



**NTNU – Trondheim**  
Norwegian University of  
Science and Technology

# Foreign market entry strategies in developed and emerging economies

A case study of how the entry strategies of  
Norwegian oil service firms are affected by  
the differing institutional contexts of  
Australia and Brazil

**Henrik Arnstorp**

Industrial Economics and Technology Management

Submission date: July 2013

Supervisor: Arild Aspelund, IØT

Norwegian University of Science and Technology

Department of Industrial Economics and Technology Management



# MASTERKONTRAKT

- uttak av masteroppgave

## 1. Studentens personalia

Etternavn, fornavn <b>Arnstorp, Henrik</b>	Fødselsdato <b>14. feb 1987</b>
E-post <b>arnstorp@stud.ntnu.no</b>	Telefon <b>99558369</b>

## 2. Studieopplysninger

Fakultet <b>Fakultet for Samfunnsvitenskap og teknologiledelse</b>	
Institutt <b>Institutt for industriell økonomi og teknologiledelse</b>	
Studieprogram <b>Industriell økonomi og teknologiledelse</b>	Hovedprofil <b>Strategi og internasjonal forretningsutvikling</b>

## 3. Masteroppgave

Oppstartsdato <b>15. jan 2013</b>	Innleveringsfrist <b>23. jul 2013</b>
Oppgavens (foreløpige) tittel <b>The choice of entry mode in foreign markets</b>	
Oppgavetekst/Problembeskrivelse One of the most important decisions to be made by firms entering foreign markets is the choice of entry mode. In any given market entry situation there will be a number of feasible entry modes available to the firm, and there will be many aspects for the firm to consider. This study seeks to examine this particular strategic decision in detail.	
Hovedveileder ved institutt <b>Førsteamanuensis Arild Aspelund</b>	Medveileder(e) ved institutt
Merknader <b>6 uker ekstra p.g.a utenlandsopphold. + 1 uke ekstra p.g.a påske.</b>	

#### 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.

Trondheim 15.06.13  
Sted og dato

  
Student

  
Hovedveileder

Originalen lagres i NTNUs elektroniske arkiv. Kopi av avtalen sendes til instituttet og studenten.

## Preface

This master thesis constitutes the final work of a five year master degree in Industrial Economics and Technology Management at the Norwegian University of Science and Technology (NTNU). The study has been conducted during the spring of 2013 and concludes a specialization in Strategy and International Business Development. The author was located in Sydney, Australia, during the work with the study.

The aim of the study has been to investigate how the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies. This has been achieved through a case study in which the entry strategies of Norwegian firms in both Australia and Brazil – one developed and one emerging economy – are examined. The case firms studied are Aker Solutions, Eureka Pumps, Kongsberg Oil & Gas Technologies and NorSea Group.

I would like to thank the managers of these case firms and the industry expert Svein Harald Øygard for very interesting and insightful interviews. I would also like to thank Arild Aspelund, my academic advisor at the department of Industrial Economics and Technology Management at NTNU, for guidance and feedback throughout the process.

Drammen, July 18<sup>th</sup> 2013

Henrik Arnstorp

## Abstract

When firms expand to foreign markets, their entry strategies unfold. Traditionally, research on entry strategies has focused exclusively on firm- and industry-specific factors and largely ignored the *context* constituted by the institutions of the host country. The institutional context determines the “rules of the game” in any market, and includes both formal institutions such as laws and regulations and informal institutions such as norms and culture. With the increasing relevance of emerging markets, in which institutions differ significantly from developed economies, researchers are embracing the notion that firms adapt their entry strategies to the specific institutional context of the markets they are entering.

This study responds to a lack of research addressing *how* institutions affect firms’ entry strategies across different institutional contexts. A case study of four Norwegian oil service firms is conducted, in which their entry strategies into Australia and Brazil – one developed and one emerging economy – are thoroughly investigated.

The findings indicate significant differences between the institutional contexts of Australia and Brazil. Formal institutions such as laws, regulations and political systems are considered less familiar, more uncertain and less market-supporting in Brazil than in Australia, while informal institutions such as values and culture are considered more different from those in Norway. In Brazil, local content regulations, bureaucracy, political uncertainty and a fundamental protectionist sentiment are found to significantly affect entry strategies.

The aspects of foreign market entry strategy considered in this study are (1) the rationale for market selection, (2) the choice of entry mode and (3) staffing and establishing foreign operations. Firms’ rationale for market selection is driven by factors such as market potential and the fit between firm resources and market characteristics, but institutional aspects such as regulations and political uncertainty are found to strongly affect the final decision of whether to enter. The choice of entry mode is similarly not found to be driven by institutional considerations, but rather by a desire for proximity to customers, the nature of the business and the size of foreign operations. However, the ultimate level of local presence is found to be strongly affected by institutional pressures, as in Brazil where a heavy local presence is demanded. Thus, the institutional context is found to affect entry strategies, not in isolation, but in interplay with other factors.

The total costs and the time it takes to enter foreign markets are found to be significantly increased by bureaucracy and more complex “rules of the game” in Brazil. In total, Brazil is found more challenging to enter and the single, most clear, advice for entering the Brazilian market is to employ an all-or-nothing approach to achieve the necessary local presence. The findings further indicate that firms that deliberately take the institutional dimension into account when entering foreign markets are more likely to enter successfully.

For researchers these findings support the notion that institutions cannot be disregarded when studying foreign market entry strategies, rather, a multi-theoretical approach is needed. For managers, the findings imply that firms should explicitly and deliberately consider the institutional context when entering foreign markets to make an informed decision about whether or not to enter and to appropriately adapt their entry strategies.

## Sammendrag

Når bedrifter utvider til utlandske markeder utfoldes deres inngangsstrategier. Tradisjonelt har forskning på inngangsstrategier utelukkende fokusert på bedrifts- og industrispesifikke faktorer og i stor grad oversett den *konteksten* som vertslandets institusjoner utgjør. Den institusjonelle konteksten bestemmer "spillets regler" i ethvert marked, og består av både formelle institusjoner som lover og regler og uformelle institusjoner som normer og kultur. I takt med den økende relevansen til fremvoksende markeder, hvor institusjonene avviker signifikant fra industriland, omfavner forskere ideen om at bedrifter tilpasser sine inngangsstrategier til den spesifikke institusjonelle konteksten i de markedene de entrer.

Denne studien responderer på en mangel på forskning som adresserer *hvordan* institusjoner påvirker bedrifters inngangsstrategier i ulike institusjonelle kontekster. En case-studie av fire norske oljeserviceselskaper er gjennomført, der deres inngangsstrategier i Australia og Brasil – ett industriland og ett fremvoksende marked – er grundig undersøkt.

Funnene indikerer signifikante forskjeller mellom de institusjonelle kontekstene i Australia og Brasil. Formelle institusjoner som lover, regler og politiske system er oppfattet som mindre kjente, mer usikre og mindre markedsstøttende i Brasil enn i Australia, mens uformelle institusjoner som verdier og kultur er oppfattet som mer ulikt Norge. I Brasil påvirkes inngangsstrategier av regler om lokalt innhold, byråkrati, politisk usikkerhet og en fundamentalt proteksjonistisk grunnholdning.

De aspektene ved inngangsstrategier som er tatt i betraktning i denne studien er (1) bakgrunnen for valg av marked, (2) valg av inngangsmodus og (3) bemanning og etablering av den utlandske operasjonen. Bedrifters bakgrunn for valg av marked er drevet av faktorer som markedspotensial og pasningen mellom bedriftens ressurser og markedets karakteristika, men institusjonelle aspekter som reglement og politisk usikkerhet påvirker sterkt den endelige beslutningen om hvorvidt man entrer. Valget av inngangsmodus er på samme måte ikke drevet av institusjonelle vurderinger, men snarere av ønsket om nærhet til kundene, virksomhetens natur og størrelsen på den utlandske operasjonen. Funnene indikerer imidlertid at det endelige nivået av lokal tilstedeværelse er sterkt påvirket av institusjonelle krav, som i Brasil der både formelle og uformelle institusjonelle krav forventninger krever en tung lokal tilstedeværelse. I sum, indikerer funnene derfor at den institusjonelle konteksten påvirker inngangsstrategiene, ikke i isolasjon, men i samspill med andre faktorer.

Funnene indikerer at totalkostnaden og tiden det tar å entre utlandske markeder øker signifikant som følge av byråkrati og mer komplekse "spillets regler" i Brasil. Totalt sett, indikerer funnene at Brasil er mer krevende å entre. Funnene indikerer at det tydeligste rådet når man entrer det brasilianske markedet er å ha en alt-eller-ingen-tilnærming for å oppnå den nødvendige tilstedeværelsen lokalt. Funnene indikerer videre at bedrifter som bevisst tar den institusjonelle dimensjonen i betraktning når de entrer utlandske markeder har en bedre sjanse for en vellykket inngang.

For forskere støtter disse funnene ideen om at institusjoner ikke kan ignoreres når man studerer inngangsstrategier i utlandske markeder, snarere kreves en flerteoretisk tilnærming. For bedriftsledere innebærer funnene at bedrifter må uttrykkelig og bevisst ta den institusjonelle konteksten i betraktning når de entrer utlandske markeder for å kunne foreta en

informert beslutning om hvorvidt en velger å entre og for hensiktsmessig å tilpasse sine inngangsstrategier.



# Table of contents

Preface .....	I
Abstract .....	II
Sammendrag .....	III
Table of contents .....	V
List of figures .....	VI
List of tables .....	VI
1 Introduction.....	1
1.1 Main goal of the study .....	2
1.2 Limitations of scope .....	2
1.3 Structure of the thesis .....	3
2 Theoretical background.....	4
2.1 Foreign Market Entry Strategy .....	4
2.1.1 Rationale for market selection.....	5
2.1.2 Choice of entry mode .....	5
2.1.3 Staffing and establishing foreign operations .....	7
2.2 How emerging economies differ from developed economies .....	7
2.3 Introduction to theoretical perspectives on foreign market entry strategy .....	9
2.4 Institutional theory – Developing the theoretical propositions .....	10
2.5 Theoretical framework .....	14
3 Methodology .....	15
3.1 Research design .....	15
3.2 Selection of the cases.....	16
3.2.1 “Case laboratory” – Norwegian Oil Service firms entering Australia and Brazil .....	16
3.2.2 Identification and selection of case firms .....	17
3.3 Data collection.....	18
3.4 Analysis and discussion.....	20
3.5 Evaluation of the research methodology .....	21
4 Empirical data .....	25
4.1 Kongsberg Oil & Gas Technologies .....	25
4.2 NorSea Group .....	30
4.3 Aker Solutions .....	34

4.4	Eureka Pumps .....	41
4.5	Industry expert – Svein Harald Øygaard, McKinsey & Company.....	44
5	Cross-case analysis .....	49
5.1	Rationale for market selection .....	49
5.2	Choice of entry mode .....	51
5.3	Staffing and establishing foreign operations .....	53
5.4	Perceived successfulness of market entry .....	54
6	Discussion .....	57
6.1	Returning to the theoretical propositions.....	57
6.1.1	The institutional context affects entry strategies – particularly in emerging markets...	57
6.1.2	Emerging economies are more challenging to enter .....	62
6.1.3	Firms that take the institutional context into account are more successful in entry .....	63
6.1.4	Institutions influence entry strategies in interplay with other influences .....	64
6.2	Implications for theory .....	66
6.3	Implications for managers .....	68
6.4	Implications for policy makers .....	70
6.5	Limitations of this study and directions for future research .....	71
7	Conclusions.....	73
	Bibliography.....	75
	Appendix .....	77
	Interview guide for Norwegian parent firm.....	77
	Interview guide for foreign subsidiary .....	79
	Interview guide for industry expert .....	81

## List of figures

Figure 1 – Structure of the thesis .....	3
Figure 2 – Aspects of foreign market entry strategy covered in this study .....	5
Figure 3 – Entry modes and trade-off dimensions .....	6
Figure 4 – Theoretical framework.....	14

## List of tables

Table 1 – Emerging economies (International Monetary Fund, 2012) .....	8
Table 2 – Aker Solutions Geographical information from the 2012 Annual Report.....	37

# 1 Introduction

What determines foreign market entry strategies? This question has remained high on the research agendas of international business scholars over the past few decades. The majority of research addressing this question has been based on transaction-cost theory and resource-based theory, indicating that foreign market entry strategies are determined by factors specific to the firm and the industry it operates in (Yiu and Makino, 2002, Meyer et al., 2009). In recent years, however, increased attention has been paid to the role of the *context* of market entry, constituted by the host countries' institutions (Meyer, 2001, Peng et al., 2008). The institutional context includes both formal institutions such as laws and regulations and informal institutions such as norms and culture (North, 1990). Collectively these institutions constitute the “rules of the game” in a society, thereby constraining and enabling firm behavior and foreign market entry strategies.

The importance of the institutional context or institutional environment<sup>1</sup> has been elevated by the increased interest in emerging markets, in which institutions differ significantly from those of developed economies (Hoskisson et al., 2000, Wright et al., 2005). As emerging markets are increasingly opened up through economic liberalization, and developed economies are becoming saturated and highly competitive with diminishing long-term potential, firms look to emerging economies for less competitive markets, increasing disposable incomes and large populations of young consumers (Sakarya et al., 2007). This vast potential, however, comes at a cost due to challenges posed by the institutional contexts of emerging markets, which are often less familiar to developed country firms, weaker and less market-supporting and less stable (Arnold and Quelch, 1998). According to Hoskisson et al. (2000), there is increasing appreciation that institutions shape the strategy and performance of firms in emerging markets, and according to Wright et al. (2005) institutional theory seems to be the most dominant theoretical perspective within strategy research in emerging markets.

According to Peng et al. (2008), the proposition that institutions matter is hardly novel or controversial. What is interesting is *how* institutions matter. According to Powell (1996) scholars must “tackle the harder and more interesting issues of how they matter, under what circumstances, to what extent, and in what ways” (Peng et al., 2009). Several researchers encourage future studies to vary the institutional contexts in order to address such *how* questions regarding the influence of institutions on firm strategies (Peng, 2002, Meyer et al., 2009) This study responds to this lack of research by in-depth and qualitatively investigating and comparing the foreign market entry strategies of the *same* firms entering *both* emerging and developed economy contexts. This approach, which to the best of the author's knowledge has not been taken by any prior research, enables an appropriate examination of *how* the different institutional contexts influence entry strategies.

To guide the efforts of this study, the following research question has been developed:

*How do the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies?*

---

<sup>1</sup> The terms “institutional context” and “institutional environment” are used interchangeably in this thesis.

To address this research question, the study takes form of a case study and draws its cases from the Norwegian oil service industry and the foreign market contexts of Australia and Brazil – one developed and one emerging economy. Catering to the needs of offshore oil and gas production in Norway over the past 40 years, the Norwegian oil service industry has developed technology, products and services that are demanded in oil and gas regions across the globe. The industry's share of international sales is steadily increasing (Rystad Energy, 2012) as more and more firms are looking to foreign markets for further growth. Indeed, the oil service industry has become Norway's largest export industry, excluding crude oil and natural gas itself (Jakobsen et al., 2012). Australia and Brazil are two of the largest and fastest growing offshore markets in the world and constitute two of the most important growth regions for Norwegian oil service firms (Rystad Energy, 2012).

Thus, studying Norwegian oil service firms entering Australia and Brazil is highly relevant *and* provides a suitable “laboratory” for a case study of how foreign market entry strategies are affected by the differing institutional contexts of emerging and developed economies.

More specifically, the study is an in-depth and qualitative investigation of the entry strategies of four Norwegian case firms that have entered or tried to enter *both* the Australian and the Brazilian oil service markets. To complement the cases an industry expert has been interviewed. The study takes an institution-based view and examines how the differing institutional contexts of Australia and Brazil affect the reasoning and decision-making of entrant firms. The study takes a broad view on foreign market entry strategy and investigates (1) the rationale for market selection, (2) the choice of entry mode, and (3) staffing and establishing foreign operations, in addition to addressing implications for the successfulness of market entry.

### **1.1 Main goal of the study**

The goal of this study is twofold. Firstly, by taking an in-depth and qualitative approach, as opposed to much of the research in the field, and by investigating entry strategies across different institutional contexts, it hopes to reveal novel and interesting insights into *how* entrant firms are affected by the institutional contexts of the countries they are entering. Qualitative case studies capture, not only the decisions made by the firms, but also their underlying reasoning and considerations. This is hoped to enable a deeper understanding of *how* entrant firms are influenced by institutions and *how* this differs between entering emerging and developed economies, thereby responding to a void in current research and exploring a new approach.

Secondly, the study seeks to extract knowledge and learn from the case firms' specific market entry processes in Australia and Brazil. These two markets are highly relevant as growth regions for the Norwegian oil service industry, and the experiences and lessons learned from the cases are in themselves hoped to be interesting and valuable, both with regard to entering Australia and Brazil specifically and with regard to entering developed and emerging markets in general.

### **1.2 Limitations of scope**

This study focuses on firms that originate and have their headquarters in a developed country. Research within internationalization and foreign market entry strategy often focuses on a specific subset of firms such as Small- and Medium-sized Enterprises (SMEs) or

Multinational Corporations (MNCs). This study does not make such a distinction, to avoid further restricting the already limited number of suitable case firms. An important methodological aim of the study is to investigate the *same* case firms, in the *same* industry, marketing the *same* products in *both* countries, to allow the best possible conditions for comparing the influence of institutions between the two countries. There are a very limited number of Norwegian oil service firms that have entered or tried to enter *both* Australia and Brazil. Since firms and their key managers are also highly difficult to get access to, the decision was made not to further restrict the set of potential case firms by only focusing on SMEs or MNCs. Furthermore, since this is a qualitative study, potential biases that would arise due to firm size were considered to be appropriately dealt with on a case-by-case basis.

**1.3 Structure of the thesis**

The rest of this thesis is structured as depicted in Figure 1. First, the theoretical background for the study is presented in section 2 building primarily on three theoretical bases, namely (1) foreign market entry strategy, (2) emerging versus developed economies and (3) institutional theory. These are ultimately combined into a theoretical framework for the study. Next, the research methodology of this study is presented and ultimately evaluated in section 3. Section 4 presents the empirical findings in a straight-forward and objective manner with separate case descriptions of each of the four case firms, in addition to a summary of the interview with an industry expert. Section 5 provides a cross-case analysis, highlighting the similarities, differences and patterns across the four case firms, and complements this with insight from the industry expert. Then section 6 returns to the theoretical framework discussing each theoretical proposition in light of the empirical findings. This section further presents implications of this study for theory, for managers and for policy makers. Lastly, it discusses the limitations of this study and provides directions for future research. Finally, section 7 presents the conclusions of this study.

<b>Section 1</b>	Introduction
<b>Section 2</b>	Theoretical background
<b>Section 3</b>	Methodology
<b>Section 4</b>	Empirical data
<b>Section 5</b>	Cross-case analysis
<b>Section 6</b>	Discussion
<b>Section 7</b>	Conclusions

**Figure 1 – Structure of the thesis**

## 2 Theoretical background

To address the research question of how *the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies*, this study is founded on three theoretical bases. These are (1) foreign market entry strategy, (2) emerging versus developed economies and (3) institutional theory. The purpose of this section is to introduce and define these concepts and review related academic theory to be able to develop a theoretical framework including propositions which will guide the data collection, analysis and discussion of this study.

The first subsection clarifies and defines the aspects of foreign market entry strategy that are covered by this study. The second subsection focuses on how emerging economies differ from developed economies. The third subsection provides an introduction to the theoretical perspectives most commonly employed within foreign market entry research. The fourth subsection reviews academic literature on institutional theory and its application to foreign market entry research, and develops a set of theoretical propositions. The final subsection depicts the theoretical framework constituted by the theoretical propositions.

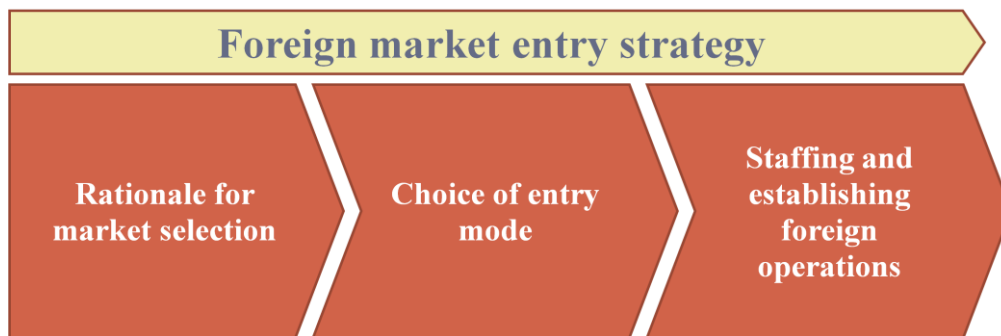
### 2.1 Foreign Market Entry Strategy

As firms increasingly engage in international business and increasingly depend on international markets for survival and growth, the importance of the strategic reasoning and decision-making related to internationalization is ever growing. At the very heart of any international strategy lies the selection of what markets to enter and the entry mode for each market (Koch, 2001).

The majority of internationalization literature focuses on the choice of entry mode (Sakarya et al., 2007), which has been described as a frontier issue in international marketing (Anderson and Gatignon, 1986). Indeed, certain researchers use the terms “entry mode” and “entry strategy” interchangeably, e.g. Cavusgil et al. (2011) and Andersen and Buvik (2002), while Root (1987) defines entry strategy as a range of decisions, and entry mode as one of them. An aim of this study is to have a broad view on foreign market entry strategy, and not merely analyze the choice of entry mode. Following the definition by Mintzberg (1978) of strategy as “a pattern in a stream of decisions”, this study views foreign market entry strategy as the stream of decisions that leads to entry into a foreign market. It is hypothesized that an in-depth and qualitative assessment will uncover important strategic differences across emerging and developed markets even though the actual entry mode choice is the same in each market. This is in line with the research of Crick and Jones (2000), who similarly argue that internationalization decisions are made in an integrated manner, and treats the entry mode choice merely as one part of the process.

Since this is an in-depth and qualitative case study, in addition to studying market selection and the entry mode choice, it was further desired to shed light on and learn from firms' experiences with setting up business operations in the foreign market. This aspect is less concise and restricted, and more open to capture various firm experiences related to foreign market entry, beyond the initial decisions of market selection and entry mode.

Thus, this study focuses on (1) the rationale for market selection, (2) the choice of entry mode and (3) staffing and establishing foreign operations as depicted in Figure 2.



**Figure 2 – Aspects of foreign market entry strategy covered in this study**

### **2.1.1 Rationale for market selection**

Commonly described as one of the most critical decisions in international business (Cherunilam, 2007, Andersen and Strandkov, 1997), market selection is concerned with identifying and screening potential country-markets and ultimately selecting which markets to enter.

The market selection process is usually composed of stages, such as preliminary screening, identification/in-depth screening and final selection (Koch, 2001). At each stage markets are evaluated based on a range of selection criteria such as market size and growth, availability and cost of production factors, level of economic development, country environment, psychic distance, market-based factors, competition, information and market knowledge (Sakarya et al., 2007). More generally, such selection criteria can thus be external or internal to the firm, they can be market- or industry-based, host country institution-based or firm resource-based. Despite presenting a range of different selection criteria, Cavusgil et al. (2011) ultimately states that “the best markets are large and fast-growing”, emphasizing the importance of market-based factors. The factors considered and the reasoning leading to market selection constitute the firm’s rationale for market selection.

### **2.1.2 Choice of entry mode**

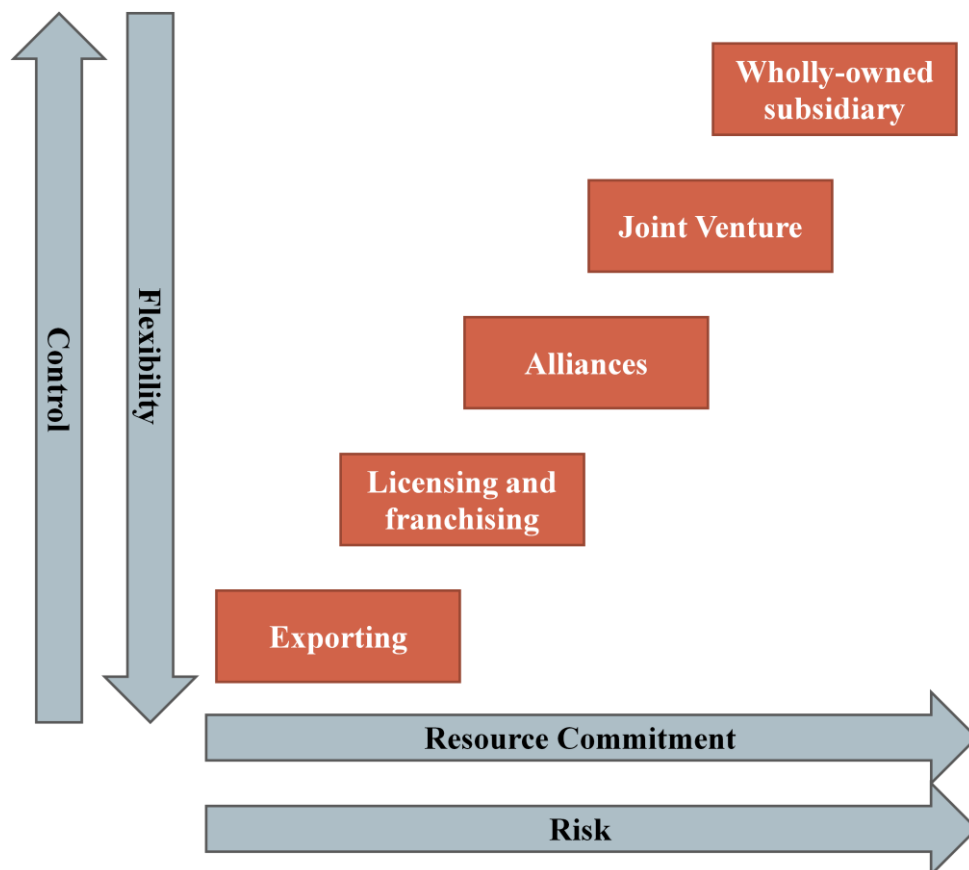
Perhaps the most widely studied concept within the foreign market entry process is the choice of entry mode. Root (1983) defines foreign market entry mode as “an institutional arrangement that makes possible the entry of a firm’s products, technology, human skills, management, or other resources into a foreign country”. Anderson and Gatignon (1986) refers to the entry mode as the “governance structure” of the foreign operations.

Choosing an entry mode involves several trade-offs, and each available entry mode has its advantages and disadvantages. Firms seek to choose an entry mode that yields the desired amount of control over operations in the foreign country, while at the same time adhering to the firm’s resource constraints and limiting the risk assumed. According to Root (1987) “to gain greater control, the company will have to commit more resources to foreign markets and thereby assume greater market and political risks.” Anderson and Gatignon (1986) thus proposes that the choice of entry mode is a function of this trade-off between control and resource commitment, while Cavusgil et al. (2011), in addition includes the dimensions of flexibility and risk.

Several different classifications of the generic entry modes available to the firm have been proposed. In a broad sense they can be classified as either low-, medium- or high-control modes (Anderson and Gatignon, 1986, Cavusgil et al., 2011) or as either export, contractual or investment/equity modes (Root, 1987). Based on 15 more specific entry modes presented by Root (1987), Johnson and Tellis (2008) proposes the following five generic entry modes:

- **Export:** a firm’s sales of goods/services produced in the home market and sold in the host nation, directly or through an entity in the host nation such as a sales agent or distributor.
- **License and Franchise:** A formal permission or right offered to a firm or agent located in a host nation to use a home firm’s proprietary technology or other knowledge resources in return for payment.
- **Alliance:** Agreement and collaboration between a firm in the home market with a firm located in a host nation to share activities in the host nation.
- **Joint Venture:** Shared ownership of an entity located in a host nation by two partners – one located in the home nation and the other located in the host nation.
- **Wholly Owned Subsidiary:** Complete ownership of an (acquired or developed) entity located in a host nation by a firm located in the home nation to manufacture or perform value addition or sell goods/services in the host nation.

Figure 3 depicts these entry modes according to the trade-off dimensions of Cavusgil et al. (2011), namely control, resource commitment, flexibility and risk.



**Figure 3 – Entry modes and trade-off dimensions (adapted from Johnson and Tellis (2008) and Cavusgil et al. (2011))**



### **2.1.3 Staffing and establishing foreign operations**

Given that the chosen entry mode involves a type of subsidiary in the foreign market, either jointly or wholly owned, the entrant firm must establish foreign business operations. This entails a range of activities such as designing and staffing an organization, hiring or buying offices or facilities, contracting external advisors, accounting and auditing firms and other business partners, obtaining necessary licenses, certificates and approvals required to operate in the host country etc. This third aspect of foreign market entry strategy is concerned with the challenges, costs and decisions related to establishing foreign operations. It is a less concise and restricted aspect than the two former, and is intended to be open enough to capture a wide range of issues firms are exposed to when setting up business operations in the particular foreign countries considered in this study.

One important strategic component of the staffing strategy, which will be addressed in this study, is the choice between employing parent country nationals (PCNs) or expatriates, host country nationals (HCNs) and third country nationals (TCNs), corresponding to the categorization of Cavusgil et al. (2011). According to Gaur et al. (2007) this staffing decision has implications for control, coordination and knowledge management between the parent firm and the subsidiary, as well as affecting subsidiary responsiveness and legitimacy in the host country.

Furthermore, this part of the market entry process is intended to address the total costs and the time it takes to set up business operations in the foreign country.

## **2.2 How emerging economies differ from developed economies**

Recent years have accommodated an increased interest in emerging economies, or emerging markets, from businesses, governments and scholars alike. The underlying reasons for their newfound attractiveness are a combination of factors including their economic liberalization, the saturation of developed country-markets, the emergence of an identifiable target market with increasing disposable income and the marketing reach of the internet (Arnold and Quelch, 1998). There are however significant costs, challenges and risks associated with entering and operating in emerging economies, such as less familiar, less developed and less stable market-supporting institutional environments.

Cavusgil et al. (2011) divides the countries of the world into three categories, namely advanced economies, developing economies and emerging markets. According to Cavusgil et al. (2011) advanced economies are “post-industrialized countries characterized by high per-capita income, highly competitive industries, and well-developed commercial infrastructure”. Developing economies are “low-income countries characterized by limited industrialization and stagnant economies”. Emerging markets are “former developing economies that have achieved substantial industrialization, modernization, and rapid economic growth since the 1980s”. This thesis focuses on the former and the latter, which will be termed developed and emerging economies, respectively.

Even though no commonly accepted definition of emerging economies exists, three characteristics often underlie various definitions, namely that emerging economies have (1) a low level of economic development, usually expressed by Gross Domestic Product (GDP) per capita, (2) a high rate of economic growth, usually expressed by the GDP growth rate and (3) a system of market governance approaching a free-market system (Arnold and Quelch, 1998). Emerging economies are mainly found in South and East Asia, Latin America, Eastern

Europe, Southern Africa and the Middle East (Cavusgil et al., 2011). Table 1 presents a list of countries which the International Monetary Fund (IMF) refers to as emerging economies. The four largest emerging economies, often referred to as the BRIC countries, are Brazil, Russia, India and China.

Argentina	Indonesia	Poland
Brazil	Latvia	Romania
Bulgaria	Lithuania	Russia
Chile	Malaysia	South Africa
China	Mexico	Thailand
Estonia	Pakistan	Turkey
Hungary	Peru	Ukraine
India	Philippines	Venezuela

**Table 1 – Emerging economies (International Monetary Fund, 2012)**

Emerging economies represent a vast potential for firms looking to expand into foreign markets. Collectively they constitute close to 60 percent of the world’s population and more than 40 percent of world GDP (Cavusgil et al., 2011). Moreover, while developed economies’ GDP grew by 3.9 percent annually between 2000 and 2010, the BRIC countries’ GDP grew by 10.4 percent, adjusted for purchasing power parity (International Monetary Fund, 2012). Cavusgil et al. (2011) emphasizes the importance of emerging economies as target markets, manufacturing bases and sourcing destinations for multinational firms world-wide. The latter two, for reasons such as low-cost but high-quality labor and in some cases access to raw materials and natural resources. According to Arnold and Quelch (1998), however, in recent years firms increasingly look to emerging economies as target markets due to their long-term revenue-generating potential. As diminishing long-term potential is available in saturated and highly competitive developed economies firms look to emerging economies, which are associated with less competitive markets, increasing disposable incomes, large populations of young consumers, and they are increasingly opened up through economic liberalization (Sakarya et al., 2007).

However, the vast potential of emerging economies comes at a cost. According to Arnold and Quelch (1998) firms operating in emerging economies face “a range of unfamiliar conditions and problems”. There is a lack of basic infrastructure that is taken for granted in developed economies, such as market data, distribution systems and communication channels. Moreover, legal frameworks and their enforcement are often weaker, including protection of property rights (Hoskisson et al., 2000). When such market-supporting institutions are weak, firms cannot engage in market transactions without incurring undue costs or risks, as the institutions fail to ensure effective markets (Meyer et al., 2009).

Furthermore, due to their rapid economic growth and political reform, emerging economies have inherently less economic and political stability. Arnold and Quelch (1998) argue that there is a lack of regulatory discipline and that business regulations can change frequently and unpredictably. There is also a higher risk of public intervention or expropriation (Demirbaga et al., 2007), implying increased uncertainty and risk about the future for firms entering and operating in emerging economies.

In addition, national and local governments and other regulatory bodies are often more influential in emerging markets than in developed-country market systems (Arnold and Quelch, 1998). There is generally a higher level of bureaucracy and excessive requirements for licenses, approvals and paperwork, which increase time-consumption and costs for firms. Furthermore, certain countries have policies favoring local firms (Cavusgil et al., 2011).

Even though countries have established formal frameworks to support effective market interaction, informal norms and culture may be lagging behind (Dikova and Witteloostuijn, 2007), causing informal networks and relationships to be fundamentally important.

In summary, the institutional environments of emerging economies are generally different and less familiar to firms from developed countries, they are less developed and weaker in supporting market transactions and less stable and predictable. In addition authorities are often more influential, more bureaucratic and favor local firms.

Due to differences and challenges such as these, firms must adapt their strategies when entering and operating in emerging markets. Furthermore, even though a general description is given here, this is by no means applicable to all emerging economies alike. Rather, each specific emerging economy has its particularities and requires a customized approach from internationalizing firms (Arnold and Quelch, 1998).

### **2.3 Introduction to theoretical perspectives on foreign market entry strategy**

To address the research question of how *the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies*, this study takes an institutional theory perspective on foreign market entry strategy. However, even though this thesis focuses on the influence of the institutional context, it is by no means claimed that institutions are the only influence on market entry strategy. Rather, understanding how institutions influence firm strategies also involves knowledge of how institutions influence strategy *compared to and in relation to* other influences.

Having an adequate understanding of the other most commonly employed theoretical perspectives on foreign market entry research is therefore important. This subsection gives a brief introduction to the most common theoretical perspectives on foreign market entry, while institutional theory is more thoroughly discussed in the next subsection.

As pointed out in 2.1, literature on foreign market entry strategy often focuses on the choice of entry mode, while this study takes a broader view on entry strategy. However, the theoretical perspectives most commonly used to analyze the choice of entry mode are considered to be relevant to research on foreign market entry strategy in general.

In their comprehensive literature review of the research field, Brouthers and Hennart (2007) found that the most commonly employed theoretical perspectives on the entry mode choice are transaction cost theory, the resource-based view, institutional theory and Dunning's eclectic framework. The latter is not a theory itself, but rather a framework combining factors from the other three perspectives (Brouthers and Hennart, 2007). This framework will therefore not be further described here. Industry-based factors affecting firm strategy is also often referred to in this thesis. This is not a theoretical perspective often employed in the particular domain of foreign market entry strategies, so it is not further presented here, but it is an influential perspective on firm strategy based on the forces of competition within an industry, strongly influenced by the research of Porter (1980).

### *Transaction cost theory*

Among the four perspectives, transaction cost theory is the most frequently used theoretical perspective (Brouthers and Hennart, 2007). Transaction cost theory is concerned with the costs of transacting in the market, and states that the boundaries of firms are determined by firms selecting the governance structure that minimizes the transaction costs of carrying out its activities (Williamson, 1985). The theory is based on two behavioral assumptions, namely bounded rationality and opportunism. According to Williamson (1985) three factors influence transaction costs and thereby the choice of governance structure, namely asset specificity, internal and external uncertainty and task frequency.

According to Anderson and Gatignon (1986) the entry mode decision is a trade-off between control and resource commitment. When the transaction costs of operating in a particular foreign market are low, firms utilize the market. In other words, the default entry mode under the transaction cost perspective is a low resource commitment mode, such as exporting. When transaction costs of operating in the foreign market are higher, the need for control is higher and firms must engage in an entry mode that involves higher commitment of resources, such as establishing a subsidiary abroad.

### *Resource-based view*

The resource-based view, also termed knowledge-based or organizational capabilities view, focuses on the unique bundle of resources and capabilities possessed by the firm. Barney (1991) classifies firm resources into financial resources, physical resources, human resources and organizational capital, and states that resources that are valuable, rare and imperfectly imitable form a basis for competitive advantages. Firms thus seek to possess, develop or acquire such resources in order to exploit competitive advantages in the market.

With regard to foreign market entry the resource-based view is therefore concerned with how firms can use foreign markets to exploit their unique resources, or develop or acquire new resource-based advantages (Brouthers and Hennart, 2007). According to Brouthers and Hennart (2007) international experience is one such resource that has been found to influence foreign market entry decisions. This is in tune with the internationalization process or stages model proposed by Johanson and Vahlne (1977), perhaps the most influential effort to develop a model of the internationalization of a firm and the chain of operational modes in a specific country (Björkman and Eklund, 1996). This model states that firms, as they become increasingly experienced with foreign markets, gradually enter more distant markets and, as they gain knowledge about a particular foreign market, gradually increase their resource commitment in each market.

## **2.4 Institutional theory – Developing the theoretical propositions**

As is evident from the above discussion, research on foreign market entry has traditionally focused on how entry strategies are influenced by factors specific to the firm and the industry it operates in, taking the effects of country-specific contextual factors as constant or less important (Yiu and Makino, 2002). Though insightful, these perspectives can be criticized for ignoring the *context* in which firms compete (Peng et al., 2008). Recently, researches have increasingly argued that international business research should focus more on the context constituted by institutions (Meyer, 2001, Peng et al., 2008, Yiu and Makino, 2002). Institutional theory focuses on the role of the political, social and economic systems surrounding firms in shaping their behavior (Wright et al., 2005). This study takes an

institutional theory perspective, addressing the question of how *the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies*.

Institutions are defined by North (1990) as “the humanly devised constraints that structure political, economic and social interaction” or more informally “the rules of the game in a society”. The major role of institutions is thereby to reduce uncertainty and provide meaning to the members of a society. Institutions consist of both formal and informal institutions which combine to constrain the choices available to individuals and organizations. Formal institutions refer to political, legal and economic systems and include constitutions, laws, regulations, property rights etc., while informal institutions refer to social norms and values of individuals and include sanctions, taboos, customs, traditions etc. (North, 1991). Institutions change and evolve over time, but although formal rules can change overnight, informal institutions are often deeply rooted and more resistant to change (North, 1990).

The importance of institutions in shaping firm behavior has been asserted and emphasized by both economists and sociologists. While North (1991) represents the economic version of institutional theory, Scott (1995) represents the sociological version and defines institutions as “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior.” Proponents of the economic perspective on institutional theory view the firm as a rational economic actor that seeks to maximize economic efficiency by adapting to the institutional framework. The sociological strand of institutional theory, on the other hand, states that the firm seeks to attain legitimacy by adapting to the institutional framework, and that it is constrained by bounded rationality in doing so (Peng, 2002). In line with researchers such as Oliver (1997), Peng (2002) and Peng et al. (2009), this study takes an integrative approach, drawing from both strands of institutional literature, and does not further highlight differences between the two.

Institutional theory is closely related to transaction costs. North (1990) argues that transaction costs consist of the costs of measuring the value of the exchanged good and the costs of protecting rights and policing and enforcing agreements. “These measurement and enforcement costs are the sources of social, political and economic institutions” (North, 1990). According to Meyer (2001) “institutions reduce transaction costs by reducing uncertainty and establishing a stable structure to facilitate interactions.” Researchers have thus begun to extend transaction cost theory, by including the institutional context (Brouthers, 2002).

Peng et al. (2009) argue that an institution-based view on strategic management has emerged, as researchers have increasingly realized that “institutions are more than background conditions”. Furthermore, the authors argue that the institution-based view is “the third leg of the strategy tripod”, the other two being the industry-based and resource-based views. An institution-based view on strategy “focuses on the dynamic interaction between institutions and organizations, and considers strategic choices as the outcome of such interaction” (Peng et al., 2008). In other words, strategic choices are not only driven by industry conditions and firm capabilities, but are also a reflection of the institutional environments firms operate in (Peng et al., 2008).

With regard to foreign market entry strategy, institutional theory research suggests that firms are influenced by the institutional environment when making market entry decisions, because the institutional environment of the host country constitute the “rules of the game” by which

firms participate in the particular market. According to Brouthers and Hennart (2007) research in this area has primarily focused on host country institutional environments or differences between home and host countries. Meyer (2001) studied the effects of host country institutions on the choice of entry mode, and concluded that firms select a coordination mechanism that fit the environment. More specifically, the stronger and further developed the institutional environment of the host country is, the more likely entrant firms are to choose a high-control entry mode such as a wholly-owned subsidiary. The influence of institutions on the entry mode choice is confirmed by Yiu and Makino (2002), who found that regulatory, normative and cognitive dimensions of the institutional environment (referring to the above definition by Scott (1995)) all have a direct effect on the entry mode choice. With regard to market selection, Whitelock and Jobber (2004) found that the five factors that most significantly influence the decision of whether or not to enter a country are “developed economy, good market information, unsympathetic government attitude, geocultural/political similarity and attractive market”. The former four of these factors can be interpreted as institutionally based factors, indicating that the institutional environment of the host country also strongly influence the rationale for market selection. Gaur et al. (2007) adopted an institutional perspective in their study of how host country environments influence subsidiary staffing strategies, and found empirically that firms rely more on expatriates in institutionally distant environments.

In summary the above discussion predicts that all aspects of foreign market entry strategy considered in this study (i.e. rationale for market selection, choice of entry mode and staffing and establishing foreign operations) are affected by the institutional environment of the host country.

This leads to the first theoretical proposition of this study:

***Proposition 1 (P1):***

*The institutional context of the host country affects firms' reasoning and decision-making with respect to foreign market entry i.e. firms' foreign market entry strategies.*

According to Peng (2002) the reason for the former lack of attention given to the institutional context is that most strategy research has been performed in Western, developed countries where the differences in institutional contexts are small, and similar market-based “rules of the game” are taken for granted across nations. Peng (2002) holds that this research has struggled to separate the institutional effect on firm strategy and performance, and emphasizes the importance of varying institutional contexts when studying the effects of institutions on business strategy.

The deficiencies of research assuming away institutions as “background conditions” becomes more striking when probing into emerging economies, since the institutions of emerging economies differ significantly from those in developed economies (Peng et al., 2008). There is increasing appreciation that institutions shape the strategy and performance of firms in emerging markets (Hoskisson et al., 2000), and according to Wright et al. (2005) the institution-based perspective seems to be the most dominant perspective within strategy research in emerging markets. Meyer et al. (2009) argue that the level of development of an emerging economy's market-supporting institutions directly influences firms' entry strategies.

This leads to the next two theoretical proposition of this study:

**Proposition 2 (P2):**

*The effects of the host country's institutional environment on foreign market entry strategies are more significant in emerging economies than in developed economies.*

**Proposition 3 (P3):**

*Due to the challenges posed by the host country's institutional context firms find foreign market entry more challenging in emerging economies than in developed economies.*

Some studies have also addressed the implications of the host country's institutional environment on the performance of foreign affiliates (i.e. joint ventures and subsidiaries) (Makino et al., 2004, Chan et al., 2008). These studies indicate that the performance variations of foreign affiliates are higher in poorly developed institutional environments, but also indicate a negative relationship between the performance level of foreign affiliates and the level of institutional development of the host country. Research in this area is limited, particularly research addressing the implications of entrant firms' responsiveness to the institutional dimension in their entry strategies.

This leads to the next theoretical proposition of this study:

**Proposition 4 (P4):**

*Firms that deliberately take the institutional context of the host country into account in their reasoning and decision-making with respect to foreign market entry are more likely to perceive the market entry process as successful.*

According to Peng et al. (2008), the proposition that institutions matter is hardly novel or controversial. What is interesting is *how* institutions matter. There seems to be a lack of qualitative research addressing such how questions regarding the effects of institutions on firm strategy, and in particular foreign market entry strategy. Indeed, Meyer et al. (2009) requests further research addressing the "specific aspects of institutions that explain variations of business strategies" between countries, and further how "institutions shape the development of new subsidiaries subsequent to initial entry".

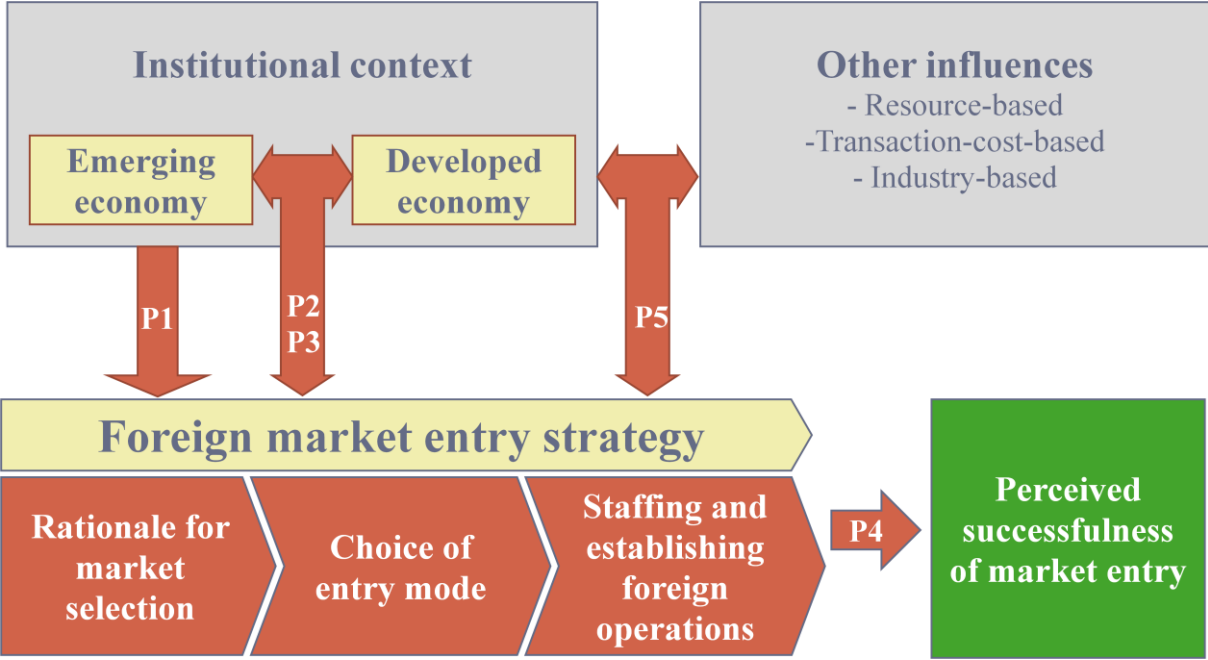
This study responds to this lack of research by in-depth and qualitatively addressing *how* institutions matter, and not limiting the research to the entry mode choice, but also addressing pre-entry rationale for market selection and post-entry staffing and establishing foreign operations, both in emerging and developed economy contexts. Furthermore, institutional theory researchers emphasize that institutions are not the only source of influence on firm strategy and entry decisions, and advocate the need to address the "interactive effects of institutional factors on other decision-making criteria" (Brouthers and Hennart, 2007), such as transaction-cost and resource-based factors. This study is therefore not blind to other influences, but rather seeks to address how institutions matter compared to and in conjunction to other influences.

This leads to the final theoretical proposition of this study:

**Proposition 5 (P5):**  
*The effects of the host country’s institutional context on foreign market entry may be of lesser or greater significance than other influences, such as transaction-cost-based, industry-based and resource-based influences, and may moderate or enhance such other influences.*

**2.5 Theoretical framework**

Collectively the theoretical propositions developed in the previous subsection form the theoretical framework of this study, as depicted in Figure 4.



**Figure 4 – Theoretical framework**

It is important to emphasize that these propositions are not merely meant to be confirmed or denied, as is often the case in quantitative research. Rather, as this is a qualitative research, these propositions are meant to guide the focus of the research, which ultimately seeks to uncover the qualitative *explanations* to how and why these propositions are true or not.



### 3 Methodology

This section presents the methodology used to address the research question of this study. First, the overall research design is presented. Then the selection of cases, which are taken from the oil service industry, is explained. Data collection and analysis procedures are explained, before the research methodology is evaluated.

#### 3.1 Research design

The research question of this study is concerned with how *the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies*. In order to address this research question and arrive at a deep understanding on the matter, the main idea behind the research design is to investigate market entry into different institutional contexts, namely a developed economy context and an emerging economy context, and examine how the entry strategies differ.

This is accomplished through a case study of four firms' entry strategies in *both* Australia and Brazil – one developed and one emerging economy. It relies to a large extent on in-depth interviews to investigate the influence of host country institutions on the entry strategies of the firms. It then analyzes the similarities and differences across the case firms and countries, and discusses the empirical findings with respect to the theoretical framework presented in the previous section.

The multiple-case study to a large extent follows the recommendations of Yin (2009). According to Yin (2009) a case study is preferable when the study (1) seeks to examine “how” and “why” questions, (2) requires little control over behavioral events, and (3) focuses on a contemporary phenomenon within a real-life context. Since this study examines *how* the different institutional *contexts* of developed and emerging economies affect market entry strategies, the first and third criteria are clearly fulfilled. The study addresses the considerations and decisions of the case firms and does not seek to influence their behavior, hence the second criterion is also fulfilled.

The emphasis on context is particularly important in distinguishing the case study from other research designs (Yin, 2009). Since the main focus of this study is in fact the influence of the context itself, namely the institutional context of the host country, the case study was deemed suitable for the purpose.

The individual cases are firms entering both Australia and Brazil – one developed and one emerging economy, and the unit of analysis is the foreign market entry strategy in each of the two countries. A multiple-case approach is chosen to increase the robustness of the study. According to Yin (2009) it is critical that multiple-case studies are designed based on a replication logic, rather than a sampling logic which is appropriate for surveys which seek to determine the prevalence or frequency of a particular phenomenon. A replication logic implies that each case is carefully selected so that it either predicts similar results (a literal replication) or contrasting results but for anticipated reasons (a theoretical replication). If all cases either literally or theoretically replicate the original theory, the study provides substantial support of the theory.

This study explores how the differing institutional environments of developed and emerging economies affect the entry strategies of entrant firms. As evident from the theoretical propositions developed in the previous section, it predicts significant differences in the degree

of influence by institutions between developed and emerging markets. It further predicts these differences to be found for all firms. In other words, the study seeks theoretical replication between the entry processes in the developed and the emerging economy, and literal replication between each case firm.

In addition to the cases, an independent industry expert was interviewed as part of the empirical research of this study. The expert works for a global management consulting firm, he is an expert on the oil and gas industry and has substantial experience from supporting firms with market entry into both Australia and Brazil. While managers of the case firms have an inherent bias in that they are internal to the case firms which may affect their interpretations and representations of events, an independent industry expert brings an external perspective, not associated with any one firm but based on substantial experience from working with several firms entering Australia and Brazil. The inclusion of this expert interview is intended to complement and strengthen the empirical foundation of this study. However, the study remains a case study and the main empirical research and the main focus of the analysis and discussion are the case firms. The expert interview merely complements the cases and brings an external perspective.

### **3.2 Selection of the cases**

A goal for the research design was to be able to vary the country-specific institutional contexts while holding firm-, industry- and product-specific factors to a large degree equal. This is accomplished by selecting case firms that have market entry experience from *both* one developed and one emerging economy. In other words, the study seeks to investigate the *same* case firm, in the *same* industry, marketing the *same* products in *both* countries. Holding as many factors as possible equal between the entry strategies studied in each country, is expected to provide suitable conditions under which to investigate how the differing institutional environments of developed and emerging economies affect foreign market entry strategies.

#### **3.2.1 “Case laboratory” – Norwegian Oil Service firms entering Australia and Brazil**

The Norwegian oil service industry<sup>2</sup> is selected as a “case laboratory” for this study and all case firms are Norwegian oil service firms. This industry is particularly interesting to study from a foreign market entry perspective since an increasing number of Norwegian oil service firms are venturing abroad and because firms are faced with a limited number of world-wide offshore markets to select from, several of which being non-developed countries. Two of most important growth regions for Norwegian oil service firms, Australia and Brazil, are appropriate examples of one developed and one emerging economy, while both countries are somewhat equally distant in terms of geography. Thus, this industry and these two countries were considered a suitable “laboratory” for studying how the differing institutional contexts of developed and emerging economies affect firms’ entry strategies.

The Norwegian oil service industry is based around offshore activities on the Norwegian Continental Shelf, which until today has been the largest offshore oil and gas market in the world. Catering to the needs of offshore oil and gas production in Norway, the industry has developed technology, expertise, products and services that are demanded in oil and gas

---

<sup>2</sup> The Norwegian oil service industry is defined as Norwegian registered firms (including their Norwegian and foreign subsidiaries) that supplies oil and gas related products and services to the upstream oil and gas industry, either directly to oil and gas operators or indirectly to other suppliers (Rystad Energy, 2012).

regions across the globe, particularly offshore. While the majority share (58 %) of the industry's revenues still come from the Norwegian market, the share of international sales is steadily increasing (Rystad Energy, 2012), indicating that more and more companies are looking to foreign markets for further growth. Indeed, the oil service industry has become Norway's largest export industry, excluding crude oil and natural gas itself (Jakobsen et al., 2012).

Internationalization in the offshore industry has its particularities due to the fact that there are a limited number of offshore oil and gas regions in the world, and the internationalization path is thus limited to these regions. Besides Norway, the largest offshore markets in the world are Brazil, the United States of America (USA), the United Kingdom (UK) and Australia. Thus beyond the "close" UK and USA, firms are forced to look to Brazil and Australia for further growth. Indeed, Brazil and Australia are two of the largest and fastest growing offshore markets in the world and constitute two of the most important growth regions for Norwegian oil service firms in the years to come (Rystad Energy, 2012).

However, these two countries are significantly different when it comes to market entry for foreign companies. This is evident from the Ease of Doing Business Index created by the World Bank, in which Australia and Brazil rank 10<sup>th</sup> and 130<sup>th</sup>, respectively (The World Bank, 2012). Brazil is an emerging economy, while Australia is a developed economy. Both are nonetheless prime targets of the entry strategies of Norwegian oil service firms.

Due to the current relevance of these two markets from an industry perspective, and their relevance as prime examples of one developed and one emerging economy, studying market entry into these two countries was considered to enable a suitable investigation of the influence of different institutional contexts on entry strategies. Furthermore, due to the current relevance of these two countries in the oil service industry, it was believed be possible to identify firms that have pursued both these country-markets adequately recent and proximate in time. It was therefore decided that this study would target case firms that have market entry experience from *both* Australia and Brazil, and investigate the entry strategies in both markets.

### **3.2.2 Identification and selection of case firms**

In order to identify such case firms, Intsok<sup>3</sup> was contacted and inquired for lists of Norwegian oil service firms operating in Australia and Brazil, and one list for each of these two countries was obtained. Conversations with Intsok also revealed a list of companies that participated in the Brazil Entry Program – a support program implemented in 2011 and 2012 by Intsok and Innovation Norway to assist Norwegian firms in entering the Brazilian market. Though several companies that participated in this program had not yet entered the Brazilian market, these companies were considered particularly interesting to study because they had worked deliberately with market entry issues in Brazil, very recent in time and with assistance of Norwegian support organizations. Therefore these three lists – firms operating in Australia, firms operating in Brazil and firms participating in the Brazil Entry Program – constituted the

---

<sup>3</sup> Intsok – Norwegian Oil and gas partners – is an organization established by the Norwegian oil and gas industry and the Norwegian Government to promote the Norwegian offshore industry abroad and provide market information to its partners (Intsok, 2013). According to Tore More, Intsok's local advisor in Australia, Intsok's partners include 90 % of Norwegian oil and gas related companies with international operations.

basis for identification of case firms. Comparing these three lists resulted in a list of 15 companies which were all considered qualified as case firms for this study.

It was considered critical to get access to the key managers who were involved in the market entry processes in these countries. Preferably this study would interview managers who were involved in both market entry processes, and would be able to directly compare his or her experiences between the countries. If that was not plausible, the study would interview one manager involved in each country and do the comparisons separately. Due to the difficulty in reaching and receiving an audience with such key managers, who are known to have extremely busy schedules, the further narrowing down of the list of firms was driven by the likelihood of getting such access. The personal contact network of the author of this study was therefore examined to identify potential connections to any of the 15 firms, which was believed to increase the odds of getting the firms to participate in the study. This led to the author being introduced to key managers of three firms, namely Aker Solutions Brazil, Kongsberg Oil & Gas Technologies and Eureka Pumps. All three managers agreed to participate in the study. The author further used the websites of the remaining companies on the list to identify key managers and call them directly inquiring about their willingness to partake in the study. NorSea Group was contacted this way and agreed to participate. Lastly, since there was no manager available in Aker Solutions with sufficient experience from both Australia and Brazil, a key manager in Australia was also contacted directly and he agreed to participate.

With three case firms whose managers were involved in both market entry processes in Australia and Brazil, and one case firm from which one key manager from each country had agreed to participate, the group of case firms was considered appropriate within the time and resource limits of this study.

Aker Solutions have been established in both Australia and Brazil for several years, rather than recently having entered these markets. Being the largest Norwegian oil service firm with substantial insight into and experiences from the institutional contexts of these two countries, the gains of including Aker Solutions in the study were considered significant and the decision was made to carry out the interviews with the managers, and then subsequently evaluate whether the interviews provided relevant and valuable insight to this study. Indeed, despite the focus of the interviews being shifted from foreign market entry to foreign operations, the insight and experiences shared by the managers of Aker Solutions are considered highly relevant and valuable, and Aker Solutions is maintained as a case firm of this study.

### **3.3 Data collection**

One advantage of the case study is that it allows for the use of several sources of data (Yin, 2009). This study also depends on several sources of data, such as documents, presentations, annual reports, company websites and third-party websites. However, the primary sources of data are semi-structured interviews with key managers of the case firms. According to Yin (2009) interviews are one of the most important sources of case study information.

#### *Prior to the interviews*

Three different interview guides were developed prior to the interviews – one for parent company managers involved in both countries, one for foreign subsidiary managers and one for the industry expert. These can be found in the appendix of this thesis. The interviews were

intended to be semi-structured and open-ended, and the interviewees were encouraged to speak freely and emphasize aspects considered important. Based on the theoretical framework developed in the previous section, the interview guides contain five main elements: (1) Company background, (2) Rationale for market selection, (3) Choice of entry mode, (4) Staffing and establishing foreign operations and (5) Perceived successfulness of market entry. In the case of Aker Solutions, because this firm has been established in both Australia and Brazil for several years, these five main elements were modified into (1) Company background, (2) Rationale for operating in Australia and Brazil, (3) Entry mode of foreign business, (4) Staffing and operating foreign business and (5) Perceived successfulness of foreign business.

Prior to all interviews, company websites including annual reports and presentations were used to gather background information about the firms and to understand their offerings and markets. This was done for two main reasons. The first reason was simply for the interviewer to prepare for the interview. The better the interviewer knows the particular company, its offerings, its international experience and its involvements in these two particular markets, the better suited he or she is to instantly respond to and act on the responses of the interviewee, ask follow-up questions, guide the direction and manage the focus of the interview. The second reason was to avoid spending too much interview time on the background of the company, since this information to a large degree is publicly available from company websites, annual reports and presentations. Since the time of these key managers is very limited, it was desirable to spend as much time as possible discussing market entry strategies and host country institutions.

In addition to company websites, the website proff.no – a publicly available database with financial data on all Norwegian companies – was used to gather financial background data about the case firms.

Within each element of the interview guide, the specific questions were designed in a thought-through way. First, questions were asked openly, inviting the interviewee to focus on the aspects he or she considered most important, in order to get an unbiased response. Then, follow-up questions were asked to pinpoint the aspects which are the main focus of this study, namely the influence of the institutional environments. This style of questioning enabled the interviewer to capture both the “other influences” and how these affect entry strategies in relation to institutional influences (addressed by Proposition 5), and focus on the influence of institutions which is the main focus of the study.

Prior to the interviews, all interviewees were given a short description of the subject of the interview. This merely included the research question and the above mentioned five main elements of the interview. This was intended to allow the interviewees to prepare mentally for the interview, perhaps recalling some relevant memories and experiences prior to the interview. Other than that, no preparations were deemed necessary from the side of the interviewees prior to the interviews.

### *During the interviews*

All interviews were conducted using either Skype or telephone. This was necessary due to the author being located in Sydney, Australia, at the time of the study and due to the very limited and highly valued time of the managers who were interviewed. When Skype was used, part of

the interview was done with video conferencing. All interviews were conducted in Norwegian, and lasted between one and two hours.

With the consent of the interviewees, all interviews were recorded with audio recording equipment. This allowed the interviewer to be free from taking notes during the interview, and he could rather direct his attention to asking follow-up questions and managing the focus of the interview. Recording also enables accurate rendition of the interview.

The interviewer commenced all the interviews with a short introduction to the study including the research topic, the structure of the interview and a short definition of formal and informal institutions. The latter aspect was deemed important to ensure that the interviewer and the interviewee had a clear and common understanding of the concepts that were about to be discussed.

Despite the interview guides having a clear structure based on the above mentioned five main elements, the interviews took several leaps from this structure and topics were to some degree discussed in a more random order directed by the responses of the interviewees. Ultimately, however, all interviews sufficiently covered the main elements of the study.

However, in the cases of NorSea Group and Eureka Pumps, which have not yet completed market entry into both Australia and Brazil, not all questions regarding the final two elements of the interview guide were relevant. Therefore, adaptations were made during the interview when considered appropriate.

### **3.4 Analysis and discussion**

When the interviews were conducted, analysis could begin. According to Yin (2009) this is one of the least developed and most difficult aspects of doing case studies. Although no defined procedure for analyzing case study data exists, Yin (2009) presents a range of general strategies and analytical techniques. This study made use of the general analytical strategies of developing a framework for case descriptions and relying on theoretical propositions, and employed the analytical techniques of cross-case analysis and pattern-matching. The analysis relies on the theoretical propositions both indirectly, as the propositions direct attention and influence what aspects that are considered relevant, and directly, as the propositions are ultimately addressed and discussed.

#### *Case descriptions*

As a starting point for the analysis, a framework for describing each case was developed, following the same structure as the interviews i.e. containing the five main elements (1) Company background, (2) Rationale for market selection, (3) Choice of entry mode, (4) Staffing and establishing foreign operations and (5) Perceived successfulness of market entry. Such a structured case description is a deliberate strategy for organizing a case study (Yin, 2009).

Using the recorded audio, all interviews were fully transcribed after being conducted. Producing the full transcripts required close and systematic listening and subsequently allowed for careful reading and in-depth analysis of each interview. In this process, relevant aspects were highlighted and quotes were extracted from the interviews. Based on the above framework, a description of each case firm was written. This description is highly based on the interviews, follows the structure of the interviews and directly references and quotes the

interviews. These case descriptions were sent to the interviewees when they were written, which gave the interviewees a chance to review the information presented and confirm that it was correct. This was particularly important because the interviews were conducted in Norwegian, while the case descriptions were written in English. However, only very minor changes were made to one of the case descriptions as a result of this process. Section 0 is made up of these case descriptions. The full transcripts from the interviews are not disclosed with this thesis due to the privacy of the case firms. The same procedure was followed for the expert interview. Instead of a case description, a summary of the interview was written and sent to the industry expert, who requested a few minor corrections to wording the summary.

### *Cross-case analysis*

The next step of the research was the cross-case synthesis or cross-case analysis. According to Yin (2009) this is an analytical technique which aggregates findings across a series of individual studies. This process began with a careful read-through of the case descriptions, while looking for and highlighting similarities and differences and overall patterns across case firms. The full transcripts were directly enquired when necessary. This process led to a written cross-case analysis, which is presented in section 0. The cross-case analysis largely follows the same structure as the interviews and the case descriptions, and similarities, differences and patterns found across all case firms are interpreted and presented. The analysis is complemented by the findings from the interview with the industry expert.

### *Discussion based on pattern-matching*

Based on the cross-case analysis, the study returned to the theoretical framework to directly address and discuss the theoretical propositions in light of the empirical findings. The technique used for this is called pattern-matching, which according to Yin (2009) is one of the most desirable techniques to use for case study analysis. Pattern-matching involves comparing an empirically based pattern with a predicted one. In this study, the predicted pattern is the set of theoretical propositions predicted by the theory reviewed in section 2, and the empirical pattern is the results of the cross-case analysis. The pattern-matching technique was carried out by each of the five theoretical propositions being analyzed and discussed based on the findings resulting from the cross-case analysis. This ultimately led to the discussion presented in section 0, from which implications for theory, managers and policy-makers as well as the conclusions of this study are drawn.

## **3.5 Evaluation of the research methodology**

In this subsection, the quality of the methodology employed for this study is evaluated. According to Yin (2009) four criteria are commonly applied when establishing the quality of any empirical social research, namely construct validity, internal validity, external validity and reliability. In the following, the quality of this research methodology is evaluated with respect to these four criteria.

### *Construct validity*

Yin (2009) defines construct validity as “identifying correct operational measures for the concepts being studied.” In this study, which is a case study relying heavily on open-ended interviews, a critical aspect of the construct validity is whether the interviewer and the interviewee have a clear and common understanding of the concepts being discussed and whether the interviewer correctly interprets the responses of the interviewee. Two concepts were considered particularly vulnerable to ambiguity, namely institutions and entry mode. To

address this, as part of the introduction to each interview, the concept of institutions was defined, including a distinction between formal and informal institutions, and corresponding examples. The concept of entry mode was explained in plain words and a common classification of the different entry modes was given, when this aspect was discussed in the interview.

Another area where this study is particularly vulnerable is the use of both the Norwegian and the English language. The interviews were conducted in Norwegian, while the thesis is in English. This can potentially lead to weak construct validity if concepts discussed in Norwegian are not appropriately translated to English. A measure taken to deal with both this and the former issue was to send the English case description to the interviewees for approval before further analyzing. By getting the English case description approved by the interviewee, potential inaccuracies related to both concept clarity and translation were largely eliminated. Having key informants review a draft of the case study report is described by Yin (2009) as an available tactic to increase construct validity.

A third area of potentially weak construct validity is the fact that this study relies heavily on the interviews and that interviews were only conducted with one representative from each firm (or two in the case of Aker Solutions). The events discussed in the interviews are therefore subject to the personal interpretation of the interviewees, and not perfectly representative of the firm. Yin (2009) presents using multiple sources of evidence as a tactic to achieve high construct validity. This study has also strived to do so, and other sources of data such as websites, annual reports and presentations have been used to confirm certain information from the interviews. However, the fact that only one representative of each firm was interviewed remains a potential weakness, even though these were key managers involved in the processes studied. Ultimately this becomes a trade-off between the scope and scale of the study and the achieved construct validity.

Overall, given the time and resource constraints of this study, the construct validity is considered satisfactory.

### *Internal validity*

Internal validity is defined as “seeking to establish a causal relationship, whereby certain conditions are believed to lead to other conditions, as distinguished from spurious relationships” (Yin, 2009). The causality relationships investigated in this study are primarily the influence of institutions on different aspects of market entry strategy, and how firms’ focus on institutions affect the perceived successfulness of market entry. A potential pitfall of this research design would be if the author gave himself too much freedom to interpret causal relationships as opposed to causal relationships being described directly by the interviewees. The author has strived to achieve the latter, as most findings are directly derived from quotes of the interviewees.

An important contribution to the internal validity of this study is the inclusion of “other influences” such as industry-, transaction-cost- and resource-based factors in the theoretical framework, despite this study being based on the institution-based perspective. This allows the study to better capture other explanations for firm’s reasoning and decision-making than the institutional environment. Yin (2009) argues that addressing such rival explanations is an important way to increase internal validity. Furthermore, as described above, the questioning in the interviews was deliberately designed to be initially open so that the actual influences



that the interviewee first thought of were discussed first, rather than the interviewer putting words into the interviewee's mouth. Then, follow-up questions were asked to focus more on the institutional issues.

Another technique used in this study, which according to Yin (2009) increases internal validity, is pattern-matching. Comparing empirical patterns with predicted patterns (i.e. the theoretical propositions), and establishing that the patterns coincide strengthens the findings with respect to causal relationships.

Even though measures have been taken in the research design to establish internal validity, certain vulnerabilities remain. The study relies heavily on the interviews and therefore the ability of the interviewees to correctly assess the causal relationships. There is certainly a risk that interviewees can misinterpret cause and effect issues related to the market entry processes discussed. However, within the time and resource constraints of this study, the internal validity is considered satisfactory.

### *External validity*

External validity refers to defining the extent and conditions under which the study's findings can be generalized (Yin, 2009). This study focuses on how the entry strategies of firms are affected by host country institutions and how this compares between emerging and developed economies. To investigate this, a case study is used where firms are selected from the Norwegian oil service industry and the host countries selected are Australia and Brazil – one representative of developed economies and one representative of emerging economies. This research design therefore has obvious limitations in terms of generalizability or external validity. The research question of this study is of a general nature focusing on *firms* in *emerging* and *developed* economies. However, this is merely a case study of *four Norwegian oil service firms* in *Brazil* and *Australia*. The findings of this case study are therefore not claimed to be true for all firms in all emerging and developed economies. However, the findings and the analysis and discussion may provide valuable insight also in the general sense. Similarly, since only four case firms are investigated, the findings cannot be claimed true for all Norwegian oil service firms in Australia and Brazil, even though they are arguably generalizable to a larger extent in this specific case than in the general sense, due to particularities of the oil service industry and the two countries considered. It is a strength of this study that the specific case studied, namely Norwegian oil service firms entering Australia and Brazil is a highly relevant domain in itself. Furthermore, the inclusion of an interview with an industry expert, not associated with any one case firm, brings an external perspective and strengthens the external validity of the study.

According to Yin (2009) in multiple-case studies the use of replication logic is important to increase external validity. A replication logic implies that each case is carefully selected so that it either predicts similar results (a literal replication) or contrasting results but for anticipated reasons (a theoretical replication). If all cases either literally or theoretically replicate the original theory, the study provides substantial support of the theory. As evident from the theoretical propositions, this study predicts significant differences in the degree of influence by institutions between developed and emerging markets. It further predicts these differences to be found for all firms. In other words, the study seeks theoretical replication between the entry processes in the developed and the emerging economy, and literal replication between each case firm.

Being an in-depth and qualitative case study, this study relies on what Yin (2009) refers to as analytical generalization rather than statistical generalization, and is therefore more concerned with identifying, generating and investigating theoretical insight and relationships than generalizing findings to a larger population.

### *Reliability*

Reliability involves demonstrating that the operations of a study can be repeated with the same results (Yin, 2009). An obvious challenge to qualitative case studies like this one is that they rely heavily on interpretation, both by the informant and by the researcher. The informants have interpreted the events being studied and the researcher interprets the statements of the informants. However, properly documenting the procedures carried out in the study certainly increases reliability.

The procedures leading to the findings of this study are the selection of the cases, the data collection including preparing for and conducting interviews, the review of case descriptions by the interviewees, the cross-case analysis and the discussion. All these procedures are thoroughly documented in this section of the thesis, in order to increase the reliability of the study. Several measures have been taken to increase reliability. The empirical findings are presented in a straight-forward manner, before being analyzed and discussed separately. The fact that the interviews were recorded and transcribed also contributes to reliability. The interview guides used are included in the appendix. Including the full transcripts would have increased reliability even further, but at the cost of reduced privacy for the case firms.

In accordance with the advice of Yin (2009) a case study database was developed for the study, in which all data collected was maintained in a structured and systematic manner.

Despite the measures taken, the subjectivity of both the researcher and the informant presents a potential vulnerability of the study with respect to reliability.

## 4 Empirical data

This section presents the empirical data collected in this study in a straight-forward and objective manner, with minimal interpretation and without any analysis or discussion. The empirical data consists of descriptions of each of the four case firms and a summary of the interview with an industry expert. The case descriptions are primarily based on interviews conducted with key managers of the case firms, and complemented by data collected from company websites, annual reports and presentations. Analysis and discussion of the empirical data are deferred to the next two sections.

### 4.1 Kongsberg Oil & Gas Technologies

The information presented here is primarily based on interviews with Børre Larsen, Chief Operating Officer of Kongsberg Oil & Gas Technologies, and complemented with information from the websites of Kongsberg Oil & Gas Technologies and Kongsberg Gruppen, as well as proff.no.

#### *Company background*

Kongsberg Oil & Gas Technologies (KOGT) delivers subsea technologies, products and services as well as software and services to the global oil and gas industry. The company had 243 employees and revenues of 543 million NOK in 2012.

KOGT is part of Kongsberg Gruppen, which is a publicly traded Norwegian technology group targeting the global defense, maritime, oil and gas and aerospace industries. KOGT commenced as a separate business unit in 2009 and was formally established in 2010 as a result of gathering different oil and gas related products and services that had formerly been spread across Kongsberg Gruppen's other business units, as well as recently acquired businesses, into one business unit. Kongsberg Gruppen had consolidated revenues of 15 652 million NOK in 2012.

KOGT consists of two divisions, namely Subsea and Software and Services, which are approximately equal in size. The Subsea division delivers engineering services related to subsea oil and gas constructs such as pipelines, risers and subsea installations on the seabed, as well as delivering hardware components for such subsea installations and follow-up and repair services to the installed base. The Software and Services division develops software ranging from basic data transport to decision-support software for the oil and gas operators. The software applications are often real-time and always based on open standards, so that customers can use it regardless of what other software is being used. The software applications target three areas, namely (1) drilling, (2) flow assurance and (3) simulation and production optimization. In general, the software offerings require much customization, as opposed to being standardized software, though more standardization is an ambition for the future.

KOGT operates globally with offices in the USA (Houston), Brazil, Australia, India, the UK and the United Arab Emirates. Approximately half of the organization is based in Norway, but Børre Larsen guesses that between 50 and 80 percent of revenues come from customers outside of Norway.

### *Background related to Australia*

KOGT established a subsidiary in Australia with an office in Perth in the first quarter of 2012. This move was done on the basis of two contracts for pilot projects that the Software and Services division had been awarded with customers in Australia. Prior to this, KOGT had no business in Australia, but had targeted the market by travelling, seeking to win an initial contract upon which it could establish. Further contracts have been awarded and by the end of 2012 the subsidiary had five employees, one CEO and sales manager and four engineers.

In January 2013 KOGT acquired the subsea engineering company Apply Nemo, which already had an office in Perth, Australia, with approximately 25 employees. With this, KOGT gained access to the Australian market also with the Subsea division, through Apply Nemo's customer base. The purchase of Apply Nemo was however not part of an entry strategy in Australia, rather the company was acquired for other reasons. This study exclusively focuses on KOGT's market entry prior to the acquisition of Apply Nemo.

### *Background related to Brazil*

In Brazil, KOGT established a subsidiary in 2012 after having exported subsea engineering services to one customer in Brazil since 2010. Subsequently, sales personnel from Software and Services were sent to Brazil and were awarded contracts, so that both divisions are now present. The office in Brazil started with two employees and has grown to 13 in little over a year.

### *Rationale for market selection*

Prior to entry, both Australia and Brazil were deemed by KOGT as priority markets for expansion due to market size and growth, plus technological challenges that make them suitable to KOGT's expertise, namely harsh conditions, great depths (Brazil) and long pipeline tiebacks (Australia). These aspects make these two markets suitable to a large portion of the technology that is developed in the North Sea, according to Larsen. Also, from KOGT's point of view, the strict environmental requirements of these countries contribute to their attractiveness.

Regarding market entry, Australia was assumed to be a pretty straight forward, characterized by "British/American culture, Western legislation and Western institutions, including tax regime and immigration". In addition, the legal system was trusted to be capable of solving possible conflicts. There was only one complication regarding Australia, and that was "that it is tremendously far away, physically".

The assessment of Brazil was significantly different. KOGT had learned about market entry in Brazil from conversations with other companies, and had a clear perception that the institutional environment would pose major challenges and that entering Brazil would be a costly endeavor. This is illustrated by Børre Larsen's description:

"Everybody who had been there and everybody we talked to were pretty clear in stating that Brazil is, I should be careful saying less developed, but certainly differently developed than Western Europe, when it comes to legal system, institutions, tax system – all these rules that make up the framework for operating. Regarding visa, taxes, imports, everything. It takes a significantly longer time to understand the culture and to achieve an effective operation, and it is terribly expensive. That was our mindset when we entered Brazil. The vast majority of

companies we talked to said that if you go to Brazil you must be prepared to lose money for five to seven and maybe ten years. That is completely normal. Impossible to make money until after seven years was the perception.”

Compared to Australia, Larsen added, the “costs of establishing an office in Brazil is of a whole other dimension.”

When asked whether these complexities of entering Brazil ever got close to overthrow the whole market selection, Larsen admitted that they did consider it, but that with the pre-salt discoveries, the number of subsea installations and rigs that Petrobras had in its plans for the future, “it was evident to everyone that the next boom is Brazil. If you want to be part of the game, you have to go to Brazil”. Therefore the question was more “how and when to make the move”.

Among other fast-growing markets, Australia and Brazil were considered more attractive and prioritized. Africa, Russia and China were also deemed as fast-growing markets, but less attractive due to complicated institutional aspects of these countries.

### *Choice of entry mode*

When the two pilot project contracts were awarded and the decision was made to enter the Australian market, KOGT needed to choose an entry mode. According to Larsen, a leading principle for KOGT is to be close to customers. With Australia being so far away from Norway, Larsen saw using an agent, joint venture, acquisition and establishing a wholly-owned subsidiary as the plausible alternatives. Establishing a subsidiary is the company’s primary choice, if the country’s framework is wieldable. Australia was considered to have “well established institutions operating with a Western mindset that we are familiar with, good legal system and little formal barriers from the authorities, no appreciable problems with culture or language, so we found establishing ourselves (a subsidiary) a good alternative.” He adds that it was considered inexpensive to get started and the costs of having to back out would be limited, so that in total, establishing a subsidiary on their own was not considered very risky.

Regarding alternatives, using an agent was deemed not to be necessary, and the company tries to avoid agents in general, other than in countries where they don’t understand the culture, speak the language, or in countries that require a local sponsor. Establishing a joint venture or acquiring a company could have been viable options, if KOGT had come across an obvious candidate company, but it did not find it necessary to spend time looking for one.

As mentioned above, KOGT exported services to one customer in Brazil before establishing a subsidiary. Exporting to Brazil was considered challenging, due to the country’s import and export regime being “crazy”, both the tax level and “how many times they add tax to one item that is moved back and forth”. The rules were considered difficult to understand for an outsider, making it difficult to operate as an exporter to Brazil. According to Larsen, the country has constructed a set of regulations such that, to be able to make money, a company needs to “establish locally, hire local employees and have a local value chain”. This is because Brazil desires business establishments in its own country.

As the business with the Brazilian customer grew and exporting was deemed not to be a viable entry mode, several alternatives were considered. The use of agents were seriously considered in Brazil, but it stopped because KOGT did not find an agent it had sufficient

confidence in, and because there was an opportunity to build on the experiences and infrastructure of another company within Kongsberg Gruppen, namely Kongsberg Maritime (KM), which had established in Brazil just over a year in advance. By initially renting office space from KM, utilizing KM's locally employed administrative staff, as well as its accounting bureau and legal advisors, KOGT managed to leap-frog some of the major hurdles to establishing a subsidiary in Brazil. Larsen admits, "if we didn't have a Maritime operation down there, I doubt that we would have established on our own, at least not as soon, and we probably would have worked harder to find a good agent or partner." When asked why, he continues "because Brazil is much more complicated for establishment, because of the framework conditions, ergo institutions, laws, language and culture.

The spectrum of available entry modes in Brazil was on the one hand considered more limited, but on the other hand, it was more necessary to consider alternatives. Larsen explains: "One wanted to avoid several of the alternatives for Brazil, because there is a risk of being fooled or not understanding what is going on. Difficult to control. But at the same time, it was necessary to consider those alternatives in Brazil because it is so complex."

In summary, KOGT has gradually increased resource commitment in both markets. This is a deliberate entry strategy. KOGT first "warms up" foreign markets through deliberate sales and business development activities, but does so by travelling from Norway. The move to establish a subsidiary abroad is only made when the company's contract revenues in the market can justify the investment. In Australia, two pilot project contracts were awarded which was considered to justify the relatively low costs associated with establishing a subsidiary there. In Brazil the company had an increasing workload for one customer. The contractual base upon which KOGT made the move to establish a subsidiary, was substantially larger in Brazil because the company expected higher costs and more severe challenges in the market entry process.

Larsen explains that this gradual increase in resource commitment is based on two different aspects. First, KOGT has a philosophy that "earnings today are earnings tomorrow". It does not want to take on the risk of investment until it is sufficiently sure about the subsequent income. The other reason is to avoid having to back out of a market, which sends unfortunate signals to the market. According to Larsen, the latter reason is particularly important in Brazil, because the culture there is such that companies need to demonstrate coming to Brazil for the long-term. He concludes: "So in Brazil it is important that when you go there, you must have the energy to stand there until you're up and running. If you need to back out along the way, you have at least one minus on the record the next time you try."

### *Staffing and establishing foreign operations*

In Australia, KOGT established the subsidiary, hired a CEO and sales manager and a couple of service engineers, all from the local labor market. No substantial challenges were encountered and no substantial costs. The business was profitable after four months and the whole business case was positive within a year.

In Brazil, KOGT sent down a Norwegian CEO, used KM's existing infrastructure and hired a Brazilian sales force. After an initial period renting office space from KM, KOGT moved to its own space, and then again moved and expanded to its current space, housing 13 employees. Though establishment costs were higher in Brazil, Larsen claims that profitability and investment payback was achieved similarly soon in Brazil as it was in Australia.

Among 18 employees across the two subsidiaries, only one is Norwegian, namely the CEO in Brazil. This demonstrates a clear preference towards hiring local employees as Larsen explains:

“We use Norwegians to ensure that we have control over what’s going on. A Norwegian who knows the product lines we’re working on, and knows the way we operate at Kongsberg (KOGT), so that we have control over what is going on. But beyond that, we say that we shall be locally represented with local employees and show the local market that we are serious.”

Having a Norwegian leader is considered more important for the purpose of control in Brazil than in Australia, due to reasons related to the institutional context, such as laws, language and cultural differences. The use of Norwegian employees for the purpose of achieving internal synergies, however, is not considered different across the countries. When asked about the reason for choosing a local leader in Australia, Larsen states that risks of establishing there were considered limited, and that KOGT’s judgment was that a local leader would be better equipped than a Norwegian without local market knowledge and contacts. His impression of the oil and gas community in Perth is that it is rather “small and tight”.

According to Larsen the use of local employees is important in both these markets, also for the reason of reputation, which Larsen says distinguishes these markets from the American market, in which “it doesn’t matter where you come from or when you came as long as what you have is good.”

Reputation is also relevant for another common challenge of entering these distant markets, namely recruiting while still being an unknown actor. According to Larsen, prospective workers perhaps more so in Brazil than in Australia, seek to “apply for and be employed by a company that they know, that has a track record, that can be trusted and that is known to be serious and long-term in its efforts. I can’t exactly remember the wording, but in Brazil they say that ‘you don’t hire an engineer, you hire the engineer and his whole family.’ Everyone in the family monitors who the employer is.” Larsen admits that this is a challenge in the early phase, “to build the credibility that makes you attractive among prospective workers.”

This is another argument for KOGT’s strategy of not entering a new market until it knows it is robust enough to afford staying, and avoid having to back out and send unfortunate signals to the local labor market. Larsen explains that “once we’re there, every single little activity must be a success. The first employee must be happy. He must feel that this was the right choice career wise, salary wise and in every possible way, so that he serves as a reference for the next employment. And then this spins positively.”

Lastly, regarding local content requirements, Larsen admits that these constitute a challenge in the Brazilian market, but that these have been met by all work hours, engineering, service and maintenance being local, while the core product comes from Norway.

### *Perceived successfulness of market entry*

According to Larsen, entering both these markets has turned out cheaper and faster than expected. Both subsidiaries were profitable within a few months and the initial investments were recovered within a year. KOGT had won contracts in both countries prior to establishing a subsidiary, and has been awarded more contracts and grown the organization after doing so.

When speculating around the reason for this successfulness, Larsen emphasizes the importance of being a little bit careful before “pressing the start button”. He continues: “Establish a little bit later than we perhaps could have done and more rapidly achieving profitability, instead of going too early and losing a lot of money.” In short, he accredits the KOGT philosophy of not establishing until it has been awarded work.

Furthermore, Larsen emphasizes the importance of balancing costs and investments to the actual current business level along the way, having a flexible and scalable mindset. He advises to first win the contract, then assess its size and what it needs to deliver, and then select “office space, IT-solution, all those things, based on that”.

Lastly, he emphasizes the importance of spending energy finding the right people, particularly in the early phase.

Even though both market entry processes have been very successful, when asked which one of the two markets was most challenging to enter, Larsen clearly states Brazil and explains: “We have spent more time, energy and money on external advisors in Brazil to understand and get in place the cultural aspect. Understanding local regulations, understanding the tax regime, how to recruit, local employment contracts, how to pay salaries, how to pay taxes, all those things. It is much more complex than what we are used to from Western Europe, or at least very different. So to understand that is challenging and has to be done through local advisors.”

## **4.2 NorSea Group**

The information presented here is primarily based on an interview with Knut Magne Johannessen, Director International & Project Operations of NorSea Group, and complemented with information from NorSea Group’s website as well as proff.no.

### *Company background*

NorSea Group (NG) is a Norwegian provider of supply bases and logistics solutions to the offshore oil and gas industry. Established in 1965 in conjunction with the birth of the Norwegian offshore industry, the company today owns and operates nine strategically located supply bases along the Norwegian coastline. The company is privately owned, with the largest owner since 2012 being the global maritime industry group Wilh. Wilhelmsen, which is listed on the Oslo Stock Exchange. In 2011, NG had revenues of 2.5 Billion NOK.

NG’s main service offering is the supply bases, which involves developing and managing infrastructure such as quays, offices and warehouses, as well as operating the supply base such as loading and unloading vessels, internal transport and storage and warehouse management. Directly or indirectly, the final customers are the offshore oil and gas operators. In addition to the supply bases, NG delivers logistics solutions on a project basis, particularly targeted at major subsea pipeline projects, for which NG has developed its own method and procedure. Knut Magne Johannessen estimates that this logistics projects activity on an average over the past ten years has accounted for approximately 15 percent of revenues, while the supply bases has accounted for the remaining 85 percent.

The majority of NG’s business is in the home market, and despite no accurate figures Johannessen assumes that the Norwegian market accounts for over 90 percent of the



company's revenues. So far, the international revenues have come from limited term projects that NG has conducted in countries such as Brazil, Iran, West-Africa, UK, Sweden, Finland, Germany, Malta and Indonesia. NG is usually awarded such projects either through enquiries from existing customers on the Norwegian Continental Shelf e.g. international oil and gas companies or by responding to tenders abroad. Aside from Australia, NG does not have permanent business in any foreign markets.

#### *Background related to Australia*

NG established a subsidiary and opened an office in Perth, Australia, in January 2011. The main motive for this establishment is prospective logistics projects in the short term, with the long term ambition of gaining a foothold in the Australian offshore market. The Australian subsidiary has one employee and is working with sales and business development towards being awarded contracts for logistics projects in Australia. NG has not signed any contracts by the time of the interview for this thesis.

#### *Background related to Brazil*

NG has actively worked towards market entry in Brazil, but has not yet made the move to the Brazilian market and the process is now put on hold. NG participated in Intsok's Brazil Entry Program in 2012, in which it received support from Intsok and Innovation Norway in the development of a business plan for market entry in Brazil. In the wake of this program, NG worked targeted with the opportunity of establishing an offshore supply base in Brazil, but decided to put the Brazil market entry process on hold later in 2012.

#### *Rationale for market selection*

According to Johannessen, the main rationale behind targeting Australia and Brazil is the market outlook of each of these two countries. In particular, Johannessen adds, "Brazil, like Norway, is being rated now as the most attractive offshore market in terms of expected investment and activity". Both markets are assessed to have high current and projected offshore activity, and both markets are relevant for subsea pipeline projects. Beyond market size and growth, NG assesses the capacity of its own particular services in the market in question, namely supply bases and logistics solutions. Other aspects considered regarding market selection are concrete sales leads and the desires, history and relations of the owners of NG.

Furthermore, NG has an evaluation matrix for the assessment of potential countries for market entry. This matrix involves the eight weighted evaluation criteria (1) market size and growth, (2) offshore supply base demands and supply, (3) competitive intensity, (4) identified leads, (5) political stability/corruption, (6) local content requirements, (7) similar customer base and (8) Wilh. Wilhelmsen synergies. In its evaluation of potential markets, NG assigns a red, yellow or green color to each of these criteria, red indicating negative and green indicating positive circumstances.

Australia is assessed to have a high competitive intensity, but Johannessen emphasizes that this is with regard to supply bases. There are limited natural locations of supply bases along the West and North-West coast of Australia, where the majority of the offshore oil and gas industry is located. Therefore, at least for the time being, the main motive for market entry in Australia is logistics projects. There are future prospects of many large subsea pipeline projects in Australia.

Furthermore, Australia is assessed yellow with regard to local content requirements, despite Australia not having mandatory local content requirements. This is however, due to Australia's particularly strong labor unions and strict regulations on the use of foreign labor in Australia. NG assesses these regulations to limit its ability to staff a prospective project in Australia with foreign labor, for example a Norwegian crane operator for a logistics project. Further, a large value add in the pipeline projects is shipping. For example, pipelines would be loaded on a ship in Malaysia headed for Australia. In this case, the ship would need to have an Australian crew to be allowed to sail into Australian waters to unload. In other words, NG's business is particularly affected by the local labor regulations in Australia.

Other than these two aspects, Australia is considered straight-forward for market entry.

Brazil is also assessed as yellow when it comes to local content requirements. But as opposed to Australia, Brazil is also assessed as yellow when it comes to political stability/corruption. Johannessen adds "bordering light red or pink, in my opinion" and continues:

"(...)Brazil has a history where, on the superior political level, out of the blue, new laws and regulations can be passed that can affect firms' ability to do business. And if you think about supply base establishment, after the Norwegian model where you wish to invest in permanent infrastructure, it is extremely important to know that it is not going to happen that, five years after having invested a billion kroner, you are not allowed to own it anymore, for example."

This fear that laws and regulations can be changed by authorities, which could be catastrophic to large investments in permanent infrastructure, without any ability for NG to influence it, was ultimately the main reason why NG in 2012 chose to put Brazil on hold. Johannessen adds, that he does "not think the risk of this type of changes is so high in Australia."

Another aspect that Johannessen points out, is the fact that the Brazilian market is so dominated by one actor, namely Petrobras. Being a relatively small supplier, trying to avoid ending up in contractual issues with a company like Petrobras, is by NG assessed to involve challenges and risks.

In summary, Johannessen adds:

"Country risk is a collection of factors, and to us I guess this is the main difference. We are a little bit more skeptical to doing business in Brazil."

So far, this has prevented NG from entering the Brazilian market, while Australia was entered despite being considered less attractive from a pure competitive point of view.

### *Choice of entry mode*

As earlier described, the main motive for market entry in Australia in the short-term is the prospects of large subsea pipeline projects. Based on this, NG decided to establish a sales office in Perth, hired one employee to work with sales and business development with the ambition to be awarded an initial contract for such a project. Johannessen adds that this is a strategy in itself because "if we can win one project of a certain size, then we gain a foothold in the Australian market. We need to create a name for ourselves and get some references in Australia, and we can do that through such a project."

According to Johannessen, NG did not very deeply consider alternatives to using a wholly-owned subsidiary as the entry mode. Direct export, sales agent, licensing and franchising are ruled out due to quality concerns:

“(…)what is important to us is that we have full control over the quality of what we ultimately deliver, and therefore we do not want any of those modes.”

Other entry modes were excluded because there was not considered to be a need for acquisitions or partnerships in the way NG implements its projects:

“(…)NorSea Group, put in simple terms, supply leadership and processes and procedures, and then hires labor locally. Labor, in terms of crane operators, lift operators, truck drivers. We want to try this model also in Australia, and for that we don’t need to buy anything or enter into a joint venture.”

When asked, Johannessen denies that the choice of entry mode is affected by the institutional environment in Australia.

Even though a wholly-owned subsidiary is generally considered to be an entry mode with high resource commitment. The sales office of one employee that NG has established in Australia does not commit a high level of resources.

In Brazil on the other hand, the main goal was to establish a supply base. The model that was considered was to find a local Brazilian partner in possession of a geographical area. “In a country like Brazil, you are dependent on having a strong local partner,” says Johannessen.

Furthermore, formal requirements in Brazil dictate that you need a Brazilian company that has been granted an environmental license, which takes a minimum of two years to be granted:

“There is a very rigid, stepwise process to be granted the environmental license that allows you to operate a base, and that is not something NorSea Group can enter and do on its own. Then we need to either enter into a joint venture or acquire a company.”

After working towards a joint venture scenario, travelling to Brazil, mapping, discussing and making contact with potential partners, NG decided to put the Brazil market entry on hold due to Brazil being considered a “tough market” to establish in, as well as internal capacity constraints and wanting to prioritize differently with respect to other potential markets.

Johannessen adds that the decision to put Brazil on hold was not because NG could not find a partner:

“We haven’t said that we didn’t succeed in finding a partner.(…)Even though you find someone who can be a good partner, you still have to handle the risk of establishing in Brazil, and have the capacity to do so in addition to all other activities.”

According to Johannessen, entering Brazil may be re-evaluated in the future.

### *Staffing and establishment of foreign operations*

NG has one employee in Australia, hired from the local market. According to Johannessen, establishing foreign operations was a quick and inexpensive process:

“No, that took a quite short time. Again, Australia is such a country. It is very easy to understand and straight forward. It is a very straight forward process to establish a company

in Australia. Exactly how long it took, I don't remember, but we're talking about weeks. A very easy process. You need an auditor to complete and submit some paperwork and pay shareholder's capital, and then you are basically underway."

In the event of NG being awarded a contract in Australia, it would recruit and build an organization in Australia. This has not yet been concretely planned, but Johannessen predicts that a tight labor market in the offshore industry in Australia, as in Norway, will make it challenging and expensive to get hold of competent people.

Without having established in Brazil, when asked about it, Johannessen assumes that it would take a longer time and be more expensive. NG has learned from other firms' experiences and Johannessen shares an example he has been told which relates to the cost of accounting: Supposedly, settling annual accounts in Norway requires 200 hours, while similar accounts would require 2000 hours in Brazil i.e. ten times the labor.

### *Perceived successfulness of market entry*

Two years after opening an office in Perth, NG has not yet succeeded to land a contract in Australia:

"We have not signed anything so far, but if you would call me again in two month, I hope that I could say that we have signed. We have worked actively for a long time towards one particular large pipeline project."

Johannessen states that if NG succeeds in signing this contract during the summer of 2013, the company will be very satisfied in achieving its goals for the market entry process, as this project was the main driver behind market entry in Australia. However, he continues:

"If this year passes without getting a single job, then we would not be on track. Then I think we would have to sit down and go through the strategy again."

In Brazil, NG has put its market entry process on hold due to assessed challenges and risks, and the decision to prioritize other potential markets. This market entry process may, according to Johannessen, be continued at a later time.

When asked which of these markets is the most challenging to enter, Johannessen says Brazil with the main reason being "the fear of not being able to retain long-term investments in infrastructure – ergo laws and regulations. The formal side, more than the informal side."

### **4.3 Aker Solutions**

The information presented here is primarily based on interviews with Anders Nordberg, Vice President of Business Improvement at Aker Solutions Subsea Brazil, and Alec Svendsen, Vice President of Engineering at Aker Solutions Australia. The presentation is complemented with information from the website of Aker Solutions and its annual report for 2012.

In the case of Aker Solutions, since it has been operating in both Australia and Brazil for several years, the market entry aspects (1) rationale for market selection, (2) choice of entry mode, (3) staffing and establishing foreign operations and (4) perceived successfulness of market entry, are modified into (1) rationale for operating in Australia and Brazil, (2) entry mode of foreign business, (3) staffing and operating foreign business and (4) perceived

successfulness of foreign business. The insight of Aker Solutions is however considered greatly valuable and highly relevant to the corresponding aspects of foreign market entry strategy.

### *Company background*

Aker Solutions provides oilfield products, systems and services for customers in the oil and gas industry world-wide. Starting as a small workshop in Oslo more than 170 years ago, the company today specializes in engineering and technologies for oil and gas drilling, field development and production. The company is headquartered in Oslo, Norway, and listed on the Oslo Stock Exchange.

Aker Solutions is organized in three main segments, namely Engineering Solutions, Product Solutions and Field-Life Solutions, in 2012 representing 10, 57 and 32 percent of group revenues, respectively. Product Solutions is further split into five business areas, namely Subsea (SUB), Umbilicals (UMB), Drilling Technologies (DRT), Process Systems (PRS) and Mooring and Loading Systems (MLS). The Field-Life Solutions segment is further split into three business areas, namely Maintenance, Modifications and Operations (MMO), Well Intervention Services (WIS) and Oilfield Services and Marine Assets (OMA). As Engineering Solutions is its own business area, this amounts to nine business areas which constitute separate divisions within Aker Solutions. Subsea, Modifications and Operations and Drilling Technologies are the three largest divisions, which in 2012 represented 27, 25 and 19 percent of group revenues, respectively.

With approximately 25 000 employees in 30 countries across the globe, Aker Solutions had revenues of nearly 45 billion NOK in 2012. Approximately half of the revenues come from the Norwegian market, and approximately half of the organization is based in Norway.

### *Background related to Australia*

Aker Solutions has been present in Australia for many years, and is currently located in three major cities, Brisbane, Melbourne and Perth, with several operating entities and subsidiaries. The company has gone through significant changes in Australia, as a large portion of the Australian operations were sold in 2011, due to it not being part of Aker Solutions' core business. According to Alec Svendsen the main entities in Australia are now Engineering Solutions, Subsea and Process Systems, and the majority of the approximately 160-170 employees are based in Perth. According to Aker Solutions' annual report for 2012, revenues from customers in Australia were 1.3 billion NOK in 2012.

### *Background related to Brazil*

Aker Solutions has a history in Brazil dating more than 20 years back. Today, five of its nine operating entities are present with subsidiaries and employees. According to Anders Nordberg, the other operating entities may also on occasions have sales in Brazil. Aker Solutions has approximately 1 500 employees in Brazil and two factories, one under Subsea and one under Drilling Technologies, which are the two largest entities in Brazil, followed by Process Systems. According to Aker Solutions' annual report for 2012, revenues from customers in South America, where Brazil is its only location, were 1.9 billion NOK in 2012.

### *Rationale for operating in Australia and Brazil*

Both for Australia and Brazil, the managers of Aker Solutions state market size and growth as the main drivers of the attractiveness of these markets from the perspective of Aker Solutions. Svendsen explains that the first thing one looks at is “the activity and the activity trend of the oil and gas operators over time. The volume of oil and gas work, particularly offshore in Aker Solutions’ case.” In the longer term, he explains that Aker Solutions assesses the announcement of licenses for oil and gas exploration. These are all indicators of the size and growth of the oil service market.

When asked whether other aspects of the countries are considered, the picture is slightly different for Australia and Brazil.

In the Brazil case, Nordberg responds:

“It plays a role. It is a collective assessment. What is attractive is, as you mentioned, that it is a large market with strong growth. That is the starting point, and then we must take into account the challenges involved in being present there, and the main challenge is local content regulations. We need to figure out how we can solve the fact that two thirds of the subsea equipment needs to be produced in Brazil.”

Nordberg goes on to highlight three challenging areas, when it comes to doing business in Brazil, namely lack of infrastructure, tax and bureaucracy and lack of educated labor force.

Regarding Australia, on the other hand, Svendsen cannot recall discussions on such topics and explains that there is not much focus on country-specific challenges in Australia:

“I believe leaders and management in Aker Solutions, rightly so, assumes that one can do business here just as easily as in Great Britain or the USA and such countries. The legal system resembles the British, which is known. Culturally I guess Australia is situated somewhere between Great Britain and the USA(...)With regard to tax, the country is relatively well developed, and these days there are tax agreements between Norway and Australia, which makes things a little bit easier. So I don’t think anyone in Aker Solutions finds it problematic to come down here and do business as a service company.”

One aspect that Svendsen nonetheless points out is that Australia is known for its strict labor unions and strict regulations regarding the use of foreign labor. This however is more relevant to the oil and gas operators, and has not constituted a particular challenge for Aker Solutions.

In summary, Svendsen says:

“Australia is an attractive market because there is a very large activity volume here, and it is within the area in which we operate internationally, on a global basis, and therefore we should absolutely be able to be a contributor here, for it is relatively straightforward to do business in this country.”

### *Entry mode of foreign business*

Aker Solutions has been established in both Australia and Brazil for several years, and in terms of entry mode, it has established multiple wholly-owned subsidiaries in both countries with a large number of employees and a high level of investment and resource commitment.

When asked about the main reasons for serving the Brazilian market through wholly-owned subsidiaries as opposed to other entry modes, Nordberg emphasizes that the size of the operations in the particular market is an important factor:

“At some point when things get large enough, it is more profitable or more efficient to be present than to export from somewhere else. So it is the size of the market, but it is a combination with the requirements of local content, which causes one to establish earlier than one otherwise would have, for us in oil and gas. And the third aspect is the complexity. As was mentioned earlier, you realize that you have to be on the ground in Brazil.”

When it comes to the Australian market, Svendsen emphasizes the demands of the customers:

“To have Aker Solutions in Norway doing business here through an agent etc. – they (the customers) wouldn’t be interested in that. They wouldn’t bother. In that case, they would go to our competitors.”

Due to this demand to be close to the customers and the fact that Aker Solutions “delivers high technology and expensive equipment and engineering services on a very high level”, he believes that Aker Solutions is “better off being present as Aker Solutions, across the street from the oil companies.”

This importance of proximity to the customers is obviously also relevant for the Brazilian market, manifested by Aker Solutions in 2011 introducing a new regional management structure, and in the first round prioritizing new regional managers in Brazil and North America. Executive Chairman of Aker Solutions, Øyvind Eriksen stated it clearly in his speech during the 2011 Aker Solutions Capital Markets Day:

“Our purpose is to get closer to the market and closer to the customer, because the idea behind operating an important and large market, like Brazil, from Oslo, has simply speaking failed.”

Even though Aker Solutions is present with the entry mode associated with the highest level of resource commitment in both of these markets, namely wholly-owned subsidiaries, there are however differences to the levels of resource commitment across the two markets. This is illustrated by Table 2 from the 2012 annual report of Aker Solutions, which presents revenues, non-current assets and capital expenditures across geographical markets. Even though the sum of revenues in 2011 and 2012 is only 19 percent higher in Brazil than in Australia, the average level of non-current assets is 23 times (2 212 %) higher and the sum of capital expenditure is 17 times (1 630 %) higher in Brazil than in Australia. In addition to this the interviewees stated that the number of employees in Australia and Brazil is approximately 165 and 1 500, respectively, which translates to the number of employees being almost 9 times (782 %) higher in Brazil than in Australia.

<i>Amounts in NOK Million</i>	<b>Operating revenue and other income</b>		<b>Non-current assets</b>		<b>Capital expenditure</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Norway	23 940	16 013	11 653	9 481	1 830	2 852
Europe	4 986	4 910	3 275	3 174	379	221
North America	3 033	3 502	612	646	101	120
South America	1 877	1 569	575	396	227	119
Asia	7 545	7 572	1 101	782	398	59
Australia	1 323	1 567	26	16	14	6
Other	2 218	1 341	148	79	12	8
<b>Total</b>	<b>44 922</b>	<b>36 474</b>	<b>17 390</b>	<b>14 574</b>	<b>2 961</b>	<b>3 385</b>

**Table 2 – Aker Solutions Geographical information from the 2012 Annual Report**

The main reason for this elevated level of resource commitment in Brazil, is a direct regulatory requirement, namely the local content requirement. For subsea equipment, according to Nordberg, the local content requirement is 60 to 70 percent and it is strictly enforced. To achieve such a high level of local content, Nordberg states that one has to have a factory there. Indeed, one of Aker Solutions' only three world-wide subsea factories is in Brazil, and this factory is currently undergoing expansion. Aker Solutions also has a factory for drilling equipment there. All this, despite Brazil according to Nordberg having a poorly developed and expensive infrastructure, a complex tax system and bureaucracy and a lack of and expensive supply of skilled workers. Nordberg admits that the assessment of where in the world to establish factories is not done in a normal manner, because of the local content requirements. He speculates:

“The local content requirements constitute a central precondition, which I assume, again these are only speculations, cause us to have a much larger production in Brazil than we otherwise would have had, and therefore a larger organization and a larger establishment.”

Furthermore, if it weren't for the local content requirements, Nordberg ponders:

“One can imagine that we would have had a certain production there, but not as much as we have now. Perhaps we would have had an office or an organization to carry out the first parts of a project – design, engineering, pre-projecting etc. – and perhaps, these are again speculations, but one could imagine that we would have done the actual fabrication of the steel and some complex parts at existing factories elsewhere in the world. At least we would have done that for a longer time before establishing a factory in Brazil, and then one would have assessed under normal circumstances, what the pros and cons of establishing in Brazil are.”

In Australia, even though there are regulatory pressures encouraging local content, these are not enforced in the same strict manner as in Brazil, and according to Svendsen, “in reality I will not say that these constitute much of an obstacle, at least not for our type of work.” Indeed, Aker Solutions' Subsea division in Australia imports high technology equipment from abroad, and merely assembles it in Australia, while the Process Systems division moved all its fabrication to China a few years ago. According to Svendsen, due to the high cost level in Australia, almost all large structures and platforms etc. for the Australian market is made abroad: “It is too expensive to manufacture such things in Australia”. Furthermore, because Australia does not have “capacity to build large offshore structures and such things in its own country, they are forced to import it.” The same goes for highly specialized equipment, such as that of Aker Solutions: “Since there are no suppliers of such advanced and specialized equipment in the country, it is not in the interest of the authorities to prevent us from importing that equipment, which the industry here needs, and from which the authorities ultimately receive tax.”

### *Staffing and operating foreign business*

According to the two managers of Aker Solutions, both Australia and Brazil are associated with high costs of operating a foreign subsidiary, but for slightly different reasons.

In Australia, the high cost level is caused directly by high labor costs in the country, especially in Perth, where a majority of the oil industry is located. This is however counteracted by Aker Solutions doing part of the labor abroad:



“It is a high-cost country, so we try to find solutions in which we do some things here and some in other countries, as long as we are authorized to do so. There are some restrictions on imports, but they are rather reasonable as Australia wants things done and doesn’t have a local industry to do these things, so they accept that they have to buy these things from abroad.”

According to Svendsen, Australia is known for strong labor unions and strict regulations on the use of foreign labor. This is considered a major reason why the local industry in general is struggling with a high cost level.

Despite Brazil having almost ten times the population of Australia, Anders Nordberg describes a tight labor market in the oil and gas industry. Due to a rather low education level, finding qualified workers is considered the largest organizational challenge of operating in Brazil. The large demand and relatively low supply of skilled workers, particularly in the oil and gas industry, causes the salaries of local managers in Akers Solutions’ subsidiaries in Brazil to exceed the salaries of similar management positions in Norway.

Nordberg emphasizes that the cost level is “a function of the general price level, how long it takes to get things done, the quality received and then what the price becomes to get things done.” Ultimately, he believes that firms are surprised by the high cost level in Brazil.

One factor making it expensive to operate in Brazil is bureaucracy. Nordberg elaborates:

“Brazil is very bureaucratic. It is heavy to operate in, slightly rigid and inflexible. A lot of processes, a lot of approvals, a lot of state and regional authorities(...)rarely anyone speaking English. It is heavy.”

Particularly, Nordberg emphasizes the complexities of the Brazilian tax system:

"It is very complicated, and it is recognized by both Brazilians and foreigners that it isn’t just complicated, all countries have a more or less complicated tax system, but in Brazil it is much more complicated than in almost all other countries, so all this requires a certain amount of resources. It is particularly heavy if you come alone as a Norwegian firm thinking that ‘we’re going to establish in Brazil’. Then it can be more challenging than it would have been to establish in, certainly in Australia.”

Nordberg also emphasizes that poorly developed infrastructure, and the lack thereof, constitute a challenge which makes it expensive to operate in Brazil. This includes the transport system, such as roads and railways, and the telephone network.

With regard to choosing between expatriates and local employees, both managers argue that they primarily seek to have local employees, but that a certain mix is preferable.

Among the 160-170 employees in Australia, Aker Solutions has five or six Norwegian expatriates, and one of these is a manager, namely Svendsen himself. The others are specialists in certain technological fields bringing specific expertise from the Norwegian parent company.

Svendsen assumes that one of the reasons that Aker Solutions last year hired him in a top management position in Australia, was that he is Norwegian and has international business experience, also specifically in Australia. Svendsen believes that having people in the foreign organization with the country-specific business culture of the parent company, is important, and that it is a way of indirectly exerting control over the subsidiary:

“The fact that you have someone with the same business culture, or an understanding of the business culture of the parent company, is indirectly a way of exercising a control activity. You have your man in place down there, and he has eyes and is loyal to the central group management etc.(...)I won’t proclaim that locals are disloyal, but perhaps they have a different business culture and don’t question things that the management in Oslo might want questioned. I would think that this is even more relevant in a country like Brazil.”

When asked whether this form of exerting control over the subsidiary is particularly important in Australia, Svendsen emphasizes that there are other countries where this is a more obvious need, but that he has observed through the media surprisingly many scandals involving corruption in Australian authorities, so it does exist.

Among the 1 500 employees in Brazil, the number of Norwegian expatriates is very low, maybe 1 %, but in management positions Nordberg would guess that 10-20 percent are Norwegian expatriates. One reason for having Norwegian expatriates is according to Nordberg, bringing specific knowledge to the Brazilian subsidiary. Within subsea, for example, Aker Solutions has been doing this for a longer time and has more expertise in Norway. Another reason for hiring Norwegian expatriates is for them to be a link to the parent company, providing control and making the Brazilian branch of the company run more effectively. Nordberg adds that Aker Solutions has also sent Brazilian expatriates to Norway to learn and bring knowledge back to Brazil.

In 2012, after previously having separate managements for each division, Aker Solutions hired a regional manager responsible for all divisions in Brazil. For that top management position, the company chose a Brazilian local as opposed to a Norwegian expatriate.

### *Perceived successfulness of foreign business*

According to Alec Svendsen, Aker Solutions has not been performing satisfactorily in the Australian market during the past ten years. He explains:

“There has been a lot of change due to the separation with Kværner and the sale of much of the activity to Jacobs etc. There has not been stability(...)We are now in the midst of a structured development phase again, so the hope of improvement is ahead of us.”

Svendsen further emphasizes that this unsatisfactory performance in Australia has been caused by a lack of focus and local impetus by Aker Solutions in Australia, rather than challenges posed by Australia as a country.

When asked about the successfulness of operations in Brazil during recent years, Anders Nordberg emphasizes that Aker Solutions has gained a very strong position in the Brazilian market:

“Within oil and gas, and particularly subsea with the five billion NOK contract I mentioned earlier that we won the other day, we have a very good position and we have a large organization, and it functions well(...)We have a plan and will make money going forward.”

However, Aker Solutions has also experienced some bumps in the road in Brazil. Particularly, in 2011 it reported a loss of 500 million NOK in Brazil. Nordberg explains in general terms:

“It is challenging. It is kind of a rough ride requiring resources and long-term thinking and Brazilian employees and all that(...)If one underestimates the challenges we have talked

about, one can easily strike a bump in the road. You can get stuck. If you have a plan of investing a certain amount and plan to start making money after a certain time, and then that doesn't happen because everything takes a longer time, and you can't get hold of the people you need, and you can't establish, there are taxes and bureaucracy etc."

In the concrete case of the losses in 2011, Nordberg admits that it was partly due to a lack of control:

"It is not easy making these complex subsea installations, and we weren't able to keep what we had promised in Brazil. We had promised a lot, and the quality problems that arose should have been properly addressed sooner than what was done. By then it had gone far and we had lost a lot more money than we should have. Now we have confronted it, among other things with a new management and within the subsea division, which is the largest division that incurred the biggest losses, we have a number of expats in place, who address this."

When asked specifically, Nordberg acknowledges that a culture of avoiding to notify when things are not going as planned might have been an element in the reason for these quality problems not being properly addressed at an earlier point in time. In conclusion, Nordberg argues: "Now we have taken steps that will hopefully prevent such things from happening again."

#### **4.4 Eureka Pumps**

The information presented here is primarily based on an interview with Tom Gustavsen, Director Sales and Marketing at Eureka Pumps, and complemented with information from Eureka's website as well as proff.no.

##### *Company background*

Eureka Pumps is a supplier of pumps covering most applications within the oil and gas industry. Eureka's history dates back to 1896 in Oslo, Norway. In the 1960's the company started designing and manufacturing pumps for marine applications and in the 1970's for oil and gas applications. The company has undergone many changes, including demergers and name and ownership changes, and what remains as Eureka Pumps today is the pump business targeting the oil and gas industry. In 2011, the company had approximately 170 employees and revenues of 445 million NOK.

Since the end of 2010, Eureka Pumps is a wholly-owned part of Align, a group of six companies which are all suppliers of production and safety critical equipment and solutions to the Norwegian oil and gas and maritime industries, as well as selected international markets. In 2011, the group had revenues of 854 million NOK. Align is owned by two private companies, the largest of which being Hitec Vision, a large Norwegian private equity investor.

According to Tom Gustavsen, Eureka's main application areas are fire water pumps, seawater pumps and crude oil pumps, of which fire water pumps is the largest business area constituting more than half of the business. Eureka designs and manufactures pumps directly or indirectly for the oil and gas operators, in addition to providing after sales services such as maintenance and repairs to the installed base. According to Gustavsen, these after sales services amount to approximately half of the company's revenues. Delivery of new pumps involves significant customization based on particular customer requirements for each project,

and both Eureka's technology and overall system knowledge within the application areas are critical success factors.

Eureka has been selling its products internationally for a long time, but the international focus has increased significantly during the past three to four years. According to Gustavsen, the share of international sales has gone from five to ten percent to approaching 50 percent. Eureka has an office in Houston, USA, with four employees, agents in Paris, Korea and Malaysia, has a company but no employees in Brazil and is currently establishing a company in Australia.

#### *Background related to Brazil*

In 2010, Eureka decided to establish its first two foreign subsidiaries in Brazil and the USA. In Brazil Eureka chose to both establish and staff the subsidiary with locally contracted human resources. The subsidiary was primarily a sales office working towards qualifying as a supplier to Petrobras. Subsequently, Eureka has decreased its focus on Brazil and the subsidiary is still without employees.

#### *Background related to Australia*

Eureka is currently in the process of establishing a company in Perth, Australia. The company has previously been serving the Australian market directly from Norway, but has recently decided to establish a local presence.

#### *Rationale for market selection*

For both markets, Eureka's main rationale for market selection is the size and growth of the markets:

“The motive is always based on the possibility of supplying those areas with our equipment – the more projects we see coming, the more interesting it is to be present. That is the main driver.”

Furthermore, Gustavsen adds that the type of projects is also relevant, as “there are some that we have a greater chance of winning than others”.

In the Australian market, Eureka perceived that there were few players properly present within its particular type of equipment. It already had Woodside, the major oil and gas operator in Australia, as a customer, and perceived that there would be more projects to come. Also the technical requirements of the projects in Australia were assessed to be similar to those of the Norwegian market and therefore familiar to Eureka.

When asked whether external aspects of these countries, such as laws, politics, regulations, language barriers or cultural differences, were considered at this stage, Gustavsen explains regarding Brazil:

“I don't think that initially was part of the consideration, but when we see it in retrospect, it is obviously of great importance.”

In general terms, Gustavsen reflects:

“I believe that many companies have pursued and are pursuing Brazil because they see the enormously large potential. And perhaps, one gets a little bit blinded by that. That is my personal opinion.”

### *Choice of entry mode*

Prior to 2010, when Eureka decided to establish subsidiaries in Brazil and the USA, it had only been serving international markets through sales agents and travelling from Norway. In Brazil, Eureka had previously had a sales agent, but that relationship had been terminated before deciding to establish a wholly-owned subsidiary.

In Brazil, establishing the subsidiary was done purely with external contracted resources, and no direct employees of Eureka. In retrospect, Gustavsen believes that this “solution was not positive”, and explains that this may be either due to lack of motivation of the locally contracted personnel or the lack follow-up capacity of the parent company.

With regard to the Australian market, Eureka has been selling to Woodside from Norway and now seek to get closer to the customer, as it recently decided to “enter through a sales office to be local enough to take advantage of being present and provide the necessary support for these projects.” Gustavsen adds that Eureka has “of course already been in contact with some of the projects running down there, and we merely seek to strengthen that contact by having people there locally.”

Regarding particular obstacles to the choice of entry mode in Australia, Eureka’s experience is that there are very few, other than getting in place an after sales service arrangement, which Eureka seeks to do through a local alliance partner.

In Brazil on the other hand, local content regulations constitute a critical obstacle, as Eureka has realized that to achieve the approximately 60 percent local content required by Brazilian authorities and oil operators, it would be forced to produce in Brazil. Setting up its own production facilities in Brazil would require a substantially higher resource commitment than merely operating a sales office, and this is the main reason why Eureka has reduced its activities and focus in Brazil.

### *Staffing and establishment of foreign operations*

Given that Eureka has a subsidiary with no employees in Brazil, and has not yet established a company in Australia, it has limited experience when it comes to staffing and establishing foreign operations in these countries.

In Brazil however, as already mentioned, Eureka established a sales office purely with contracted human resources, one full time and a few part-time. These were operating the subsidiary on behalf of Eureka. This solution has not been considered successful. In Australia, it will also rely on advice from external consultants, but the subsidiary will be staffed by two employees from the parent company, one Norwegian and one third country national.

### *Perceived successfulness of market entry*

Despite merely being in the process of market entry in Australia and Brazil, Eureka does have some valuable insights to share and Gustavsen has a clear perception that Brazil poses more challenges to market entry than Australia:

“Our experience and the perception we have, is that doing business in Brazil is extremely much more difficult than in Australia. If you have the technology that the oil companies seek, it is a lot easier to get in position in Australia.”

Gustavsen however realizes that there are companies within Eureka’s field that have invested and established in Brazil, and that these companies are now being rewarded with contracts. He therefore admits that “it can be favorable and profitable to pursue Brazil, it may be, but there is an entry ticket here that is higher than in any other market, and one therefore becomes a little bit more doubtful about going the whole way.”

In Gustavsen’s view, the local content requirements have made Brazil a very isolated market compared to the rest of the world. He argues that there are different companies that are the main players in the Brazilian market compared to other markets, which are much more interconnected across country borders. In Brazil, local content is the deciding factor, rather than the best technology, the lowest price, the greatest efficiency etc.

#### **4.5 Industry expert – Svein Harald Øygard, McKinsey & Company**

##### *Background*

The information presented here is exclusively based on an interview with Svein Harald Øygard, Partner of the global consultancy McKinsey & Company. Øygard joined McKinsey & Company in 1995. He became Partner in 2000 and Director in 2006. He is currently responsible for the consultancy’s global competence development and research within the Oil and Gas sector.

Øygard has substantial experience and expertise on the subject of this study. He has directly and indirectly been involved in client projects concerning market entry in the Australian and the Brazilian oil service markets and in portfolio management projects involving assets in these two markets. Furthermore, specifically to the Brazilian market, Øygard has recently conducted a comprehensive analysis of the Brazilian oil and gas supply chain and spent a significant part of his time in 2012 working with this.

##### *Rationale for market selection*

When asked what factors Norwegian oil service firms generally emphasize when considering whether or not to enter Australia and Brazil, Øygard explains that aspects of the particular oil and gas basin is the starting point for market selection. He argues:

“Most companies begin with some sort of assessment of the size of the basin and the volume of activity within the segments that are most relevant to those companies, and that depends on the technology choices being made. So it is first the basin size per se and basin characteristics, including the choices of technology.”

Øygard describes this as the first “philter” of the pre-entry market assessment, and collectively these are all indicators of the size and growth of the market, and more specifically the market segments that the entrant firm is targeting. According to Øygard, firms generally find both Australia and Brazil large and fast-growing, but he emphasizes that the size and growth rate of the Brazilian oil service market is “gigantic” and indicates that it is larger than the Australian market.

The next filter firms usually employ is, according to Øygard, a general assessment of the preconditions for doing business in the foreign country. At this stage it is merely a general assessment of the business culture, business sentiment and openness of the foreign country, not specific to the oil and gas sector, and Øygard argues that both Australia and Brazil are favorable in this respect. With regard to Brazil he adds that there are more specific regulatory challenges, but he distinguishes between those and this more general assessment of the ease of doing business in the country. Øygard points to Norwegian firms such as Yara, Hydro and Statoil, which have all built large businesses in Brazil, and argues that Brazil is a country where Norwegian firms have demonstrated a great ability to operate.

Next, firms consider which oil and gas operators are prevalent in the particular market. There often exist strong relationships between operators and oil service firms across different oil and gas basins. Øygard explains:

“It is of course the operators that control much of this, and if an operator that one is used to working with in other basins is there, then most companies will see that as an argument that favors entering that basin.”

In Australia, the familiar Western operators are prevalent. There is however a different structure than there is in the North Sea, with different operators being the dominant ones. In Brazil, Petrobras is the dominant operator. Øygard argues that even though this is not an operator that firms are used to from other markets, it is a reputable and competent operator. In summary, both Australia and Brazil involve favorable conditions with respect to operators.

Lastly in the initial screening of potential markets, Øygard argues that firms evaluate the competitive intensity and the extent of suppliers of similar products and services in the market segment. He argues that the competitive intensity is particularly high in Australia and that the supply structures to a larger degree are established in Australia than in Brazil. Many of the same operators that are prevalent in the Gulf of Mexico (USA) and the UK are also prevalent in Australia, and this naturally brings their usual oil service suppliers to the Australian market. Øygard’s perception is therefore that Norwegian suppliers may have a slight disadvantage against the established supply structures in the Australian market. In Brazil on the other hand, relationships between Petrobras and its suppliers are still less rigid and less established.

Collectively what has been described so far is what Øygard refers to as a first level of screening. Given that there is a match with the entrant firm’s overall strategies, capacity and reach, both Australia and Brazil are so far generally assessed as favorable for market entry.

With regard to the next level of screening, Øygard continues:

“Then there is the next level of screening, which is more ‘how can we do this, and is it even possible to enter?’ In this case, the picture is rather different across the two basins.”

In Australia, Øygard argues that there is a “level playing field”. There is a relatively open structure and regulations are relatively straight forward. Entrants are not worried about government approvals. He does, however, point out that it is a highly inflated economy due to several sectors growing rapidly in Western Australia. This has resulted in a very high price level. In other words, the industry’s own challenges are the main barriers in Australia, as opposed to external factors.

In Brazil, on the other hand, there are several challenges external to the industry. According to Øygaard, what first meet the eye are the local content requirements, which vary between the concession bidding rounds, but typically result in operators committing to for example 65 % local content. On the top of that there have been established consortia for delivering the local content, in which Brazilian companies have taken on leading and controlling roles, sometimes marginalizing international technology providers. Furthermore, there are a whole range of different import and export taxes and fees. Øygaard explains:

“Brazil is in fact the country in the world, among all countries with official statistics, that has the lowest export and import share of GDP. That reflects a protectionist attitude, and it is backed up by all sorts of import and export taxes and fees.”

Furthermore, according to Øygaard, the largest customer Petrobras has historically been quite firm on its contract approach. It has for example sometimes required fixed prices and turn-key delivery, which for suppliers is challenging in an inflationary economy where there are many varying parameters. According to Øygaard, this has led several companies to withdraw from the Brazilian market. Øygaard states:

“It is easier to point out companies that have lost money in Brazil than it is to point out companies that have made money in Brazil. And some of the losses have been monumental.”

According to Øygaard, however, some suppliers have pointed to a recent change of risk sharing mechanisms, for example with contracts allowing suppliers to pass through inflation in the costs of rigs and components.

In summary, Øygaard describes the Brazilian market as regulated on many levels. First, the specific local content requirements, second, a protectionist sentiment and expectations that Brazilian firms are in leading positions, third, a range of export and import fees and taxes, and fourth, Petrobras with a firm contract approach. Thus, according to Øygaard, even though Brazil is considered favorable for market entry on a general level, these more specific institutional challenges make it highly demanding for foreign entrants. Øygaard though stresses that some companies don't fully see the opportunities in Brazil and how to succeed the Brazilian way. Brazil is a superpower, with millions of trained professionals and engineers. Many companies and entities are well performing.

### *Choice of entry mode*

With regard to entry mode, Øygaard's perception is that firms employ a more “light touch” mode in Australia and a more “heavy touch” mode in Brazil. This is due to several reasons. First, according to Øygaard, it is due to Brazil being a larger market. Second, Australia is familiar enough and regulations allow market entry without substantial complications. Firms therefore end up with a local sales office or sales agent, perhaps in addition to a simple site for finalizing products.

In Brazil on the other hand, due to the specific institutional challenges described above, Øygaard argues that there is a demand for a more substantial local presence. He argues that firms potentially need a heavier partner and something to utilize in building a real position towards Petrobras. He continues:

“It becomes more binary in Brazil. Either you are serious and enter with all you've got, or you are not serious and you stay away.”



Øygaard adds that the characteristics of the product or service in question and the expected size of the foreign business also influence the degree of local presence involved in the entry mode. He further argues that some sort of subsidiary is very common in both countries. The question is therefore rather the degree of local presence than the choice between the distinct entry modes, such as direct export, sales agent, licensing, joint venture etc.

### *Staffing and establishment of foreign operations*

With regard to the challenges of staffing and establishing foreign operations, Øygaard emphasizes two challenges. One challenge is building a local organization which includes the choice between using expatriates and hiring from the local labor market. He argues that expatriates are expensive, while hiring locally is challenging without having a brand that is familiar in the foreign market. The next challenge, according to Øygaard, is getting the chance to demonstrate what the firm can do and thereby developing references and contacts. Øygaard refers to the chicken and the egg dilemma and continues:

“It ends up as the chicken and the egg. You don’t get an organization if you don’t have any business, and you don’t get any business if you don’t have an organization.”

He therefore argues that it is important to have some sort of initial business as a starting point when establishing foreign operations.

When comparing Australia and Brazil, Øygaard argues that the threshold to establishing in Brazil is higher than in Australia. His perception is that smaller companies have managed to establish in Australia, but that Brazil requires a certain size and local presence. He again points to the challenging local content requirements combined with the contract approach of Petrobras. This combination has led firms to back out of the Brazilian market.

### *Perceived successfulness of market entry*

With regard to his perception of the successfulness of Norwegian oil service firms in entering these two markets, Øygaard argues that firms entering Australia has struggled with the competitive intensity, and the distance to the subsidiary. The Australian organization may develop in its own direction and perhaps fade away from the Norwegian parent company. He adds, however, that there are certainly firms that have succeeded in entry, but that it may have rendered a little bit small in size.

In Brazil, certain companies have succeeded as well, but there are several examples of firms that have incurred losses and backed out of the market. Øygaard adds, however, that he perceives the current uplift or momentum of the Brazilian market, also with respect to the role of Norwegian firms, to be greater than that of the Australian market.

When asked which one of the two markets is the most challenging to enter for Norwegian oil service companies, Øygaard says:

“In sum, Brazil is the most challenging market, but the size and upside is larger. Regulations are of course a big part of it. Local content, both explicitly and implicitly, and export and import fees, make it more binary. If you want to enter, you have to do it completely. You cannot do it ‘the easy way’. In addition, Brazil may also longer term be a more natural location for resource centers, production and fabrication as opposed to e.g. Western Australia. Our analysis shows that Brazil will need increased local production and exports to achieve

growth and balance out imports as the economy grows, and key sectors like the oil & gas services sector will eventually be a natural part of this.”

## 5 Cross-case analysis

The previous section presents the empirical data of the study in a straight-forward and objective manner. This section synthesizes the observations across the cases, and goes further in interpreting and analyzing the findings. The findings from the interview with the industry expert are included and complement the analysis. The analysis organized in correspondence with the considered aspects of foreign market entry strategy, in the same way as each of the case descriptions in the previous section.

### 5.1 Rationale for market selection

#### *Market size and growth*

All case firms clearly emphasize the market potential, more specifically market size and growth, as the sheer basis for the attractiveness of these two markets and therefore the main rationale for market selection. Above all other aspects regarding the two countries, the market potential is the main motivation for selecting these particular markets. Particularly Brazil was perceived as a “booming” market by KOGT, NG and Eureka, and there seem to exist a perception in the Norwegian oil service industry that one has to pursue a market entry in Brazil in order to be a relevant player. This is however contradictory to Eureka’s observation that Brazil is an isolated market, somewhat disconnected from the global oil and gas industry. Market size and growth are industry-based influences.

The industry expert shares this view, and states that firms start out by assessing the size and growth of the oil and gas basin, which are fundamental indicators of the market size and growth in the oil service industry. The industry expert also shares the perception that Brazil has an even greater market potential than Australia.

#### *The fit of firm resources in the market*

Another important rationale for market selection, pointed out in some way by all the case firms, is the fit between the particular market requirements and the expertise and technology of the case firm. Beyond both being offshore markets, market characteristics caused by harsh environments, deep waters, long pipelines or strict environmental requirements are considered to suit the case firms’ own resources and capabilities. These are characteristics of the Norwegian offshore market, so the case firms point out that this fit applies to most products and services developed in the North Sea. The rationale for market selection in this case, is that the firm seeks to utilize its own resources and capabilities where these are most likely to yield competitive advantage. This rationale is based on a resource-based view.

The industry expert also perceives that firms consider this fit between firm resources and market characteristics or basin characteristics, as he more specifically terms it, as an important part of the rationale for market selection.

The particular case of strict environmental requirements in the host country causing the market to be attractive, can be seen as an interplay between resource-based and institution-based factors, because the characteristic that fits the resource base of the firm in this case is induced by the formal institutions of the host country, more specifically the environmental regulations.

### *Competitive intensity*

The assessment of the competitive intensity in Australia and Brazil is not emphasized as particularly significant in the market selection process. Indeed, it is clearly subordinate to the above mentioned aspects. Competitive intensity was however mentioned by NorSea and Eureka. NorSea found the competitive intensity to be high in Australia, while Eureka assessed it to be reasonably low within its particular niche. The industry expert similarly mentioned competitive intensity as part of the country screening process of firms, but subordinate to the above mentioned aspects.

### *The institutional context*

The main purpose of this study is to understand how firm reasoning and decision-making are influenced by the institutions of the host country, and how this relates to the other influences. The empirical results show that with regard to the rationale for market selection, the pros and cons of the institutional environment are clearly of secondary importance to the case firms, particularly compared to the market potential.

The data confirm however that institutions do matter, also with regard to the rationale for selecting, or not selecting, a particular market. KOGT had made clear efforts towards understanding the institutional environments prior to entry, and this affected both the consideration of whether to select the markets and the timing of market entry. NorSea ultimately excluded Brazil due to an assessment of its political uncertainty. For the same reason, KOGT excluded other markets with high potential, namely Africa, Russia and China. Aker Solutions particularly emphasizes one institutional regulation, namely that of local content, as being a critical precondition for its operations in Brazil.

Eureka paid little attention to the institutional environment prior to entry, and admitted in retrospect that it proved very important.

The aspects of the institutional environment emphasized by the case firms at this stage are mostly formal. Thus, formal institutions such as regulations (e.g. tax systems and local content requirements), legal systems and political stability seem to be considered more relevant than informal institutions with regard to the rationale for market selection.

Most of these institution-based considerations come from assessments of the Brazilian market. All companies assessed Australia to be straight forward for market entry with regard to the institutional environment. In essence the firms to a large degree assumed the institutions in Australia to be well known and properly functioning, and therefore did not pay much attention to them prior to entry. However, NorSea and Aker Solutions mention particularly strict labor unions and pressures towards the use of local labor in Australia, but this is nonetheless not interpreted as influencing the rationale for market selection to a large degree. Rather, it seems that the case firms consider this manageable in Australia.

In Brazil on the other hand, formal institutions directly influenced KOGT's assessment of the market and timing of entry, NorSea's decision to put Brazil on hold, Aker Solutions' very nature of operations (i.e. intensive local production) and Eureka's post-entry reduction of focus on the Brazilian market.

The industry expert describes that firms often initially assess the ease of doing business in the country on a general level, and then on the next level of country screening take into account the practical challenges to entry such as laws and regulations. His perception is that both these

countries are favorable with regard to ease of doing business in general, but that the major differences appear on the next level of country screening. While Australia is considered straight-forward, Brazil is considered highly complicated due to institutional conditions such as local content regulations. Thus, his experience largely supports the analysis of the case firms. In addition to local content regulations, the industry expert highlights Brazil's implicit protectionist attitude, which is part of informal institutions, and the contract approach of the largest customer Petrobras as institutionally based challenges to entry in Brazil.

The approach taken in this study is to vary the institutional context to investigate the change in influence by institutions. In summary, the analysis demonstrates that in Brazil, where institutions are more complicated, market selection is affected by institutions to a larger degree than in Australia, where institutions are considered more straight-forward. The most significant aspects of the institutional context are regulations and political stability. Regulations directly form the central preconditions for doing business in the foreign market, as is the case with local content regulations in Brazil. Political stability strongly affects the risk of investing in the foreign market. If the country is associated with political uncertainty, as was the case for NG in Brazil, this renders firms averse to market entry.

## **5.2 Choice of entry mode**

All the entry modes actually executed in Australia and Brazil by the case firms in this study are wholly-owned subsidiaries. However, other entry modes were considered, and in the case of NorSea in Brazil, a joint venture was selected, but not materialized. Moreover, the analysis indicates that beyond the choice between the generic categories of entry modes, such as the five generic entry modes presented in 2.1.2 (i.e. export, licensing/franchising, alliance, joint venture and wholly-owned subsidiary), the ultimate level of resource commitment and control involved in the entry mode varies substantially. The institutional environment seems to affect the ultimate level of resource commitment, but not so much the choice between the generic entry modes.

### *Proximity to the customers*

The empirical data of this study suggest that a fundamental objective of the entry mode is to be close to the customers. This is clearly emphasized by Aker Solutions and KOGT, but also mentioned by NG and Eureka. In the case of Aker Solutions in Australia, it is claimed to be a demand of the customers that Aker Solutions is locally present, and not through an intermediary. KOGT sees it as difficult to achieve the necessary proximity to the customer without establishing a subsidiary, because these two countries are physically so far away from Norway.

### *Nature of the business*

The objective to be close to the customers can be seen in relation to the nature of the case firms' businesses. Aker Solutions in Australia argues that the level of high technology involved in its offerings affects its need for proximity to customers. In the case of NorSea Group in Australia, it relies on a set of routines and procedures (i.e. its expertise) in its logistics projects, and keeping that at the core of its local business dictates the use of a local subsidiary. KOGT and Eureka delivers high technology products and services and describes that its products require significant customization upon delivery. This is also true for Aker

Solutions. As explicitly admitted by KOGT, establishing a wholly-owned subsidiary seem to be a primary choice, or default entry mode, for these case firms when entering foreign markets. The case firms are all oil service companies. They offer high technology products and/or complex and specialized services. It is important to bear this in mind when analyzing their entry mode decisions since these may be aspects the firms themselves take for granted and do not articulate during the interviews. The industry expert gives further support to this, as he states that a wholly-owned subsidiary is usually established during market entry in this industry.

### *Size of foreign business – gradually increasing resource commitment*

As argued by Aker Solutions in Brazil, which is the largest foreign business considered in this sample, the size of the foreign business is also an important catalyst for the wholly-owned subsidiary as an entry mode. It is argued that when foreign operations reach a certain size it is more profitable and efficient to operate a local subsidiary. KOGT further demonstrates this in a gradual manner, as it first exported or promoted its products from Norway, and then decided to establish a subsidiary when the size of the foreign business was deemed significant enough. A similar reasoning can be observed by Eureka in Australia, which after having exported for a while is now establishing a subsidiary.

### *The institutional context*

The influence of institutions is observed across all case companies, not as being the reason for choosing a wholly-owned subsidiary, but more so when it comes to the reasoning around the alternative entry modes and the ultimate level of resource commitment involved in the entry mode. The industry expert also describes that market entry in this industry usually involves some form of wholly-owned subsidiary, but that the extent of resource commitment can vary significantly and is affected by the institutional environment.

In Australia the institutional environment is considered such that the case firms are free to choose their otherwise preferred entry mode choice. In other words, the institutions are assumed away, and assumed to serve in a well known and properly functioning manner, such that the firms see no need to consider other modes than their generally preferred one. Institutions are explicitly stated not to have influenced the considerations around the entry mode choice in Australia by NG and Eureka.

In Brazil on the other hand, alternative entry modes were to a larger degree considered by the case firms due to institutional complexities. Both direct regulations on supply base operations and the general desire for a strong local partner, caused NG to pursue joint venture as the entry mode. KOGT could utilize the experience and infrastructure of a group affiliated company, but admits that it otherwise would have spent more time trying to find an agent or a partner in Brazil, and emphasizes that considering alternative entry modes is more important in Brazil due to institutional complexities.

Local content seems to be the single most important institutional influence in Brazil. In particular it dictates, not only the necessity for a local subsidiary, but the scope and scale i.e. the extent of resource commitment associated with the subsidiary. This is particularly evident from the cases of Aker Solutions and Eureka. Aker Solutions has slightly larger revenues in Brazil than in Australia, but has invested substantially more resources in its Brazilian operations due to local content regulations, more precisely 23 times the level of non-current assets, 17 times the capital expenditure and 9 times as many employees. This is a clear

example of how companies adapt substantially to host country institutions, even though the generic entry mode in this case is the same. The resource commitment is substantially higher in Brazil due to local content regulations.

Another aspect highlighted by KOGT regarding both markets, but primarily Brazil, is the importance of demonstrating a long-term mindset to achieve a good reputation in the market. This is a cultural aspect, part of the informal institutions, which has implications for the choice of entry mode in that it requires a certain robustness. It is considered important to avoid having to back out and send unfortunate signals to the market. In other words, the host country's culture of demanding a long-term mindset from suppliers and partners influence entrants towards a more resource committing market entry.

The industry expert is of the impression that firms tend to establish a “light touch” entry mode in Australia and a “heavy touch” entry mode in Brazil, though there is usually a wholly-owned subsidiary in both cases. He argues that the reasons for this difference in resource commitment are differences in the institutional contexts. More specifically, while regulatory conditions allow a light entry in Australia, the Brazilian market demands a heavy local presence. This is due to direct local content requirements, and import and export taxes, but also due to what the industry expert refers to as implicit local content requirements, which are attitudes and expectations that Brazilian firms take leading positions – a protectionist sentiment. These are part of informal institutions and exist in the norms and values of the Brazilian people. This is in line with the long-term mindset and reputation that KOGT describes as important in Brazil. The experience of the industry expert thus largely supports the analysis of the case firms.

In summary, the analysis indicates that the choice between the generic entry modes (i.e. the choice to establish a wholly-owned subsidiary) is largely determined by factors other than the institutional environment. The ultimate level of resource commitment and control, however, may vary substantially and is to a large degree affected by both formal and informal institutions. A heavier local presence and therefore a higher level of resource commitment are required in the Brazilian market, both due to formal regulations and informal values and attitudes.

### **5.3 Staffing and establishing foreign operations**

#### *Costs and time spent*

The empirical data, particularly from the Aker Solutions case, demonstrate that it is expensive to operate in the oil and gas industry in both Australia and Brazil. In Australia it is expensive due to a high general price level as a result of a tight labor market, particularly within oil and gas but also in general. A tight labor market making it expensive to find skilled personnel is just as evident in the case of the oil and gas industry in Brazil, but there the costs of operating are further increased as a result of institution-based transaction costs. These are caused by a much more bureaucratic and time-consuming institutional environment, such as the tax system, certification processes, poor infrastructure, language barriers etc.

The impression of KOGT, NG and Eureka is that the costs and time it takes to establish foreign operations are greater in Brazil than in Australia. This is caused by the challenges and complexities of the institutional environment. In particular, understanding regulations, the tax system, bureaucracy and culture takes time and requires resources, often external advisors.

### *Recruiting and the use of expatriates*

Another aspect highlighted by KOGT regarding both markets, but primarily Brazil, is the importance of a reputation to be successful in recruiting. Again, this is a cultural aspect and part of the informal institutions. Brazilian individuals are particularly concerned about the reputation of their employer. This makes recruiting challenging for a small, newly established player in the Brazilian market. KOGT however emphasizes the importance of finding the right people in the initial phase.

When it comes to staffing strategy and the aspect of choosing whether to employ expatriates of the parent company or local workers, Aker Solutions, KOGT and NG all express a general preference for local employees, but emphasize that a certain element of expatriates from the parent company is also important. The reasons for having expatriates are twofold. One reason is to facilitate the pure transfer of knowledge, such as expertise that is better developed in Norway than in the subsidiaries. In practice this involves sending Norwegian specialists of certain business or technology areas to the host country to work for the subsidiary. For this purpose of knowledge transfer, there is no particular difference in the need for parent company expatriates between Australia and Brazil.

The other reason expressed by KOGT and Aker Solutions is to facilitate control over the subsidiary. KOGT, which only has one expatriate, namely the top manager in Brazil, states that for the purpose of control expatriates are more relevant in Brazil than in Australia. This is interpreted as being based on institutional complexities in Brazil. Aker Solutions argues that expatriates exert control over the subsidiary simply by bringing the business culture of the parent company, and also believes that this is more important in Brazil than in Australia. A country's common business culture is part of its informal institutions.

Both KOGT and NG successfully established subsidiaries in Australia without the use of expatriates, while Eureka staffed its Brazilian subsidiary purely with locally contracted human resources. This proved to be a less satisfactory solution. This may further indicate that a certain degree of control, gained through the use of parent company expatriates, is particularly important in Brazil.

As mentioned, the case companies demonstrate a general preference for local employees in both markets. In Australia this is driven by the assessment that local employees are better equipped with local market knowledge and contacts. The institutional environment of Australia is not mentioned in this regard. In Brazil on the other hand, the need for Brazilian employees is emphasized due to the language barrier, the complexity and bureaucracy of its institutions and the local content requirements. These are all institutional aspects.

### **5.4 Perceived successfulness of market entry**

KOGT perceived its market entry processes in both Australia and Brazil to be very successful. They spent less time and money than expected on establishing a profitable operation and did not encounter disrupting obstacles along the way. KOGT was also the case firm that was most clearly familiar with the institutional environments of the host countries and the corresponding challenges, prior to market entry. It proceeded with patience and reduced the risks along the way by waiting for the first contracts to be signed, justifying a robust establishment and then gradually increasing resource commitment with a flexible and scalable mindset. Due to the expected challenges of the institutional environment and corresponding



costs, the Brazil entry was withheld until the revenues in Brazil could justify a market entry that would not subsequently have to be withdrawn.

Eureka, on the contrary, seemed to establish a subsidiary in Brazil with less attention paid to and respect for the institutional environment. This proved less successful, as Eureka more than two years later still has not properly entered the Brazilian market. Eureka emphasizes that local content regulations are its most critical obstacle.

NG chose to put its Brazil entry on hold due to the institutional environment, more precisely the political uncertainty associated with Brazil. It feared to invest heavily in permanent infrastructure with the risk of laws and regulations changing in Brazil such that NG's investments would deteriorate. It is impossible to assess whether this would actually happen or not, but being familiar with and responsive to the particular institutional environment allows NG to make an informed decision and avoid the possibility of a catastrophic loss.

Aker Solutions is not satisfied with its position in the Australian market, but clearly states that there has been an internal lack of stability and focus on the Australian business, and that this is about to change. It emphasizes however that this unsatisfactory performance is not caused by challenges posed by the institutional environment in Australia. In Brazil, Aker Solutions has invested heavily and committed substantial resources. It has taken the local content requirements very seriously and located a significant portion of its world-wide production in Brazil. It has been operating in Brazil for a long time, has a large number of local employees and a vast amount of local knowledge, also about the institutional environment and its corresponding challenges. Aker Solutions describes recent years in Brazil as successful in that it has built a strong position, a large local organization and has been awarded large contracts. It has however experienced problems, particularly in 2011 when it incurred losses of 500 million NOK in Brazil which caused the replacement of its Brazilian management and a strengthening of the parent company's control through the use of expatriates. A main reason for the losses in 2011 was that quality problems were not properly reported and addressed when they should have been. Though not explicitly admitted by Aker Solutions, this lack of capability to properly address problems may be a cultural challenge in Brazil necessitating a higher degree of control from the parent company.

In summary, the empirical data indicates that companies that pay deliberate attention to the institutional environment and understand its corresponding challenges are more likely to be successful in entering foreign markets, particularly where the institutional environment is challenging such as in emerging markets. Furthermore, having an initial business to build on and gradually increasing resource commitment as the business grows, seems to be a desirable approach. This view is shared by the industry expert.

All firms were also asked directly which of the two markets they ultimately consider most challenging to enter. The answers are clear. Regardless of their own success or failure, all companies in the sample find Brazil more challenging for market entry than Australia, and aspects of the institutional environment, such as laws, regulations, particularly local content, bureaucracy, political instability, culture and language are highlighted as main reasons for this difference. KOGT highlights the time and energy spent on understanding regulations, taxes, culture, recruitment etc. NG emphasized the uncertainties regarding future laws and regulations. Aker Solutions pointed to the lack of infrastructure, general bureaucracy and tax

systems, and the lack of educated labor force as main challenges. Eureka emphasized local content regulations.

The industry expert also states that Brazil in sum is a more challenging market to enter due to local content requirements, both explicit and implicit, but he is also of the perception that Brazil holds an even bigger potential than Australia for those firms that succeed with market entry.

## 6 Discussion

This section returns to the theoretical propositions developed in 2.4 and discusses these propositions in light of the empirical data from the cases, the expert interview and the cross-case analysis. It then discusses implications for theory, managers and policy makers. Lastly, limitations of the study are discussed.

### 6.1 Returning to the theoretical propositions

#### 6.1.1 The institutional context affects entry strategies – particularly in emerging markets

The first theoretical proposition addresses how host country institutions, in general, affect entry strategies:

***Proposition 1 (P1):***

*The institutional context of the host country affects firms' reasoning and decision-making with respect to foreign market entry i.e. firms' foreign market entry strategies.*

The second theoretical proposition extends this by comparing emerging and developed economy contexts:

***Proposition 2 (P2):***

*The effects of the host country's institutional context on foreign market entry strategies are more significant in emerging economies than in developed economies.*

The empirical data and the cross-case analysis indicate that there are significant differences between the two countries. The approach taken by this study to examine the influence of institutions on foreign market entry strategies, is to compare the reasoning and decision-making of the firms across differing institutional contexts. In other words, the differences between the countries are used to investigate how institutions affect entry strategies in general. It is therefore considered most appropriate to discuss these first two propositions together. In the following, proposition 1 and 2 are discussed with respect to each aspect of the foreign market entry process.

#### *Rationale for market selection*

With regard to the rationale for market selection, some firms employ a systematic country screening process for all potential countries for market entry, in which aspects of the institutional context are considered. Institutional aspects are however far from the main drivers of the rationale for market selection.

The analysis indicates that there are significant differences between the influence of institutions on the rationale for market selection between Australia and Brazil – a developed and an emerging economy. When considering market entry into the developed economy Australia, firms assume the institutional environment away as background, assuming that the host country's institutional environment is familiar, stable and market supporting. Not much attention is therefore given to the host country's institutional environment at this stage. The analysis indicates that the ultimate decision of whether or not to enter developed economies does not explicitly rest on institution-based considerations. Rather other influences are more significant, which will be discussed further in relation to proposition 5. However, some firms

do employ systematic country screening processes, in which institutional aspects are considered.

In Brazil, on the other hand, the picture is different. The description of Brazil through the case firms largely corresponds to the description of emerging markets in the theoretical background of this thesis. Legal, political and societal institutions are considered different, less market oriented and less stable than in developed economies. The cases from Brazil indicate that when firms consider entering emerging economies, institutions become relevant for the reasoning and decision-making. Most significant in the case of Brazil seems to be local content regulations and political uncertainty. The analysis indicates that the institutional context in some cases can be the “deal breaking” factor ultimately preventing market selection, as was the case for NG in Brazil, where the political uncertainty was considered too high and ultimately prevented market selection. Thus, firms consider the institutions in emerging economies to pose challenges and increase risk, costs and the time it takes to enter the market, causing firms to be more averse to market entry.

This demonstrates that the institutional context is a much more explicit influence when firms consider entering an emerging economy than when they consider entering a developed economy. This however does not mean that the institutional context does not matter for market selection in developed economies. The very fact that their institutional contexts are assumed away as background is an implicit acknowledgement that the firms consider their institutional contexts favorable, which increases the attractiveness of the market and the likelihood of the market being selected. As McMillan (2007) argues, where institutions are favorable they are invisible, it is the *absence* of strong market-supporting institutions that is “conspicuous”, which is the case in emerging economies, and in Brazil in this case. Even though the institutional environment *implicitly* affects the rationale for market selection in general, it is mainly when considering emerging economies that institutions are *explicitly* assessed and considered.

The lack of explicit attention to the institutional context in considering market entry in general however highlights a potential weakness, both because firms are increasingly exposed to emerging and developing countries and because differences in institutional contexts may also exist between developed economies. Market selection under the implicit assumption that the institutional context of the host country is sufficiently familiar, stable and market-supporting may not be adequate in the long-term. It is certainly not a risk reducing practice, as firms may be surprised by challenges posed by the institutional context that could and should have been foreseen.

Another consequence of this lack of explicit consideration of the institutional context with regard to market selection, is that the potential advantages of certain countries’ institutional context is largely ignored. In other words, if the institutional context of potential markets is only explicitly considered due to its deficiencies or challenges countries which are particularly easy to enter due to their institutional context are not appropriately considered. Institutional contexts only decrease the attractiveness of markets, they don’t increase it.

In summary, the discussion provides moderate support for Proposition 1 and strong support for Proposition 2 with respect to rationale for market selection. The host country’s institutional environment more significantly influences the decision of whether or not to enter a market in the case of emerging economies than in the case of developed economies. This

discussion provides valuable insight into *how* the institutional environment affects the rationale for market selection, which is the main objective of this study. In developed economies, the institutional context is treated as background and assumed to be familiar, stable and market-supporting, thus very limitedly being assessed *explicitly*, while in emerging economies institutional aspects are explicitly assessed and in some cases prevent market selection. The institutional aspects that most significantly affects the rationale for market selection seems to be formal institutions, and in the case of Brazil, local content regulations and political uncertainty.

### *Choice of entry mode*

The analysis indicates that the choice between the generic entry modes is based on factors other than the institutional environment, which is further discussed in 6.1.4. Even though a wholly-owned subsidiary is chosen, the ultimate level of resource commitment may vary substantially and the entry mode may involve a light or heavy local presence. The analysis indicates that the institutional environment significantly influences this level of resource commitment, though not being the main reason for the choice between the generic entry modes itself.

The main determinants of the firms' preference for wholly-owned subsidiaries are proximity to customers, the nature of the business and the size of the foreign business. Institutional influence is thus not found to drive the choice of entry mode per se, if one merely considers the choice between the generic entry modes (e.g. export, licensing/franchising, alliance, joint venture and wholly-owned subsidiary). However, entry mode is about the level of control and resource commitment of the foreign governance structure, and institutions are indeed found to influence this level. Moreover, institutions are found to significantly influence the scope and scale of the foreign operations, i.e. the intensiveness of the local presence. In the specific case of local content regulations, these clearly dictate the way firms operate. In Brazil where local content regulations are strict compared to Australia, companies establish a more intensive local presence. They make larger investments, build larger organizations and locate more activities in the host country to meet regulatory requirements. In Australia, firms consider it sufficient to establish a light presence, typically with a local sales organization and perhaps selected parts of the product or service value chain, but not a substantial production, because this is not required by the regulatory institutions.

There is an informal or cultural aspect of the pressure for local content as well, which also positively affects the degree of resource commitment in the host country. In Brazil, the culture is such that firms must demonstrate a long-term local mindset to be attractive in the market. This is a result of a protectionist culture in Brazil, emphasizing local presence, which is manifested both in formal rules and regulations but also in informal norms and values of individuals. This can be seen as an informal extension of the local content regulations (referred to by the industry expert as implicit local content). Firms seek local legitimacy of their operations by establishing an intensive local presence, in addition to merely adhering to formal rules and regulations.

With regard to the sheer choice between the generic entry modes, this is as stated above largely determined by other factors, but the analysis also reveals cases in which institutions influence the sheer choice of between the entry modes. However, this is only in Brazil – an emerging economy. In the developed economy Australia, the analysis indicates that firms

assume an institutional context such that they are free to select their otherwise preferred entry mode. In emerging economies, institutional bureaucracy may pose requirements which are more appropriately met by alternative entry modes, as was the case for NG in Brazil, where land with an environmental license was needed to operate a supply base, which rendered acquisition or joint venture more viable entry modes. The analysis also indicated that firms generally deem it more necessary to consider alternative entry modes in emerging economies compared to developed economies, due to less familiar, less stable and less market-supporting institutional environments.

In summary, moderate support is found for Proposition 1 with respect to the aspect of entry mode choice. The choice of entry mode itself is not driven by institutional influences, but the ultimate level of control and resource commitment of the foreign business is clearly affected by both formal regulations and informal pressures. Furthermore, firms are more inclined to consider alternative entry modes in emerging economies than in developed economies. Proposition 2 is again strongly supported, as firms consider the institutional context to a greater degree with regard to the entry mode choice in emerging economies than in developed economies.

### *Staffing and establishing foreign operations*

Next, this thesis set out to uncover how institutions affect aspects related to staffing and establishing foreign operations in Australia and Brazil. More specifically it focuses on the costs and the time it takes to set up foreign operations, and the choice between expatriates and local employees.

Both in Australia and Brazil skilled labor is difficult to get hold of and expensive. The oil and gas industries in both countries are characterized by a high demand for skilled labor and a shortage of qualified workers. This of course directly affects the establishment costs of an entrant firm. However, there is an important difference in the nature of the costs between the countries, and more specifically the degree of influence of host country institutions on these costs.

In Australia, the main costs are a direct consequence of the high price level, particularly the tight labor market. To a certain degree, this is influenced by a tradition for strong labor unions and strict regulations making it difficult for Australian companies to use foreign labor.

In Brazil, in addition to high costs of educated labor, the major cost hurdles are caused by “friction” in the market system such as regulations (e.g. local content, import and export tax), required certifications and approvals and general bureaucracy, including delays and the amount of time required to get things done. These “friction” or transaction costs are to a large degree associated with deficiencies of the country’s institutional environment. Institutions establish the rules of the game and support the functioning of the market. When institutions are defective, unstable and/or bureaucratic, this increases the costs of establishing and operating in the foreign market, and these are significantly higher in Brazil than in Australia, and often higher in emerging economies than in developed economies, as the description in 2.2 of the Theoretical background indicates. The fact that costs to a larger degree are driven by indirect transaction costs caused by institutional deficiencies also increases the risk of setting up foreign operations in emerging economies, since these costs are more difficult to understand and correctly calculate in advance as well as potentially being unstable and changing over time.

When it comes to staffing the foreign subsidiary, a general preference for local employees is evident in both markets, but a certain element of parent company expatriates is still emphasized for two reasons. First, parent company expatriates facilitate the pure transfer of knowledge. This can be company routines and procedure or specific technological expertise. This aspect is not found to be affected by host country institutions and no differences are found between developed and emerging markets, as this pure transfer of knowledge facilitated by the use of parent company expatriates is relevant both in Australia and Brazil. For the purpose of control, however, the institutions of the host countries come into play, and for this purpose the use of expatriates is more important in Brazil than in Australia. Expatriates from the parent company personify the business culture of the parent company and the home country, and is therefore an indirect way to facilitate control over the subsidiary. The rationale for this is that managers with the same business culture as the parent company is more likely to make decisions consistent with the parent company's business culture. A larger cultural difference between the home and host countries therefore increase the need to use expatriates for the purpose of control. A country's business culture is part of its informal institutions. From the perspective of entrant companies originating from developed countries, the use of expatriates to exert control over its subsidiaries is therefore more strongly influenced by the institutional context when entering emerging economies, because the cultural differences is usually higher.

The need for local employees is important in both markets. However, in developed economies industry- and resource-based considerations such as local market knowledge and contact network are the main reasons for this preference of recruiting from the local market. In emerging economies on the other hand, institutional aspects such as the need to understand the complexity and bureaucracy of legal and regulatory authorities, in addition to language barriers and local content requirements, are important reasons for the need of local employees.

With respect to staffing and establishing foreign operations, proposition 1 and 2 are thus strongly supported. Institutional deficiencies in emerging economies increase transaction costs, risk and the time it takes to set up foreign operations, while on the contrary, market-supporting institutions in developed economies allow for inexpensive, predictable and efficient establishment. With regard to staffing, expatriates are more important for the purpose of control in emerging economies, due to larger discrepancies in business culture.

### *Institutions influence market selection, choice of entry mode and foreign establishment – particularly in emerging markets*

In summary, Proposition 1 is moderately supported with respect to (1) rationale for market selection and (2) choice of entry mode, and strongly supported with respect to (3) staffing and establishing foreign operations, while Proposition 2 is strongly supported for all aspects of the market entry process considered. The institutional context influences entry strategy to a larger degree in emerging economies than in developed economies. This is because the institutions of emerging markets are less familiar, less stable and less market-supporting than those of developed economies, and therefore more evidently and explicitly force entrant firms to adapt their strategies. Well functioning institutional environments, on the other hand, are "invisible" and only limitedly affect entrant firms. However, questions can be raised about whether the treatment of the institutional context as mere background, even in developed economies, is adequate, both because firms are increasingly exposed to emerging and developing countries

and because differences in institutional contexts may also exist between developed economies.

### **6.1.2 Emerging economies are more challenging to enter**

The discussion so far indicates that there are significant differences in the way host country institutions affect the entry strategies of entrant firms in emerging and developed economies, and further indicates that the magnitude of influence is far greater in emerging economies. The next proposition goes on to proclaim that this causes firms to experience a more challenging market entry process:

***Proposition 3 (P3):***

*Due to the challenges posed by the host country's institutional context firms find foreign market entry more challenging in emerging economies than in developed economies.*

This proposition was quite directly addressed in the empirical study, as the case firms which have all entered or tried to enter both Australia and Brazil, a developed and an emerging economy, were asked directly which one they consider most challenging to enter and why. The answers were undisputable. All firms found market entry in Brazil more challenging, some “of a whole other dimension”, and the firms pointed towards institutional complexities, requirements and uncertainties as reasons for this difference. The industry expert shares the view that Brazil is the most challenging market to enter.

In the case of Brazil it is important to properly understand the institutional particularities such as local content, both explicit and implicit, import and export regulations and taxes, general bureaucracy and time-consuming approvals and processes and the language barrier. All this raises the costs and increases the time it takes to establish there. In addition, firms are more doubtful regarding the stability of the institutional environment e.g. laws and regulations. These aspects are included in the decision process leading to if and when to enter Brazil. Then, when entering, firms need to be aware of the demand for local presence, both formally through local content regulations and informally rooted in Brazilian culture, and adapt accordingly by establishing a robust local business to gain access to both labor and customers.

In more general terms, when entering a new country-market, firms are inevitably confronted by its institutional environment. Entrant firms must abide by the host country's rules and regulations, pay its taxes, follow its formal procedures (e.g. to register a company), deal with its culture and code of conduct, rely on its legal enforcement and trust its political predictability and stability. When institutional environments are familiar, transparent, stable and market oriented, all these things may be nearly formalities, and the main challenges of entering the market are likely to be firm- or industry-based. When institutional environments are unfamiliar, perhaps plagued by corruption and in reform towards a market-based system, sometimes characterized by unpredictable changes in market conditions, all these things need to be learned, experienced and understood, firms need to adapt accordingly and the main challenges may become dealing with the context itself. As presented in the theoretical background of this thesis and as illustrated by the empirical data in the case of Brazil, emerging markets typically resemble the latter case from the perspective of an entrant firm from a developed country.



Ultimately the friction that arises from confronting less familiar, less stable and less market-supporting institutional environments make emerging markets more costly, time-consuming and risky to enter than developed economies. In other words, the empirical data and analysis clearly supports Proposition 3.

### **6.1.3 Firms that take the institutional context into account are more successful in entry**

The next proposition seeks to address the performance implications of paying attention to and deliberately adapting to the host country's institutional environment throughout the market entry process:

***Proposition 4 (P4):***

*Firms that deliberately take the institutional context of the host country into account in their reasoning and decision-making with respect to foreign market entry are more likely to perceive the market entry process as successful.*

The cross-case analysis highlights KOGT as good example of a firm that has paid considerable attention to the challenges of the institutional environments prior to and during market entry, and has consequently achieved successful market entry processes. It had a good understanding of the particular challenges and costs associated with entering the markets, and sat tight and waited for the right moment to enter. When it had secured an income substantial enough to justify the costs of entry investments, it proceeded with care growing with a flexible and scalable mindset. KOGT hired local employees to achieve an appropriate level of local presence, but employed a Norwegian CEO in Brazil recognizing the additional need for control there. It paid attention to the informal pressures towards local presence as well as the formal ones, and further managed to operate in a way that accommodates the explicit local content requirements in Brazil while still retaining its intellectual property in Norway. Being aware that Brazil required further adaptation than Australia, KOGT proceeded accordingly and achieved similar entry success in the emerging market as in the developed market.

On the contrary, Eureka seem to have entered Brazil with its attention focused on the booming market potential and its own technological advantages, and less attention paid to the adaptations and special treatment this market required for Eureka to get in position to sell its products. This did not lead to a break-through in the market within the first three years since establishing a subsidiary in Brazil.

In more general terms, the empirical results and analysis indicate that firms that pay attention to, understand and adapt to the different business *contexts* of the markets they are entering, namely the institutional environments, are more likely to avoid the major pitfalls, avoid getting stuck, avoid losing money and ultimately avoid ending up unable to be competitive in the market. More specifically, this entails making an informed decision about whether and when to enter (with respect to rationale for market selection), establishing an appropriate local presence (with respect to choice of entry mode), and effectively building a local organization and getting in position for business (with respect to staffing and establishing foreign operations). On the contrary, treating all country-markets in the same way, not acknowledging the institutional dimension, can potentially lead to market selection for the wrong reasons, an inappropriate level of control and local presence, and getting stuck in the establishment phase, not getting hold of the human resources needed, spending too much money and the time and energy of key employees in merely setting up business operations.

Thus, Proposition 4 is supported by the empirical findings of this study. Firms that deliberately include the institutional environment in its strategic considerations are more likely to perceive the entry process as successful.

#### **6.1.4 Institutions influence entry strategies in interplay with other influences**

The final proposition considers the institutional influences in comparison and conjunction to other influences:

***Proposition 5 (P5):***

*The effects of the host country's institutional context on foreign market entry may be of lesser or greater significance than other influences, such as transaction-cost-based, industry-based and resource-based influences, and may moderate or enhance such other influences.*

#### ***Rationale for market selection***

Institutions are by no means the first thing that comes to mind when discussing the rationale of market selection. On the contrary, there is no doubt that the market potential, specifically the market size and growth, is both the starting point and arguably the most influential aspect considered in the pre-entry assessment of potential markets. Nonetheless, in the case of the emerging economy Brazil, contextual aspects such as political uncertainty and local content regulations significantly affected the decision of whether and when to enter. This tells us something about *how* institutions influence the entry decision. Firms do not initially consider “what markets have a favorable institutional environment?” and then continue to consider “are these markets large with strong growth?” It is clearly the other way around. Countries are considered for market selection because of their market size and growth, and only then are other factors, such as the institutional context, considered.

Among other factors, the degree of fit between firm resources and market characteristics is a significant aspect considered. Firms seek to exploit and develop their own unique resources and capabilities in foreign markets, and therefore look for markets well suited for this. An interesting example of the interplay between such a resource-based aspect and the institutional context are the strict environmental requirements that attract Norwegian oil service companies. In this case, it is the institutional environment that accommodates a condition that for certain companies constitute an advantage. The technology, products and services developed for the North Sea, where environmental regulations have been strict, suit these markets because the institutions there put similar emphasis on environmental concerns.

When a potential market has successfully passed these two aspects and is considered a market with a large potential and characteristics well suitable to the firm's resource-base, that is when institutions come into play. Again, institutional aspects are not the starting point for pre-entry market assessment, but rather enter the process, particularly in the case of emerging markets, and may in some cases strongly affect the outcome. In other words, institutional aspects are moderating or enhancing firms' assessment of the markets rather than forming the sheer basis for the attractiveness of the market. However, if institutional aspects are considered highly unfavorable, they certainly do affect the outcome as argued above in the case of market entry being discontinued or postponed due to unfavorable institutional environments.

### *Choice of entry mode*

As pointed out earlier, the aspects found to considerably drive the choice of entry mode are the desire for proximity to customers, the nature of the business and the size of the foreign business, which are somewhat related factors. This study focuses on the oil service industry, where products and services are usually high-tech and complex and require significant customization and follow-up to a relatively small number of large customers. In a transaction cost view, this high-tech nature of the business translates to high asset specificity and a large size of foreign operations with a small number of key customers translates to high task frequency. This calls for a hierarchical governance structure of the transactions (Williamson, 1985), which entails being close to the customers and entering through a high-control entry mode.

The desire for proximity to customers can also be viewed from a resource-based perspective. In an industry where advanced and specialized technology is important, highly customized to key customers, the close customer relationship becomes a critical vehicle in exploiting and further developing resource-based competitive advantages (e.g. technology and expertise). By working close with customers, learning from them and about their needs, firms can acquire and develop resources and capabilities that are rare, valuable and imperfectly imitable, and thereby enhance its competitive advantage (Barney, 1991). Thus, a resource-based view also predicts a high-control entry mode.

So transaction-based and resource-based aspects are instrumental in determining the choice between the different entry modes, which often results in a high-control mode like wholly-owned subsidiary in the case of high-tech oil service companies as the case firms also illustrated. Then, beyond the sheer entry mode choice, the institutional context becomes relevant and influences the ultimate level of control and local presence, as discussed in relation to Proposition 1 and 2. In other words, with respect to the choice of entry mode, as with rationale for market selection, institutional aspects seem to enter the decision-making process later than other influences, but can significantly alter and dictate the ultimate outcome, particularly in emerging economies.

### *Staffing and establishing foreign operations*

With respect to the establishment of foreign operations, it was pointed out in the discussion of Proposition 1 and 2 that the main costs and challenges associated with setting up business operations in emerging economies to a large degree were caused by friction due to market deficiencies. This is an example of the interplay between transaction cost-theory and institutional theory, as was also touched upon in the theoretical background of this thesis. Transaction costs arise from market imperfections, and the institutional environment of a country constitutes the “rules of the game” of the market. Therefore, its deficiencies result in transaction costs. As states by Meyer (2001), “institutions reduce transaction costs by reducing uncertainty and establishing a stable structure to facilitate interactions.” The empirical results of this thesis attest this, as the familiar, stable and market-supporting institutions of Australia reduce transaction costs, while the deficiencies (e.g. bureaucracy, lack of infrastructure, local content regulations etc.) increase transaction costs associated with establishing in Brazil.

Another aspect addressed in this thesis is the choice between expatriates and local employees. It is found that the use of expatriates was important for two reasons, namely to exert control

over the foreign subsidiary and to facilitate the pure transfer of knowledge between headquarters and the subsidiary. For the purpose of gaining control, the use of expatriates is important due to informal aspects of the institutional context, more specifically to manifest the business culture of the parent company in the foreign organization. This is found to be more important in emerging economies, due to the likelihood of larger cultural differences. However, the other rationale for the use of expatriates is not at all related to institutions, but can rather be understood with a resource-based view, as firms seek to manage and exploit its specific resources (e.g. technology, expertise and know-how) in foreign markets and learn from and develop resources in foreign markets.

### *Institutions influence entrant firms in interplay with other factors*

This discussion illustrates how the institutional context influences foreign market entry relative to other influences. Indeed, there is a significant interplay between industry-, transaction-cost-, resource- and institution-based aspects, which affect entrant firms' decision-making at different stages, to different extents and in different ways throughout the market entry process. This study indicates that rationale for market selection is driven by the market potential, an industry-based aspect, but significantly altered and influenced by the institutional context, particularly in emerging economies. The choice of entry mode is driven by transaction-cost and/or resource-based considerations and similarly altered and influenced by the institutional context. Thus, with respect to these two parts of the market entry process, institutional considerations are not the starting point, perhaps neither the most decisive influence, but nevertheless a significant determinant of the final outcome, again, particularly in emerging economies. With respect to setting up foreign business operations, the differences between the main costs and challenges in emerging and developed economies are largely transaction costs that arise from the institutional deficiencies in emerging economies, exemplifying an interplay between institution-based and transaction-cost factors.

Ultimately, the discussion provides support for and a deeper understanding of Proposition 5, and further illustrates the importance of striving for a holistic and integrative view based on several theoretical perspectives, or at least not being blind to other influences when focusing on one particular perspective.

## **6.2 Implications for theory**

### *Entry strategy research must consider institutions – not only in emerging markets*

The institution-based perspective has gained momentum within entry strategy research in recent years due to the increasing significance of emerging markets. This study demonstrates that institutions play a larger role in emerging markets and to a larger degree than in developed markets affect the strategic considerations and decisions of the entrant firm. Thus, this study provides further support to the request put forth by several researchers (Hoskisson et al., 2000, Wright et al., 2005, Meyer et al., 2009, Peng et al., 2009) that strategy research in emerging markets needs to consider the institutional context.

Peng et al. (2009) however emphasize “the equally important ramifications of the institution-based view for research on developed economies” and claim that the institution-based view is the “third leg of the strategy tripod” in a general sense, regardless of what countries are being studied. This study shares that view, even though the influence of developed country institutions were found to be very limited in this study. The importance of the institution-based view for research on strategy in developed economies is clearly more difficult to see.

The answer however lies in the major differences across the two countries studied – one representative of developed and one of emerging economies. This study has demonstrated that holding firms equal, industry equal, products and services equal and overall strategy and international orientation of the firms equal across two markets with highly different institutional contexts, results in significant differences in the firms' reasoning and decision-making throughout the market entry process. *This* is what demonstrates the importance of never discriminating the *context* in which business strategy is taking place i.e. the institutional context. Simply speaking, what the study demonstrates is that two different institutional contexts require different adaptations from the entrant firm, and after all, even though developed country institutions often remain “invisible”, no two countries are exactly the same. The vast differences between developed and emerging economies provide researchers with a means to study and measure the effects of the institutional context, analogous to a magnifying glass, but the effects are nonetheless believed to be valid in general, although sometimes more subtle. Strategy research, and more specifically entry strategy research, should therefore always include the institutional context, certainly in emerging economies, but also in general.

### *Emphasize multiple theoretical perspectives*

This study focuses on the institution-based perspective and indeed demonstrates the significance of this perspective. However, it also demonstrates that it is by no means sufficient on its own. Firms' strategic decisions during the market entry process are influenced by several aspects, and far from all of these originate in the host country's institutions. With respect to both the rationale for market selection and the choice of entry mode, the institutional environment seems to be secondary to other influences, such as industry-, transaction-cost- and resource-based factors, both in terms of the order and arguably the magnitude of influence. Institution-based considerations can however in some cases be powerful enough halt the whole market entry process, so their significance is undeniable. Furthermore, there is significant interplay between these different influential factors. One influence sometimes gives rise to another, or may moderate or enhance another. For example, institutions give rise to transaction costs and affect which resource-based advantages are most critical in a particular country-market.

Studying the influence of institutions on the market entry process is thus necessary, but not sufficient to arrive at excellent research. Rather excellent research should strive to integrate the different theoretical perspectives and study the interplay between them, in order to render more applicable to firms' actual situations, which inevitably involves navigating several sources of influence. If one however *focuses* on one or a few of the theoretical perspectives, one should always be aware of and open to the others to avoid misinterpreting the empirical data.

### *Study the degree of local presence, not merely the entry mode choice*

A majority of research on foreign market entry merely focuses on the choice of entry mode per se i.e. whether export, licensing, franchising, alliances, joint venture or wholly-owned subsidiary is used (Johnson and Tellis, 2008). The research is often quantitative, and thereby equates all entry strategies where the same entry mode, for example a wholly-owned subsidiary, is used. This study has demonstrated that the degree of control and resource commitment, which are usually the main attributes of an entry mode, can be substantially different even though the choice between the generic entry modes is the same. For

researchers, it is important to be aware of this, and for many purposes a more thorough description of the market entry than the usual classification of entry modes is needed.

In the specific case of a wholly-owned subsidiary, which is generally attributed high control and high resource commitment, this study demonstrates that such an entry mode can be either “light weight” e.g. a sales office of one employee or “heavy weight” e.g. a 1500-employee organization with substantial local production. Further research should explore whether attributes such as the number or share of employees or the level of investment could be appropriately included in the description of entry modes, and otherwise how the entry mode literature can appropriately account for major differences within the existing classifications.

#### *Adopt a broader view of entry strategy*

Entry strategy research has traditionally focused largely or exclusively on the choice of entry mode (Sakarya et al., 2007), despite the influential definition of Root (1987) treating the choice of entry mode merely as one aspect of foreign market entry strategy. Several researchers have called for a more integrative view on entry strategy, e.g. Crick and Jones (2000) and Koch (2001).

This study has taken a broader view on foreign market entry, from market selection to setting up foreign operations, and it demonstrates that interesting strategic reasoning and decision-making arises besides the sheer choice of entry mode, and that this reasoning and decision-making throughout the entry process is highly interrelated. The latter is probably best illustrated by the ultimate structure of the interviews, which set out to treat the different aspects of the entry process in a discrete manner, but ended up discussing them in a highly intertwined manner.

Future research should seek to clarify the concept of foreign market entry strategy and the relationships between the included aspects.

#### *Focus on performance implications of institutional responsiveness*

This study tries to explore the relationship between the firms’ attention paid to the institutional environment of the host country and their perceived successfulness of market entry. The findings indicate that attention paid to the institutional environment has a positive effect on market entry successfulness, but this obviously needs further investigation on a larger scale. Despite the increased momentum of institution-based research, particularly in emerging markets, there has been little focus on the performance implications of deliberately including the institutional dimension in strategic reasoning and decision-making. Future research should explore this relationship.

### **6.3 Implications for managers**

One of the two main goals of this thesis was to extract knowledge and learn from the case firms’ market entry processes in Australia and Brazil. The experiences of the case firms and the analysis and discussion of this thesis provide several implications for managers.

#### *Don’t be blinded by the glittering market potential – consider institutions too*

Firms look for large markets with strong growth. That is reasonable, but one shouldn’t make the entry decision just yet. There are other aspects to consider. The institutional environment varies significantly between countries and poses significantly different challenges to market entry. Underestimating the implications of the host country’s institutional environment can

turn into a costly endeavor. Particularly emerging markets often have institutions, both formal such as laws and regulations and informal such as norms and culture, that are less familiar, less stable and less market-supporting than developed economies. The institutional environment significantly affects the costs and challenges of entering and doing business in a country. The entry ticket can be substantial in certain countries as a result of particular laws, regulations, political uncertainty, culture, norms etc.

A thorough understanding of the institutional environment and its corresponding costs and challenges, allow for an informed decision about whether the market potential – the upside – still justifies market entry, or whether other countries render more attractive due to a lower institutional burden, and whether the firm has the resources required to actually get in position to tap the market potential. Thus, firms should deliberately evaluate and map the institutional context of potential countries, certainly in the case of emerging markets, but also on a general basis as part of a country screening process. Such measures can prevent firms from incorrectly deciding to enter a particular market, but it can also potentially reveal markets that otherwise would have been overlooked, which prove attractive due to particularly favorable institutional conditions. In doing this, firms can make use of national support organizations, which may have a branch in the particular country, local consultancies specializing in market entry for foreign firms and global organization such as The World Bank, International Monetary Fund, Transparency International and Global Property Guide, which all publish information and statistics about most countries in the world.

#### *Gain initial income before committing – balance spending with income as you go*

This is obviously easier said than done, but holding back a little bit before committing to market entry, trying to secure an initial income to support costs and investments, and then gradually expanding as income increases, can contribute to a sustainable and successful market entry, particularly where the institutional environment holds both challenges and surprises, as is often the case in emerging economies. Moreover, having a flexible and scalable mindset, spending and investing according to the realistic near future business level rather than predetermined and rigid company policies, can further limit the risks undertaken along the way.

This entails having a long-term mindset, but at the same time being patient and taking the time to grow the foreign establishment according to the growth of the business, instead of immediately boosting up the establishment expecting that sales will follow. In emerging markets, due to deficiencies and friction in the institutional environment, the milestones of the market entry process are often more uncertain and things often take a longer time and ultimately end up being more expensive than expected. Proceeding carefully and flexibly, but at the same time decisively and robustly may be a powerful balance when entering countries where the institutional context is less familiar, less stable or less market-supporting

#### *Don't forget to manage what you cannot see*

Managing what you cannot see is not an easy task. The institutional context does not only include the formal “rules of the game”. It also includes what you cannot see, namely the culture, the values, the norms and the shared understandings of the people i.e. the informal institutions. Ultimately people are one's employees, one's customers, one's business partners and one's regulators. Just like formal institutions, these informal institutions are critical in

facilitating or obstructing business. They are particularly powerful in defining what is legitimate within a country, and thereby constraining the behavior of firms in the market.

This study exemplified the deliberate use of business culture to exert control over one's foreign subsidiary. By understanding the differences in informal institutions, such as business culture, between one's home country and the host country, one can deliberately assess the need to reinforce the business culture of the parent company within the foreign subsidiary. Such reinforcement can be achieved by the use of parent company expatriates. By installing someone in the management of the foreign subsidiary who has the same business culture as the parent company, one increases the likelihood of decisions being made in accordance with the strategy, the policy and the ethics of the parent company.

### *Going to Brazil? Learn samba or stay home*

When the decision to enter Brazil has been made, it is time to put on the dancing shoes and learn samba. It is all or nothing in Brazil.

Brazil is a country characterized by a high degree of protectionism. This is evident in both formal and informal institutions. On the formal side it is expressed through strict local content regulations and complex, time-consuming and expensive import and export taxes and procedures. All this makes it very difficult to be successful in Brazil without a strong local presence. On the informal side, the protectionism and preference for local businesses is rooted in the culture and values of the people, who ultimately constitute one's employees, customers, business partners and regulators. All of which demand that entrant firms establish a serious and long-term local presence. Skilled workers, which are scarce resources in the Brazilian petroleum industry, want to work for such an employer, and customers, largely Petrobras, will almost exclusively work with firms that demonstrate such traits. With few exceptions, one cannot merely rely on superior technology or a good price in Brazil, one needs to compete on the basis of local presence as well.

Establishing a local presence in Brazil is expensive and time- and energy-consuming, but investing the effort to do so may still be rewarding. Brazil is a large, but rather isolated market. This means that the market positions and market shares in the global market are of less importance here. The supplier relationships of the operators are also less established and rigid. Thus from the perspective of an oil service company previously targeting the North Sea, if it invests the extra effort, the potential market position and market share achievable in the Brazilian market may be less limited than in other international offshore markets. So, if you are serious about Brazil, "learn samba" and establish a local presence, for even in isolation the Brazilian offshore market is vast. If you are not willing to make the extra effort, you might as well focus your attention elsewhere, because there seems to be no "remote control" that works for the Brazilian market.

## **6.4 Implications for policy makers**

Focusing on the influence of host country institutions on the market entry process, this study reveals implications also for policy makers.

### *Don't miss out on the "best" foreign firms*

Strict regulations may shift or change the basis on which firms compete in the market. In the case of local content in Brazil, firms found that competition was based on local content conformity rather than price or quality. This may reduce the efficiency of the market, as the



“best” companies are not necessarily chosen. The market mechanism is a powerful tool to achieve efficiency, and interfering with it in this way may be unfortunate for the country in the long-term. Ultimately, this may lead to the use of suboptimal solutions. Perhaps the “best” companies, those who succeed in other markets because of their superior technology, steer away from heavily regulated markets because they have many options i.e. they can go elsewhere and succeed. In this way, heavily regulated markets may miss out on the “best” players.

### *Emphasize support programs with context-specific knowledge*

Given the significance of the institutional context with respect to foreign market entry, policy makers should emphasize the use of support programs and organizations in educating and assisting firms in understanding, evaluating and mapping out the institutional context of the host country. Such support programs and organizations should be sufficiently local in the foreign market to truly know the particularities of the formal and informal institutions. The latter is especially difficult to fully understand by reading or conversation, but often needs to be experienced, which requires the employees of the support programs and organizations to be experienced in the local country-market. It is important that policy makers are aware of and base their efforts on the insight that context-specific knowledge perhaps is the most important thing that government support programs and organizations can offer firms going abroad.

## **6.5 Limitations of this study and directions for future research**

This study addresses the general research question of how *the differing institutional contexts of developed and emerging economies affect firms' foreign market entry strategies* through a case study focused on the Norwegian oil service industry and the foreign market contexts of Australia and Brazil. Thus, the specific domain from which the cases are drawn is in itself relevant, but the findings can of course not be claimed valid for all firms and all developed and emerging markets. There are obvious particularities of the oil service industry, such as high technology level, customized and specialized deliveries, large contract sizes and large customers. Furthermore, even though the host countries examined in this study, Australia and Brazil, demonstrated many of the traits expected from developed and emerging economies as described in the Theoretical background of this thesis, there are obvious particularities to these countries and they are by no means perfect representatives of developed and emerging economies, respectively. Future research needs to address this question in other industries and countries.

As mentioned in the limitations of scope in the introduction to this thesis, the study does not distinguish between different sizes of firms, such as SMEs and MNCs. Future research should investigate how the findings relate to different firm sizes.

The approach taken in this study, by examining entry by the *same* firms into *different* institutional contexts, has to the best of the author's knowledge not been taken by any prior research within the field. This approach has in this study been explored, developed and demonstrated to be suitable for the purpose of investigating the influence of host country institutions on entry strategies. Future research should further explore, employ and develop this approach.

The main focus of this study is the institutional theory perspective on foreign market entry strategy. It is however not claimed that entry strategies are fully determined by institutions. On the contrary, it is acknowledged that for example transaction-cost and resource-based

factors also affect entry strategies. These perspectives are briefly presented and included in this study, but the main focus remains the institutional perspective. Future research should strive to employ a multi-theoretical perspective in which the dominant perspectives are equally included.

## 7 Conclusions

In order to derive the conclusions of this study, we return to the research question developed at the outset:

*How do the differing institutional contexts of developed and emerging economies affect the market entry strategies of Norwegian firms?*

The study addresses this question through a case study of four Norwegian oil service firms with market entry experience from Australia and Brazil – one developed and one emerging economy. By investigating the differences between the entry strategies in the two countries, the study examines how the entry strategies are affected by the differing institutional contexts.

As predicted by the theoretical differences between developed and emerging economies, the findings indicate significant differences between the institutional contexts of Australia and Brazil. Formal institutions such as laws, regulations and political systems are considered less familiar, more uncertain and less market-supporting in Brazil than in Australia. In addition, informal institutions such as values and culture are considered more different from those in Norway – a developed economy. In Brazil, local content regulations, bureaucracy, political uncertainty and a fundamental protectionist sentiment among the people are institutional aspects that are found to significantly affect foreign market entry strategies. In the developed economy Australia on the other hand, the institutional context is considered familiar, stable and market-supporting, and entrant firms very limitedly adapt their entry strategies due to the institutional context. The study thus concludes that foreign market entry strategies are affected by the institutional context of the host country and its level of development. Moreover, entry strategies are found to be more significantly affected by institutions in emerging economies.

The aspects of foreign market entry strategy considered in this study are (1) the rationale for market selection, (2) the choice of entry mode and (3) staffing and establishing foreign operations. Firms' rationale for market selection is driven by factors such as market potential and the fit between firm resources and market characteristics, but formal institutional aspects such as regulations and political uncertainty are found to strongly affect the final decision of whether or not to enter. The choice between the generic entry modes is similarly not driven by institutional considerations, rather by a desire for proximity to customers, the nature of the business and the size of foreign operations. However, the ultimate level of local presence and resource commitment in the foreign market are found to be strongly affected by institutional pressures, as both formal regulations and informal expectations in the emerging market Brazil demand a heavier local presence from entrant firms. Thus, in summary the institutional context is found to affect entry strategies, not in isolation, but in interplay with other factors. The institutional context is nonetheless found to strongly affect the final outcome of strategic decisions, particularly in emerging economies.

In the staffing and establishment phase, the total costs and the time it takes to enter foreign markets are found to be significantly increased by bureaucracy and more complex “rules of the game” in the emerging market Brazil. There is also a greater need for controlling the business culture of the subsidiary through the use of expatriates. In total, the emerging market Brazil is found to be more challenging to enter, largely due to both formal and informal requirements of the institutional context. The findings indicate that the single, most clear, advice for entering the Brazilian market is to employ an all-or-nothing approach to achieve

the necessary local presence. The findings further indicate that firms that deliberately take the institutional dimension into account when entering foreign markets are more likely to enter successfully, particularly in emerging markets.

For researchers these findings support the notion that institutions cannot be disregarded when studying foreign market entry strategies, rather, a multi-theoretical approach is needed. For managers, the findings imply that firms must explicitly and deliberately consider the institutional context when entering foreign markets in order to make an informed decision about whether or not to enter and to appropriately adapt their entry strategies.

## Bibliography

- ANDERSEN, O. & BUVIK, A. 2002. Firms' internationalization and alternative approaches to the international customer/market selection. *International Business Review*.
- ANDERSEN, P. H. & STRANDSKOV, J. 1997. International Market Selection. *Journal of Global Marketing*.
- ANDERSON, E. & GATIGNON, H. 1986. Modes of Foreign Entry: A Transaction Cost Analysis and Propositions. *Journal of International Business Studies*.
- ARNOLD, D. J. & QUELCH, J. A. 1998. New Strategies in Emerging Markets.
- BARNEY, J. B. 1991. Firm resources and sustained competitive advantage. *Journal of Management*.
- BJÖRKMAN, I. & EKLUND, M. 1996. The Sequence of Operational Modes Used by Finnish Investors in Germany. *Journal of International Marketing*.
- BROUHERS, K. 2002. Institutional, Cultural and Transaction Cost Influences on Entry Mode Choice and Performance. *Journal of International Business Studies*.
- BROUHERS, K. D. & HENNART, J.-F. 2007. Boundaries of the Firm: Insights From International Entry Mode Research. *Journal of Management*.
- CAVUSGIL, S. T., KNIGHT, G. & RIESENBERGER, J. 2011. *International Business: The New Realities*, Pearson Education.
- CHAN, C. M., ISOBE, T. & MAKINO, S. 2008. WHICH COUNTRY MATTERS? INSTITUTIONAL DEVELOPMENT AND FOREIGN AFFILIATE PERFORMANCE. *Strategic Management Journal*.
- CHERUNILAM, F. 2007. *International Business - Text and cases*, Prentice-Hall of India.
- CRICK, D. & JONES, M. V. 2000. Small High-Technology Firms and International High-Technology Markets. *Journal of International Marketing*.
- DEMIRBAGA, M., GLAISTER, K. W. & TATOGLUB, E. 2007. Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market. *Journal of World Business*.
- DIKOVA, D. & WITTELOOSTUIJN, A. V. 2007. Foreign Direct Investment Mode Choice: Entry and Establishment Modes in Transition Economies. *Journal of International Business Studies*.
- GAUR, A. S., DELIOS, A. & SINGH, K. 2007. Institutional Environments, Staffing Strategies, and Subsidiary Performance. *Journal of Management*.
- HOSKISSON, R., EDEN, L., LAU, C. M. & WRIGHT, M. 2000. Strategy in Emerging Economies.
- INTERNATIONAL MONETARY FUND. 2012. *World Economic Outlook Database* [Online]. Available: <http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx> [Accessed 18.2.2013 2013].
- JAKOBSEN, E. W., FJOSE, S., MELLBYE, C., GRÜNFELD, L. & BLOMGREN, A. 2012. Eksport fra norske regioner – Hvorfor så store forskjeller? : Menon Business Economics.
- JOHANSON, J. & VAHLNE, J.-E. 1977. The Internationalization Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*.
- JOHNSON, J. & TELLIS, G. 2008. Drivers of Success for Market Entry into China and India. *Journal of Marketing*.
- KOCH, A. J. 2001. Selecting overseas markets and entry modes: two decision processes or one? *Marketing Intelligence & Planning*.
- MAKINO, S., ISOBE, T. & CHAN, C. 2004. Does country matter? *Strategic Management Journal*.
- MCMILLAN, J. 2007. *Market Institutions*, The new Palgrave dictionary of economics.
- MEYER, K. E. 2001. Institutions, Transaction Costs, and Entry Mode Choice in Eastern Europe. *Journal of International Business Studies*.
- MEYER, K. E., ESTRIN, S., BHAUMIK, S. K. & PENG, M. W. 2009. INSTITUTIONS, RESOURCES, AND ENTRY STRATEGIES IN EMERGING ECONOMIES.
- MINTZBERG, H. 1978. Patterns in Strategy Formation. *Management Science*.
- NORTH, D. C. 1990. Institutions, Institutional Change and Economic Performance. *Cambridge University Press*.
- NORTH, D. C. 1991. Institutions. *Journal of Economic Perspectives*.

- OLIVER, C. 1997. Sustainable competitive advantage: combining institutional and resource-based views. *Strategic Management Journal*.
- PENG, M. W. 2002. Towards an Institution-Based View of Business Strategy.
- PENG, M. W., SUN, S. L., PINKHAM, B. & CHEN, H. 2009. The Institution-Based View as a Third Leg for a Strategy Tripod. *The Academy of Management Perspectives*.
- PENG, M. W., WANG, D. Y. & JIANG, Y. 2008. An institution-based view of international business strategy: a focus on emerging economies. *Journal of International Business Studies*.
- PORTER, M. E. 1980. Competitive Strategy.
- POWELL, W. W. 1996. Commentary: On the Nature of Institutional Embeddedness: Labels vs. Explanation. *Advances in Strategic Management*.
- ROOT, F. R. 1983. *International Trade and Investment*, Cengage South-Western.
- ROOT, F. R. 1987. *Entry Strategies for International Markets*, Lexington Books.
- RYSTAD ENERGY 2012. Internasjonal omsetning fra norske oljeserviceselskaper. *Rapport til Olje og Energidepartementet*.
- SAKARYA, S., ECKMAN, M. & HYLLEGARD, K. H. 2007. Market selection for international expansion - Assessing opportunities in emerging markets. *International Marketing Review*.
- SCOTT, W. R. 1995. *Institutions and Organizations*, Sage.
- THE WORLD BANK. 2012. *Doing Business - Economy Rankings* [Online]. Available: <http://www.doingbusiness.org/rankings> [Accessed 1.4.2013 2013].
- WHITELOCK, J. & JOBBER, D. 2004. An evaluation of external factors in the decision of UK industrial firms to enter a new non-domestic market: an exploratory study. *European Journal of Marketing*.
- WILLIAMSON, O. E. 1985. *The Economic Institutions of Capitalism*, New York: The Free Press.
- WRIGHT, M., FILATOTCHEV, I., HOSKISSON, R. E. & PENG, M. W. 2005. Strategy Research in Emerging Economies: Challenging the Conventional Wisdom. *Journal of Management Studies*.
- YIN, R. K. 2009. *Case Study Research*, SAGE Publications.
- YIU, D. & MAKINO, S. 2002. The Choice between Joint Venture and Wholly Owned Subsidiary: An Institutional Perspective. *Organization Science*.

# Appendix

## Interview guide for Norwegian parent firm

This interview guide includes key questions and is intended to guide a semi-structured and open-ended interview. The purpose of the interview is however to listen to the stories and experiences of the interviewee, who is encouraged to speak freely and emphasize those aspects considered most important to the market entry process.

### *Introduction*

This study focuses on how the market entry process is affected by the foreign country's institutional environment. The institutional environment constitutes the formal and informal "rules of the game". Formal institutions are laws, regulations, politics etc., while informal institutions are traditions, norms, values, culture, language etc.

### *Background information*

- Brief firm history
- Describe the product/service range and business units
- Describe the firm's international experience and share of foreign sales
  - o Describe the history, scale and scope of operations in Australia and Brazil

### *Rationale for market selection*

- What were the main motives for market entry into Australia and Brazil? Sales, production/sourcing or both?
- How did the firm compare the attractiveness of these two markets? Why?
  - o What factors were considered in assessing the attractiveness of the markets (size, growth, institutional environment etc.)?
- How did the firm compare these two markets in terms of the challenges to market entry?
  - o What were perceived to be the major differences?

### *Choice of Entry Mode*

- How did the two markets compare in terms of initial entry modes (direct export, sales agent, licensing, franchising, joint venture, acquisition, greenfield subsidiary) considered?
- How did the initial entry mode (direct export, sales agent, licensing, franchising, joint venture, acquisition, greenfield subsidiary) differ between these two markets? Why?
  - o In what way can this difference in mode choice be explained by the difference in formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environments between Australia and Brazil?
- How has the entry modes changed? Why?

### *Staffing and establishing foreign operations*

- How does the foreign organization design differ between these two markets? Why?
  - o How does the distribution of expats and local employees differ at different levels? Why?
- How do the activities carried out by the subsidiary differ between the two markets? Why?

- What were the major differences between the two markets in terms of staffing and establishing operations?
- Does the firm assess different risks regarding protection of intellectual property in the two markets? Why?
  - o How is this managed in the two markets?
- Has the establishment phase taken a longer time in either of the two countries? Why?
  - o In what way can this difference be explained by the difference in formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environments between Australia and Brazil?
- Has the establishment phase been more expensive in either of the two countries? Why?
  - o In what way can this difference be explained by the difference in formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environments between Australia and Brazil?

### *Perceived successfulness of market entry*

- To what degree has the overall objectives for market entry been achieved in each market?
- In total, which of these two markets was the most challenging to enter? Why?
  - o In what way can this difference be explained by the difference in formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environments between Australia and Brazil?
- Has the market entry process in total been more or less challenging than expected in each of the two countries?
- Compared to expectations, how profitable have the operations in each of these two countries been?



## **Interview guide for foreign subsidiary**

This interview guide includes key questions and is intended to guide a semi-structured and open-ended interview. The purpose of the interview is however to listen to the stories and experiences from the market entry process, and the interviewee is encouraged to speak freely and emphasize those aspects considered most important.

### *Introduction*

This study focuses on how the market entry process is affected by the foreign country's institutional environment. The institutional environment constitutes the formal and informal "rules of the game". In other words, formal institutions are laws, regulations, politics etc., while informal institutions are traditions, norms, values, culture, language etc.

### *Background information*

- Brief firm history
- Describe the product/service range
- Describe the firm's international experience and share of foreign sales

### *Rationale for market selection*

- What was the main motive for market entry into Australia/Brazil? Sales, production/sourcing or both?
- How did the firm come to consider entering this market?
- What factors were considered in assessing the attractiveness of the market (size, growth, institutional environment etc.)?
  - o In what way were aspects of the Australia's/Brazil's formal institutional environment (regulations, property rights, bureaucracy, political issues etc.) considered?
  - o In what way were aspects of the Australia's/Brazil's informal institutional environment (norms, values, culture, language etc.) considered?
- How challenging was this market entry process expected to be?
  - o What were considered as the major challenges?

### *Choice of Entry Mode*

- Which entry modes (direct export, sales agent, licensing, franchising, joint venture, acquisition, greenfield subsidiary) were initially considered and why?
- Which entry mode was initially selected and why?
  - o In what way was this choice affected by Australia's/Brazil's formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environment?
- Has the entry mode changed since? If so, why?
  - o In what way was this change affected by Australia's/Brazil's formal (laws, regulations etc.) and informal (norms, culture etc.) institutional environment?

### *Staffing and establishing foreign operations*

- Describe the foreign organization design
  - o How is the distribution of expats to local employees at different levels? Why?
- Describe the activities carried out by the foreign subsidiary
- What were the major challenges of staffing and establishing business operations?
- Has the establishment phase taken a longer time than expected?

- Why? In what way is this affected by Australia's/Brazil's institutional environment?
- Has the establishment phase been more expensive than expected?
  - Why? In what way is this affected by Australia's/ Brazil's institutional environment?

*Perceived successfulness of market entry*

- To what degree has the overall objectives for market entry been achieved?
- What have been the major challenges to market entry?
- Has the market entry process in total been more or less challenging than expected?
  - Why? In what way is this affected by Australia's/Brazil's institutional environment?
- Compared to expectations, how profitable are the operations in Australia/Brazil?
  - Why? In what way is this affected by Australia's/Brazil's institutional environment?

## **Interview guide for industry expert**

This interview guide includes key questions and is intended to guide a semi-structured and open-ended interview. The purpose of the interview is however to listen to the stories and experiences of the interviewee, who is encouraged to speak freely and emphasize those aspects considered most important.

### *Introduction*

This study focuses on how the market entry process is affected by the foreign country's institutional environment. The institutional environment constitutes the formal and informal "rules of the game". Formal institutions are laws, regulations, politics etc., while informal institutions are traditions, norms, values, culture, language etc. The firms considered are Norwegian oil service companies and the aspects of the market entry process considered are (1) rationale for market selection, (2) choice of entry mode, (3) staffing and establishing foreign operations and (4) perceived successfulness of market entry.

### *Background information*

- Please describe your experience with market entry processes of Norwegian oil service companies in Australia and Brazil

### *Rationale for market selection*

- What are usually the main motives for entering Australia and Brazil?
- What factors are commonly considered in assessing the attractiveness of these markets (size, growth, institutional environment etc.)?
  - o To what degree do firms take formal or informal institutions into account at this stage?
- What are considered the major challenges of entering these two markets?

### *Choice of Entry Mode*

- How do firms most commonly reason when selecting what entry modes (direct export, sales agent, licensing, franchising, joint venture, acquisition, greenfield subsidiary) to serve these two markets with?
- In what way are the firms' reasoning for and choice of entry mode affected by the formal and informal institutions of Australia and Brazil?

### *Staffing and establishing foreign operations*

- What are considered the major challenges to staffing and establishing foreign operations in Australia and Brazil?
  - o What challenges are posed by formal and informal institutions?
- Do firms reason differently regarding the employment of expats as opposed to local employees in these two countries? Why?
- Are there differences in the time spent and costs incurred in establishing operations in these two countries? Why?

### *Perceived successfulness of market entry*

- Overall, which of these two markets is the most challenging to enter? Why?
  - o In what way can this difference be explained by the difference in formal and informal institutions between Australia and Brazil?

- From your experience, have companies in general been more successful with market entry in either of these two countries? Why?