M. (2002), *Entry into Latin American BEMs: High or Low Resource Commitment Modes?,* International Journal of Commerce and Management, 12 (1): 41-67

Appendix 2: Interview Guide

Company name:

Year of establishment in Norway:

Year of establishment abroad:

2.1 Chosen entry mode?

Which entry mode is chosen abroad?

2.1.1 Entering Firm: What firm-specific factors influenced the decision?

1. Does the firm have any experience from other similar operations before it entered this particular market?
   - Familiarity with this particular market or similar markets?
2. Does the firm have any experience with this mode of entry?
   - From other markets or the domestic market?
3. Does the entrepreneur or the founding team have any (significant) previous international experience?
   - From this or similar markets (lived abroad, worked in an international firm, etc)?
4. To what degree did the international background (experience, knowledge, network contacts) affect the entry mode choice?
   - Considering choice of entry mode? (Competence, context-specific knowledge, see opportunities)
5. Did previous firm or entrepreneur experience and knowledge play a vital role when deciding on the entry mode?
   - Considering choice of entry mode? (Competence, context-specific knowledge, see opportunities)
6. Was the chosen mode the best alternative for you considering entering firm factors?
   - Choose FDI if you had the resources? Regret FDI?
   - Influence further international development?

2.1.2 Market Environment: Which market-specific factors influenced the decision?

7. How did market-specific variables, such as political, legal, economic and environmental uncertainty affect your decision?
   - Political or legal regulations imposed on foreign firms?
   - How has corruption and cultural concerns influenced the decision?
   - Adapt your business practices, contracts with employees or agents, according to the local context?
8. Which is most important: political, legal, economic and environmental uncertainty?
9. How did the overall institutional framework affect your decision?
   - Did the institutions reduce transaction and information costs?
   - Does weak or strong institutional framework have something to say for your decision?
   - Differences between emerging markets and advanced markets?
10. Does the low-cost nature of the markets affect your decision?
    - Differences between emerging markets and advanced markets?

11. Was the chosen mode the best alternative for you considering the market environment?
    - Choose FDI if you had the resources? Regret FDI?

2.1.3 Partner Factors: Which partner factors influenced the decision?

12. Do you have any previous experience with partners?
    - What type of partnerships?
    - Previous partner experience in domestic, this or similar markets?
13. Are you operating with partners in this market?
    - Were your partners readily available?
    - Cultural differences?
    - Why? Because of lack of knowledge and experience (complementary)?
14. Did you have a network to leverage on?
    - When deciding if partners were necessary?
    - When deciding on partners?
    - Has it helped in any way to cope with uncertainties?
15. Would you enter with a partner again?

2.1.4 Transaction-Specific: Which transaction-specific concerns influenced the decision?

16. Did you consider alternative governance structures based on transaction costs?
    - Did it influence the entry mode decision (significantly)?
    - Did resource constraints limit your alternatives?
17. Did protection of intellectual property or technology influence the entry mode decision?
    - Why/ why not?
    - How did you circumvent it? (Intangible assets, skilled labor etc)

2.1.5 Competitive Strategy: How does local adaption or global integration aspects influence the decision?

18. Do you take a narrow or a broad approach?
    - Focus on niche markets? Multi-tier? (Diversification vs concentration)
19. Did global integration or local responsiveness concerns influence the entry mode decision?
    - Did resource constraints limit your alternatives? Regret FDI?
20. Do you standardize or adapt your offerings to the markets?
21. Were local relations important to gain context-specific knowledge?
    - Important with local understanding? (Social infrastructure and actors)

2.2 What influenced the decision?

22. Which factors influenced your entry mode decision the most?
    - Entering firm, market environment, partner factors, transaction-specific factors or competitive strategy
23. Other reasons for why this particular entry mode was chosen?
24. Would you have chosen a different entry mode if you were to do it all over again?
    - Why/ why not?