Selection of Foreign Market Entry Mode by Knowledge-Intensive Soft-Service Companies

A case study of the staffing and recruitment industry in Norway and Sweden

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ABSTRACT

Due to the decreasing trade barriers the internationalization of companies today becomes more common, especially among service companies. In the area of services, it can be found that there are soft and hard services, and knowledge-intensive and not-knowledge-intensive services. This study is focusing on the internationalization process in knowledge-intensive soft-service companies. According to previous studies there is a lack of research on this part of the service industry concerning the foreign market entry mode decision and the factors influencing the choice of foreign market entry mode.

When entering a foreign market there are several different factors influencing the choice of entry mode. The purpose of this study is to provide a better understanding of which entry modes are used by knowledge-intensive soft-service companies and what the entry mode decision is based on. In this study two research questions were designed to reach the research purpose. Based on the research questions a frame of reference was created, this was the base for the layout of the data collection. The research approach in this study is qualitative.

The companies selected for this study are four staffing and recruitment companies, two from Norway and two from Sweden. The study shows and explains which entry modes these four companies adopt and what factors are influencing their choice of foreign market entry mode. The collected data from the four companies is presented, discussed and analyzed first case-by-case and then by a cross-case comparison, which then leads to the findings and conclusions of the study.

The study gives a deeper insight into which entry modes that are used by knowledge-intensive soft-service companies and which factors that affect the decision of entry mode. All the companies in this study consider wholly owned subsidiaries to be the default entry mode and consider only wholly owned subsidiary or franchising as feasible entry modes. The factor that appears most important for staffing and recruitment companies in the choice of entry mode is the organizational culture, which is a result of the nature of the product. The organizational culture also affects the other factors influencing the choice of entry mode, such as the reputation and the need for control.
SAMMANFATTNING

På grund av minskade handelshinder, har internationalisering av företag idag blivit allt mer vanligt, speciellt bland tjänsteföretag. Inom tjänstemarknadsföringsområdet kan man bitta hård- och mjuktjänsteföretag och kunskapsintensiva och icke kunskapsintensiva företag. Den här studien fokuserar på internationaliseringsprocessen hos kunskapsintensiva mjuktjänsteföretag. Enligt tidigare studier fordras mer forskning inom detta område då existerande teori uppvisar brister och studier inom denna bransch saknas.


De valda företagen för den här studien är fyra bemanningsföretag, två från Norge och två från Sverige. Studien visar och förklarar vilken inträdesmetod dessa fyra företag använder och vilka faktorer som påverkar valet av inträdesmetod. Den samlade data från de fyra företagen diskuteras och analyseras dels separat men även mot varandra, vilket mynnar ut i upptäckter och slutsatser av studien.

Denna studie ger en djupare insikt till vilka inträdesmetoder som används av kunskapsintensiva mjuktjänsteföretag samt vilka faktorer som påverkar detta val. Alla företag i denna studie anser att helägda dotterbolag är att föredra och överväger endast att använda sig av helägda dotterbolag eller franchising. Den påverkande faktorn som framstår som mest relevant för valet av inträdesmetod när det gäller bemanningsföretag är företagsskulturen, vilket är ett resultat av tjänstens natur. Företagsskulturen påverkar i sin tur andra faktorer som påverkar valet av inträdesmetod, såsom rykte och behov av kontroll.
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1 Introduction

In this chapter a brief introduction and discussion on the topic of foreign market entry modes in the internationalization process and the relation to knowledge-intensive soft-services are given. The central ideas, research problem, research purpose, research questions, delimitations and the outline of the thesis are presented.

1.1 Problem background

Internationalization of firms is a common phenomenon today and it has been researched intensively during the last decades (Antoncic, Hisrich, & Ruzzier, 2006). Internationalization is according to Antoncic et al. (2006) a geographical expansion of economic activities across a country’s border. According to Martinez (2002) and Rundh (2007) the barriers against international trade are decreasing for example by the European currency, the deregulation and the removal of import restrictions which brings the internationalization into focus. Czinkota and Ronkainen (2007) state that firms have to recognize that isolation has become impossible and that firms and individuals are affected directly and indirectly by developments in the international marketplace, whether they want it or not. Antoncic et al. (2006) refers to Korhonen (1999) who mentions that a firm’s involvement in international business may start when a company starts to sell its products to foreign markets, buys products from abroad or starts to cooperate in some way with a foreign firm.

Companies’ incentives to internationalize are various. Jeannet and Hennessey (1988) states that it can be in response to orders from abroad without any organized efforts of their own. Or companies can be more active, for example to have an objective to follow their customers or competitors, and have an organized strategy such as to seek advantages and opportunities in other markets (ibid). According to Johnson, Scholes and Whittington (2008) the incentives to internationalize come from two sources, namely the company’s internal organizational capabilities, which are divided into national and international factors, and from the internationalization drivers in the external environment. The drivers of internationalization are visualized in Figure 1.1 below:
Figure 1.1 Drivers of internationalization
Source: Adapted from Johnson et al. (2008)

The *internal organizational capabilities* as a base for internationalization are defined by Johnson, Scholes and Whittington (2008) as national and international sources of advantage or competitive advantage. The authors say that *national environment factors* can be explained by Porter’s Diamond (ibid). This theory explains why some nations, and industries within nations, are more competitive than others based on factor conditions for production input, demand conditions, related and supporting industries and finally firm strategy, industry structure and rivalry (Porter, 1990). *International environment factors* are advantages that can be explained by the international value network, meaning that different skills, resources and costs of various nations can be exploited when different parts of the value chain are located where it can be conducted most effectively and efficiently (Johnson et al., 2008).

The internationalization drivers in the *external environment* are divided into four categories; market drivers, cost drivers, government drivers and competitive drivers (Johnson, Scholes & Whittington, 2008). Market drivers can be defined as a standardization of the market by similar customer needs and tastes, global customers and transferable marketing. Cost drivers also consist of three main elements. The first is scale economies in production or purchasing, meaning that the costs are spread out over large volumes. Secondly there are country-specific advantages such as for example a concentration of expertise in a country, and thirdly favorable logistics can facilitate internationalization if the logistics costs are low relative to the final value. Government drivers can increase the benefits of internationalization when they facilitate trade by for example beneficial trade policies, technical standards or host country policies. Competitive drivers are the interdependence between country operations and the competitors’ global strategies, which increases the pressure to adopt a global strategy within the own organization (ibid).
The internal organizational capabilities in combination with the external internationalization drivers influence the international strategy of the organization, which in turn has implications for the market selection and the choice of entry mode (Johnson, Scholes & Whittington, 2008). According to Wild, Wild and Han (2006) an entry mode is an institutional arrangement through which a firm gets its products, technologies, and human skills, or other resources into a market. Wild et al. (2006) state that there are three categories of entry modes; 1) exporting, importing and countertrade; 2) contractual entry modes; 3) and investment entry modes (ibid).

Within the first category there is export and import, and different levels of it, depending on the levels of control. There is also countertrade with a purpose of doing business with one party and in return get business back (Wild, Wild & Han, 2006). In the second category there are four different types of entry modes. Licensing imply the right to use intangible property for a specified period of time. Franchising is when one company supplies another with intangible property and other assistance, over an extended time period. Management contracts involve supplied managerial expertise for a specific period of time and finally, turnkey projects, which is a company that builds a production facility for a client firm. The third category, investment entry modes, contains three different modes to use. Wholly owned subsidiary, is when a parent company entirely own and control a facility. Joint venture is a company owned by two or more different companies sharing the same goal. Finally, strategic alliances are two or more companies cooperating, without creating a new company, to achieve each company’s strategic goals (ibid).

Ekeledo and Sivakumar (2004) state that the main implication of the choice of entry mode is the level of control it offers. Control is defined as the level of authority a firm may exercise over the systems, methods and decisions of the foreign affiliate (Anderson & Gatignon, 1986; Ekeledo & Sivakumar, 2004). The level of control of an entry mode is the most important factor because it is a determinant of risk and return, the amount of relational friction between buyers and sellers and the performance of the investment abroad (Barkema & Vermeulen, 1998; Blomstermo, Sharma & Sallis, 2006; Ekeledo & Sivakumar, 2004). Internationalization in the form of foreign presence can take the form of a high- or full-control mode e.g. wholly owned subsidiary, majority owned subsidiary, or in the form of a low- or shared-control mode such as licensing and different types of contractual or collaborative modes of operation (Blomstermo, Sharma & Sallis, 2006; Ekeledo & Sivakumar, 2004). The difference lies in the amount of resource commitment and the degree of uncertainty of the operations abroad (ibid).

1.2 Problem discussion

Presently the internationalization phenomenon is increasingly being led by the service sector, particularly services based on highly skilled labor industries (Strandskov & Pedersen, 2008). During the last decade research on how service firms enter foreign markets have accelerated because of the increased importance of the service sector in developed countries, and the growth of foreign investments in this sector (Blomstermo, Sharma & Sallis, 2006; Gannon & Johnson, 1997; Griffith, Peinado & Barber, 2007; Patterson & Cicic, 1995).

Edvardsson, Gustafsson and Roos (2005) refer to Vargo and Lusch (2004) and Grönroos (2000) who state that services are defined by most scholars as; activities, processes and interactions. They also find that most service definitions focus on the customer and on the fact that services are provided as solutions to customer problems. Services are also portrayed as being different from traditional physical products by their characteristics of inseparability, heterogeneity, intangibility, and perishability (ibid). Clark and Rajaratnam (1996, p. 15) defines international
services as “deeds, performances, efforts, conducted across national boundaries in critical contact with foreign cultures”.

According to Griffith, Javalgi and White (2003) certain types of services are more likely to be internationalized than others. They are divided into three categories; the international contact-based, the international vehicle-based services and the international asset-based. The contact-based services are for example services such as consultancy services and other professional services which cross borders and are present in the foreign market and can make direct contact with the counterpart. The vehicle-based services are created locally with the help of some instrumental support without the company’s presence in the foreign market, such as radio transmissions and wires. The asset-based services are based on material assets in the foreign market that are owned or controlled from the home country, such as banks (Clark & Rajaratnam, 1999; Griffith, Javalgi & White, 2003).

Erramilli (1991) states that it is commonly recognized that high degrees of control require high degrees of resource commitment. However, though this may be true for manufacturing firms, for many service companies the cost of establishing a wholly owned subsidiary or branch is low and often limited to establishing an office. Since both costs and risks associated with getting this control are relatively low service firms may have greater capability than manufacturing firms to establish high- or full-control modes. Hence, firm size had no obvious effect on the choice of entry mode. Service firms seem to both need and be able to acquire control to a larger extent than manufacturing companies. These findings imply that contrary to traditional conceptualizations, the relationship between the firms’ experience and desire for control may be U-shaped, meaning that service firms use high-control modes in the early and late stages of their internationalization (ibid). According to Blomstermo, Sharma and Sallis (2006) the knowledge on the market entry mode selection by service firms is still limited.

Service firms can be divided into the categories hard- and soft-services (Griffith, Javalgi & White, 2003). For hard-services production and consumption can be separated, enabling limited or no local presence by the firm. Soft-services on the other hand are defined by the fact that they are location-bound, because production and consumption are simultaneous, they are also experience-based and require interaction with the foreign customers to a large extent thus making them impossible to standardize (Blomstermo, Sharma & Sallis, 2006; Griffith, Javalgi & White, 2003). According to Blomstermo et al. (2006) examples of soft services are management consulting, human resource consulting and education while hard services can be software and architectural services.

Previous research shows that hard service companies can learn from the experience of manufacturing firms going abroad, because the issues they face in market entry mode selection are similar (Blomstermo, Sharma & Sallis, 2006; Griffith, Javalgi & White, 2003). However the unique features of soft-services create a need for a local presence and a higher degree of control over the production process. For these types of services exporting is not a feasible entry mode. Today most entry mode theories are focusing on manufacturing firms thereby making them ill adapted to soft-service firms (ibid).

Hence, there are significant differences between entry mode strategies for manufacturing and soft-service industries because of simultaneity of production and consumption for non-separable services (Blomstermo, Sharma & Sallis, 2006; Ekeledo & Sivakumar, 2004). Erramilli (1990) states that soft-service firms use foreign direct investment or contractual transfers almost exclusively to enter the world market. Blomstermo et al. (2006) have found that high control entry modes are preferred by soft-service companies because they offer the possibility to build
personal relationships, conduct on-site research and adapt to the needs of the foreign markets and buyers.

According to Kirca (2005) the choice of mode of entry by service firms is critical because it impacts the performance in international markets. The author also states that soft-service firms (such as consulting services) use modes of operation with a high degree of ownership (e.g. wholly owned subsidiaries), which in turn gives high levels of managerial control on marketing activities and therefore obtain higher sales performance. The findings by Kirca (2005) are based on studies on the tourism sector, which is a capital soft-service, and according to the author they are generalizable to other soft service industries such as consulting, accommodation services, catering, and healthcare because these industries share similar characteristics. However, the author suggests that future research should focus on cross-examining the external validity of the study with studies on other service industries (ibid).

Another way to define services is to look at the knowledge-intensity. Sveiby (1992) states that a knowledge-intensive organization is characterized by the fact that the majority of the work force is highly educated employees. Also the “production” is concerned not with regular services but with complex non-standardized problem-solving. The problem-solving process concerns a lot of information processing, however it is not necessarily computerized. The end result is normally a report or process delivered orally or as a hard copy. The customers are treated separately and often called clients. According to Sveiby (1992) there are four main features that distinguishes the knowledge-intensive production, these are non-standardization, creativity, a high dependence on individuals and complex problem-solving. The knowledge-intensive services are sometimes called professional or business services, but they also have counterparts in the public sector, like highly specialized hospitals, governmental bodies or research organizations. They also exist as departments for research and development or laboratories within large organizations (ibid).

Knowledge intensive services (KIS) are characterized by a high degree of highly skilled employees (Simmie & Strambach, 2006). Knowledge-intensive business services (KIBS) are services demanded by firms and public institutions and are not produced for private consumption. The success of modern national and urban economies is increasingly dependent on high-level knowledge and innovation (ibid). And according to Miles (2005) KIBS are one of the fastest growing business areas of the European community and one of the major sectors in the EU is the Labor recruitment and provision of personnel. KIBS firms are, defined by Miles (2005) as specialized in offering services that provide “knowledge-intensive inputs to the business processes of other organizations” (ibid, p. 40). They help other organizations to deal with problems for which external sources of knowledge are required, examples of such firms are research and development services, accountancy and management services and advertising. Miles further states that KIBS are not very transparent since they are produced and consumed together and it is hard to demonstrate them in advance (ibid).

Miles (2005) states that is not easy to measure knowledge-intensity in KIBS companies but it is usually measured by the indicator shares of graduates in the industrial workforce. According to Miles (2005) there is strong support to the fact that internationalization of KIBS is difficult because they require in-depth knowledge of often localized cultural, regulatory, and organizational issues, as well as face-to-face interaction between the supplier and the client. Miles study also shows that KIBS almost invariably tend to cluster around national and regional capitals, which often have a high density of clients, universities and well-educated workers, while the peripheral regions are often poorly serviced (ibid).
It is stated that knowledge-intensity, and the degree to which a firm possesses it, poses a significant competitive advantage in both domestic and international markets (Bell, Crick & Young, 2004). According to findings by Chen (2006) most regional knowledge-intensive service industries have incomplete rather than perfect global integration. Incomplete global integration concerns the localization, or customization strategy. Knowledge-based companies are enjoying a ‘follow the client’ advantage and can also benefit from international expansion faster (Contractor, Kundu & Hsu, 2003). Miles (2005) states that the KIBS area is still poorly studied.

According to Simmie and Strambach (2006) KIBS include professional services, like chartered accountancy and management consultancy. But it also includes technical services, such as research and development and computer related services. KIBS are often divided into technology intensive and non-technology intensive industries (ibid). However, this study is directed towards non-technology intensive industries.

Reihlen and Apel (2007) describe professional services by the following characteristics; they are highly knowledge-intensive, provided by highly educated people. They also involve a high degree of customization, interaction, discretionary effort and personal judgment by the professional(s) delivering the service. These services are also provided with constraints of professional norms of conduct. Professional services or business services are common terms for the knowledge-intensive service sector (Sveiby, 1992).

From the categories of service industries discussed above we see the following matrix.

**TABLE 1.1 Matrix of service industries**

<table>
<thead>
<tr>
<th>Service definitions</th>
<th>Hard-service industry</th>
<th>Soft-service industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not knowledge-intensive</td>
<td>Laundry service</td>
<td>Hotel, Restaurant, Cleaning, Hairdressing</td>
</tr>
<tr>
<td>Knowledge-intensive</td>
<td>Software, Technical installations</td>
<td>Management consulting, Human resource consulting</td>
</tr>
</tbody>
</table>

Based on the problem discussion it can be seen that there is need for a better understanding concerning the choice of entry modes in the lower right corner of the matrix, regarding the internationalization process of knowledge-intensive soft-service companies. Examples of such companies are management consulting and human resource consulting companies.

To summarize this chapter, *internationalization* is a phenomenon of increasing importance. The incentives to internationalize are various and depending on how the internal capabilities and the external internationalization drivers are combined. It also has implications on the *mode of entry.* Presently the *service sector* is increasingly leading the internationalization. The service industry is divided into *soft-services* and hard-services. Existing theories of internationalization and entry modes are focusing on manufacturing firms. The nature of hard-services makes the theories applicable, but existing theories are hard to adapt to soft-services. Services can also be divided into *knowledge-intensive,* meaning a high degree of skilled employees, and not knowledge intensive. Finally, it is concluded that the area of knowledge-intensive soft-services is poorly studied.
1.3 Research purpose and research questions

The purpose of this study is to provide a better understanding of which entry modes are used by knowledge-intensive soft-service companies and which factors that the entry mode decision is based upon. The purpose will be achieved by answering the following two research questions.

1. Which entry mode(s) do knowledge-intensive soft-service companies adopt to enter foreign markets?
2. What factor(s) influence the decision of foreign market entry mode in knowledge-intensive soft-service companies?

1.4 Delimitations

This study will focus on the knowledge-intensive soft-service business sector. This sector matches the contact-based services. The study will be limited to professional services in a business-to-business setting and to non-technology-intensive companies. It will also be made from a managerial point of view.

1.5 Outline of the thesis

The thesis is divided into six chapters, starting with an introduction, followed by the literature review, methodology, data presentation, data analysis and ending with the conclusions, see Figure 1.2 below. Chapter one introduces the subject from the background and problem discussion which leads to the research purpose and research questions, followed by delimitations of the thesis. Chapter two presents the literature review with theories that are connected to the research questions, followed by a summary where the frame of references is presented. The third chapter covers the methodology which explains how the study was performed in order to answer the research questions. Chapter four, the data presentation, contains the empirical data gathered. In the fifth chapter, the data analysis, the empirical data is compared with the theory. In chapter six the findings, conclusions and answers to the research questions are presented. This in turn leads to recommendations for future studies.

![Figure 1.2 Outline of the thesis](image-url)
2 Literature review

This chapter demonstrates previous findings that are relevant for this study. It begins with an introduction of the motives of internationalization followed by theories on how international entry modes are selected. This will be continued by descriptions of the entry modes and a discussion on the control aspects of entry modes. Then three ways for knowledge-intensive service companies to internationalize are presented. The chapter will end with the frame of reference which is drafted in connection to the research questions.

2.1 Motives for internationalization

Czinkota and Ronkainen (2007) list two major motivations for companies to go international, proactive and reactive motivations. According to them the proactive firms internationalize because they want to and reactive firms go international because they have to.

2.1.1 Proactive motivations

Czinkota and Ronkainen (2007) explain that the strongest proactive motivation, or proactive stimuli, to become involved in international business is profits. Managers may perceive profits as a potential source of higher profit margins. However, real profits may not match the perceived profit due to cost factors like start-up costs, sudden shifts in exchange rates or insufficient market research. According to Hsu and Boggs (2003) many scholars state that the business performance is expected to increase upon internationalization. However, the authors further state that the advantages of internationalization are greater in the beginning when the company can still manage the resources but at higher degrees the benefits they can be offset by managerial constraints and resource limitations (ibid).

The second major proactive motivation according to Czinkota and Ronkainen (2007) is that the companies have a unique product or a technological advantage. Uniqueness can provide a competitive advantage and result in major business success abroad. There is one issue to consider though, namely the durability of the technological or product advantage. Pla-Barber and Escribá-Esteve (2006) have also found that internationally active companies are characterized by marketing differentiation advantages.

A third proactive motivation Czinkota and Ronkainen (2007) explain is when the company possesses exclusive information that is not shared with other firms. Companies with such information may have obtained it by contacts, international research or simply being on the right place by the right time, for example by recognizing a certain business situation. But this situation is not necessarily sustainable over time because competitors will catch up over time.

The last major proactive Czinkota and Ronkainen (2007) state is economies of scale. The expanding company can obtain economies of scale by using labor and production abroad instead of more expensive domestic recourses. The authors explain that according to research a doubling of output can reduce production costs up to 30 percent. de Backer and Sleuwaegen (2005) have found empirical support for this, stating that foreign subsidiaries benefit from economies of scale and that the globalization has facilitated achieving such scale effects across borders.

2.1.2 Reactive motivations

The first major reactive motivation is overproduction (Czinkota & Ronkainen, 2007). Markets abroad are ideal for outlet surplus of an inventory. As soon as the domestic demand match the supply the international market actions may reduce or even terminate. A strategy like this has difficulties to be successful over time because customers abroad are not interested in such temporary and unstable business (Czinkota & Ronkainen, 2007).
Another reactive motivation is when the domestic sales are stable or declining and firms are stimulated to go abroad. Products may be in the declining part of the product life cycle and firms can prolong their product by expanding the market (Czinkota & Ronkainen, 2007). Wild, Wild and Han (2008), Jeannet and Hennessey (1988), and Jain (1996) also explain that one reason for internationalization is because the market is saturated.

If a firm has an excess of capacity it can, according to Czinkota and Ronkainen (2007), be motivating to expand in a foreign market, because if equipment is not utilized completely an international expansion may achieve a broader distribution of fixed costs. Such a strategy will result in lower prices in the international market because the company can use a pricing scheme that focuses mainly on variable costs. Wild, Wild and Han (2008), Jeannet and Hennessey (1988) and Jain (1996) add that the firm can spread the number of fixed costs over a greater number of manufactured units and achieve economies of scale.

The final major reactive motivation of going international is according to Czinkota and Ronkainen (2007) the geographical issue. The geographical closeness can encourage the international activities in a firm. But there is a difference between the geographical and psychological closeness. Perceptions of distance can be different between companies.

Czinkota and Ronkainen (2007) conclude by stating that proactive firms in the international market are the most successful. They explain that if a company wants to get involved with firms in international markets and obtain good corporate opportunities it should consider whether the firm is proactive or reactive.

2.2 Selecting an international entry mode

Three main theories have been used in order to explain the international entry mode choice of manufacturing and service firms, and these are the internalization theory, the eclectic theory and the resource-based theory (Ekeledo & Sivakumar, 2004; Javalgi & Martin, 2007). The internationalization and the eclectic theories are the best known entry mode strategy theories (Ekeledo and Sivakumar, 2004). However Ekeledo and Sivakumar (2004) claim that both of these theories have shortcomings and that there is a need for a new theory, in line with marketing activities. The authors further state that the resource-based theory is suggested to be one such theory and according to their study there is empirical support that the resource-based approach in fact has good explanatory ability (ibid).

2.2.1 Internationalization theory

According to Madhok (1997) the internationalization theory is based upon transaction cost analysis and therefore the internationalization theory and the transaction cost theory are regarded to be the same theory. Anderson and Gatignon (1986) further explain that the internationalization theory considers low control entry modes to be the standard entry mode unless there is evidence that another type of entry mode would be preferable, such as for example a high control entry mode (ibid). Ekeledo and Sivakumar (2004) claim that this theory presumes perfect competition, homogenous firms and mobility of a company’s resources, such as knowledge. The internationalization theory can explain why a company chooses a specific entry mode, though it cannot explain the influence that strategic consideration or the benefits from choosing a specific area have on a choice of entry mode (ibid).

2.2.2 Eclectic theory

Dunning (1988) created the eclectic theory to compensate the lacks of the internationalization theory. The eclectic theory focuses on ownership, location and internationalization advantages
Ekeledo and Sivakumar (2004). Dunning (1988) argue that even though the theory tries to fill the gaps that the internationalization theory has, it can still not offer an explanation or prediction in the entry mode choice. Therefore, the eclectic theory cannot clarify why two similar companies with the same conditions do not always chose the same entry mode (ibid).

2.2.3 Resource-based theory

The resource-based theory stems from research by Wernerfelt (1984) and it has found considerable support (Capron & Hulland, 1999; Ekeledo & Sivakumar, 2004; Hansen & Wernerfelt, 1989; Wernerfelt, 1984, 1995). The resource-based theory views the firm, instead of the market, as the base for competitive advantage (Ekeledo & Sivakumar, 2004). Competitive advantage in turn comes from the firm’s resources, which are the assets and capabilities available. These resources are non-homogenous between firms and are not perfectly mobile. The resource-based theory combines a view of the organization task as combining input and seeking efficiency in production and distribution with a view that the company’s success in the market depends not only on the organization’s environment but also on the firm’s influence and effect on that environment (ibid). The resource-based theory predicts that soft-service companies will favor sole ownership as entry mode strategy when going international and it is considered the both preferred and ideal entry mode (Ekeledo & Sivakumar, 2004; Erramilli & Rao, 1993).

The study by Ekeledo and Sivakumar (2004) shows that it is firm-specific resources that drive entry mode strategy. The study also shows that the nature of the product (manufactured goods or a service) may affect the impact of those resources on the entry mode selection. Further it is noted that the study found support for the prediction that entry mode strategies differ significantly for soft-service firms than from those of manufacturing firms because of the simultaneous production and consumption (ibid).

The theory explains both the differences in the choice of entry modes across an industry and also why these firms neither do nor can pursue strategies that would be likely to be the most profitable (Ekeledo & Sivakumar, 2004). Instead it claims that companies adopt strategies that their resources support. Therefore this theory is also compatible with the strategic management view that a company competes well in an environment where there is a fit between the company resources and external possibilities.

2.2.4 Comparison of theories on international entry mode choice

Ekeledo and Sivakumar (2004) state that the internationalization (also known as the transaction cost theory) and the eclectic theory both are based on perfect competition, while the resource-based theory is claimed to encourage the creation of market imperfections and hence would be undesirable from a public policy point of view. However, the authors conclude that the resource-based theory is appropriate for the nature of marketing activities since marketing is a rent-creating operation. Also, the resource-based theory not only takes into account cost effectiveness but also firm-specific resources as important determinants of entry mode strategies (ibid).

According to the resource-based theory the sole ownership is the default, preferred entry mode until proven otherwise (Ekeledo & Sivakumar, 2004). The fundamental assumption that sole ownership is the ideal mode of operation is, according to Erramilli and Rao (1993), supported by empirical research. This assumption differs heavily from the base of the internationalization theory which is the assumption of perfect competition with homogeneous companies and perfect mobility of resources among them, including perfect transferability of know-how and which also assumes that a low-control entry mode is the default entry mode (Ekeledo & Sivakumar, 2004). Perfect competition means that there are no market failures, such as barriers to free flow of products or obstacles to transfer of know-how. According to the
internationalization theory a shared-control mode, like a contractual entry mode is the default mode. The eclectic theory on the other hand does not provide a unified perspective in explaining and predicting entry mode strategies. Both theories have also been criticized for overlooking the internal characteristics of the company, which are considered the most critical drivers of the company’s strategic actions (ibid).

2.2.5 Factors of the resource-based theory
According to the resource-based theory the appropriate entry mode is predicted by the interplay of firm-specific resources, nature of the product, home and host country factors and the degree of control sought by the company (Ekeledo & Sivakumar, 2004). Firm-specific resources are the company’s sources of competitive advantage in the marketing strategy. The resource-based theory suggests that the most appropriate mode of entry is one that balances cost efficiency with effective marketing (ibid). Root (1987) uses similar factors to explain the influences on entry mode decision and groups them into internal and external factors. The author further classifies home and host country factors as external and the company resource and product factors as internal factors (ibid). A summarizing overview of the influencing factors in the resource-based theory is presented in Figure 2.1 below.

![Figure 2.1 Hierarchic overview of the factors in the resource-based theory](image)

The **firm-specific resources**, or drivers of competitive advantage, include the firm-specific capabilities, specialized assets, company size, organizational culture and reputation (Ekeledo & Sivakumar, 2004). The theory also then suggests that deviations from the default mode of sole ownership could be caused by restraints in the company resources by a need for complementary
resources. A company may choose to adopt a collaborative entry mode strategy in order to enhance or develop new capabilities or resources (ibid).

**Firm-specific capabilities** are superior managerial skills and knowledge provided by employees of the firm (Ekeledo & Sivakumar, 2004). It can also be described as what a firm can do with its assets, that is, how well and advantageously the firm can perform activities in its business field. These capabilities are to some extent divided and described as proprietary technology, tacit know-how and business experience. *Proprietary technology* can be found in the company’s product, process or management technology. In order to make it proprietary these are often protected by a patent, trademark, brand image, copyright or trade secrets. *Tacit know-how* is connected to the company routines but which are difficult to describe, teach or move to another organization because it is existing in the employees. In order to gain an advantage from tacit know-how in internationalization the company is forced to use a full control entry mode. *Experience in international business* can be a competitive advantage and this experience is divided into two types, geographic experience and industry experience. Experience is something which grows over time and with the amount of exposure to different situations. Research shows that a firm that possesses both industry and geographical experience usually favors a sole ownership entry mode. A soft-service firm that is inexperienced and not accustomed to the local foreign market culture is according to the authors likely to use a collaborative entry mode (ibid).

According to Ekeledo and Sivakumar (2004) **specialized assets** are both physical and human investments with a value only for particular uses or to very few users, examples are a high level of professional skills, specialized know-how or customization. An example of such an asset could be human assets that offer special professional relationships between the company and its partners that enable them to gain intimate knowledge. A company with a focus on specialized assets as the competitive advantage is not likely to engage in a collaborative entry mode because it could make the local partner irreplaceable and increase the possibility of opportunistic actions. Sole ownership eliminates that risk and protects specialized assets (ibid).

The **company size** is commonly an indicator of the company’s competitive advantage in economic, physical, human, technological and organizational resources (Ekeledo & Sivakumar, 2004). It can cause constraints as well as advantages regarding the ability to accept high costs and risk in for example a sole ownership entry mode. Research among manufacturing firms has shown a positive relationship between a larger company size and sole ownership of foreign affiliates while smaller firms favor exporting. However size is relative in comparison with the competing firms in the foreign market (ibid). Erramilli (1991) states that it is commonly recognized that high degrees of control require high degrees of resource commitment. However, for many service companies the cost of establishing a wholly owned subsidiary or branch is low and often limited to establishing an office. Since both costs and risks associated with getting this control are relatively low service firms may have greater capability than manufacturing firms to establish high- or full-control modes (ibid).

**Organizational culture** is according to Ekeledo and Sivakumar (2004) an important source of the company’s sustainable competitive advantage. A strong and cohesive organizational culture of adaptive or entrepreneurial nature and a high degree of fit between culture and strategy are often associated with a successful company. Sometimes other requirements for competitive advantage exist but the company may lack the organizational culture to take advantage of them. For a company with a very valuable organizational culture it may prove a risk to adopt a collaborative entry mode because of the risk of dissipating this advantage. In this respect sole ownership provides an opportunity to make use of the valuable culture without fearing that a local partner would clone it (ibid).
Rashid, Sambasivan and Rahman (2004) refers to Goffee and Jones (1998) who explain that organizational culture can be divided into two dimensions; sociability and solidarity. The authors define sociability as kindliness between the people within the company and the company’s ideas, attitudes and values are spread through these relationships. The authors define solidarity as the people’s capacity to efficiently and effectively reach the company’s goals without being influenced by the relationships within the company (ibid).

A good company reputation signifies that the company is highly regarded (Ekeledo & Sivakumar, 2004). This reputation is a key asset and it can also be a considerable and sustainable competitive advantage. However, it is a fragile resource. The reputation of a company has implications for how attractive it is as a partner, it also affects the choice of collaborations because it imposes a risk on the company. If a company has a good reputation to protect it is likely that the company will choose an entry mode that provides maximum protection such as sole ownership (ibid).

A factor that poses a constraint on the firm-specific resources is any complementary resource which comes into play when it comes to enhancing marketing capabilities (Ekeledo & Sivakumar, 2004). When an organization has a valuable asset like a patent but needs another co-specialized resource to make use of the asset internationally and this resource is a part of another company it is a complementary resource. This is the case if a company lacks the production or marketing knowledge to use its assets internationally and then a merger or joint-venture would be an appropriate entry mode. A market entry based on the need of complementary resources from another firm is characterized as a paired application. This is often the case for small firms (ibid).

The nature of the product; that is, if it concerns soft-services or manufactured goods, affects the entry mode decision (Ekeledo & Sivakumar, 2004). The product nature and its macro and micro characteristics as well as the industry have a huge impact on the choice of international entry mode strategy and they all need to be taken into consideration in the decision. The macro characteristics are divided into perishability, tangibility, separability of consumption and production and heterogeneity of the product. These all have an impact on which entry modes that are feasible to use by a company. Micro characteristics are for example content, weight, brand name and image, etcetera (ibid). According to Erramilli and Rao (1993) there is a need to consider the inseparability of production and consumption when service firms choose entry mode. Because of this soft-service companies must locate local production facilities in the international market to make the offering accessible to local consumers (ibid). According to Gremler and Gwinner (2000) relationships between service companies and the customers are an important factor for doing business. Without these kinds of connections, the companies would have difficulties surviving in the long-run (ibid). Jobber (2004) states that the length of a relationship and its development, positive or negative, will be highly affected by the perceived quality of the service. The unique characteristics of soft-services will therefore affect the company’s choice of entry mode strategy (Ekeledo & Sivakumar, 2004).

Home and host country factors are external factors influencing the entry mode decision (Javalgi & Martin, 2007; Root, 1987). Host country factors include all the external variables that impact the choice of entry mode within a country or a region; for example market, environmental and production factors (Root, 1987). Market factors consist of for example the size, competitive structure, marketing infrastructure. Environmental factors include political, legal, economic, geographic and cultural distance factors. Production factors concern for example quality, quantity and costs of materials, labor and other production input as well as of
the infrastructure (ibid). It is important to note that developing countries are characterized by a transformation of several of these factors that makes it very different from the situation of developed countries (Javalgi & Martin, 2007).

**Degree of control sought.** Control is defined by Ekeledo and Sivakumar (2004) as “the level of authority a firm may exercise over systems, methods, and decisions of the foreign affiliate”. They also claim that control is the most important determinant of risk and return for a company (ibid). According to Blomstermo, Sharma and Sallis (2006), the more experience in internationalization the companies gain the more prone they are to choose a high control entry mode, such as wholly owned subsidiary. Also when a company has a high brand name value a high control entry mode is preferred. Research shows that soft-service companies, which require more experiential knowledge of the local market and clients in order to customize the service, are likely to choose a high control entry mode when entering a foreign market (Blomstermo et al., 2006; Erramilli & Rao, 1993).

Research based on manufacturing companies shows that the greater the cultural distance between home and host country markets the more frequent is the use of low control entry modes (Blomstermo, Sharma & Sallis, 2006). Studies on service firms on the other hand are not as conclusive. Blomstermo et al. (2006) found that the greater the cultural distance the more likely it is that service firms will use a high control entry mode since it allows for more freedom, learning about the culture and accumulating knowledge that is not available in the home country market. Capron and Hulland (1999) state that market similarity between home and host country market eases the international transfer of marketing resources. They also state that when companies share common knowledge and industry experience due to similarity of the markets companies are more likely to adopt horizontal mergers. The similarity of market environments they also mention will lower the costs of adapting the company resources (ibid). Ekeledo and Sivakumar (2004) add that a full control mode offers the best protection for a company’s competitive advantage gained from its resources.

Kirca (2005) states that the level of control that an entry mode offers is the basic criterion for evaluation of the entry mode choice in service firms. The author further mentions that control and integration are closely connected since integration is assumed to give legitimate authority over the operations. However Kirca (2005) also suggests that control can be achieved by other means as well such as relational factors like trust and dependence.

The interacting influence of the factors of the resource-based theory on the entry mode decisions is illustrated in Figure 2.2 below.
2.3 Foreign market entry modes

An entry mode is according to Wild, Wild and Han (2008) and Root (1994) an institutional arrangement where a company either enters a foreign market or expands in an already entered one. Brassington and Pettitt (2000) explain that entry modes by which the producer can decide to enter a foreign market are many and varied. The authors further states that the definition of customer is not fixed. Hence, in some cases the customer can be individuals or/and end users, in other cases it can be wholesalers or retailers and in others it might be manufacturers who is buying their raw material (ibid). Wild et al. (2008) and Root (1987) state that there are three different categories of entry modes for companies; 1) exporting, which is divided into direct export and indirect export, importing and countertrade; 2) contractual entry modes, and 3) investment entry modes. In Figure 2.3 below the groupings of entry mode are displayed. Since this study is focusing on the internationalization of a company into a foreign market the importing and countertrade entry modes are omitted. This is in accordance with the statement by Brassington and Pettitt (2000) that a company either enters a foreign market or expands in an already entered one.
2.3.1 Exporting
Wild, Wild and Han (2008) explain that export is a common strategy to use in international trade. Osland, Taylor and Zou (2001) explain that export is when a company’s product is manufactured outside the target market. According to Wild et al. (2008) companies have different reasons to apply export as an entry mode, for example to increase sales, to diversify sales and to get experience.

Wild, Wild and Han (2008) explain that a company’s level of involvement is high when using direct exporting as an entry mode strategy. Wild et al. (2008) and Osland, Taylor and Zou (2001) state that a company use either sales representatives or distributors for distribution of their products. These intermediaries are positioned in the target country and therefore provide a higher control over the marketing process compared to indirect exporting.

Wild, Wild and Han (2008) explain that companies with few resources prefer to use a low involvement entry mode strategy such as indirect exporting. In indirect exporting the companies use intermediaries such as agents, export management companies or export trading companies whose job is to transport and market the products (Osland, Taylor & Zou, 2001; Wild et al., 2008).

2.3.2 Contractual entry modes
There are according to Wild, Wild and Han (2008) three types of contractual entry modes: licensing, franchising and management contracts. Osland, Taylor and Zou (2001) explain that some contractual entry modes might decrease the opportunities to explore and take a full advantage of a market growth.

Wild, Wild and Han (2008) and Osland, Taylor and Zou (2001) explain that licensing is when a company provides another the right to use its property. This property is vital in the process of...
creating the company’s end product. Property is, according to the authors, patents, trademarks, 
brand name, technology, special formulas and designs and/or business methods. The firm can 
get access to the company’s permissions when it pays a fee or a percentage based royalty 
payment (ibid).

Wild, Wild and Han (2008) further explain that the usage of licensing as an entry mode provides 
several advantages: financing of an international expansion; reduction of risk exposure compared 
to other entry modes; and a possibility to upgrade the existing production technologies. 
Disadvantages that can appear from using licensing as an entry mode are the following: 
restriction of future activities; decreased global consistency; and providing important information 
to future competitors (ibid).

Franchising is according to Wild, Wild and Han (2008) when one company provides another 
company with intangible property such as a brand name and knowledge. Franchising is a 
contractual entry mode that takes place over an extended period of time. Franchising compared 
to licensing provides better control and is more suitable in the service industry (ibid). Hoffman 
and Preble (2004) refer to a study that they conducted in 1994 where they found that by using a 
well known brand name, competitive advantages can be gained. Hoffman and Preble (2004) also 
refer to Amos (2001) who claims that franchising offers a company the possibility to adapt to the 
local culture. Wild et al. (2008) state that advantages to gain when using franchising as an entry 
mode strategy are several, such as; low costs and risks; possibility of rapid geographic expansion; 
and to gain knowledge of the local culture from local managers. However, Wild et al. (2008) and 
Osland, Taylor and Zou (2001) explain that when using franchising some factors must be taken 
into consideration; there may be a problem to manage a large number of franchisees in different 
nations and the franchisees have to follow the franchisers guidelines. There is therefore a loss of 
control for both parties (ibid).

Wild, Wild and Han (2008) explain that a management contract is when one business gives another 
managerial expertise. The authors further point out that management contracts are often used by 
the public sector moreover. This entry mode is not used on a one time basis but rather during an 
extended time period. There are several advantages to gain by using management contracts as an 
entry mode, for example international business opportunities can arise and there may be an 
increase of expertise of local workers. This entry mode reduces the exposure and risk of losing 
physical assets, however the employees may still be exposed to risks and management contracts 
can create a future competitor in the local market (ibid).

2.3.3 Investment entry modes

Investment entry modes, according to Root (1987) and Wild, Wild and Han (2008), consist of 
direct investment in a manufacturing plant or other units in another country. The authors explain 
that there are three different types of investment entry modes: strategic alliances, joint ventures 
and wholly owned subsidiaries.

Elmuti and Kathawala (2001) and Wild, Wild and Han (2008) explain that a strategic alliance 
consists of companies who do business together to reach each company’s strategic goals. Wild et 
al. (2008) state that strategic alliances are similar to joint ventures since they can take place for a 
short period of time up to several months, depending on the strategic goals. Elmuti and 
Kathawala (2001) and Wild et al. (2008) also explain that a strategic alliance can give a company 
several advantages such as: reduction of costs, decreased financial and economic risks; to get a 
glimpse of the other’s competitive advantages such as technology; and to get access to the 
other’s market and distribution channel. Nevertheless, a strategic alliance can create 
disagreements between the companies which can create a future competitor (ibid).
A joint venture is according to Wild, Wild and Han (2008), Root (1989) and Osland, Taylor and Zou (2001) two or more companies who create and own a separate company together. Osland et al. (2001) further point out that a joint venture is a direct investment in the target country. Wild et al. (2008) explain that these types of companies can be run for short periods up to several years. Wild et al. (2001) and Osland et al. (2001) explain that each owner of the joint venture uses its resources to add value to the shared company in the form of money, equipment and/or technology. Wild et al. (2008) state that using a joint venture while entering a country decreases the risk since the exposure is reduced to the parts of the company they have contributed to the joint venture. Joint ventures can also provide an access to the other partner’s distribution channels. However, Wild et al. (2008) and Osland et al. (2001) further point out that joint ventures can create disagreements between the owners and a loss of control when one owner has knowledge or information that the other lacks.

Wholly owned subsidiaries are according to Osland, Taylor and Zou (2001), Wild, Wild and Han (2008) and Wong, Maher and Luk (2002) a company that is positioned in another nation. The company is totally owned by a parent company and therefore provides full control of the management and decision making (ibid). Root (1987) and Wild et al. (2008) explain that these companies can be started up from the beginning (organic growth) or by purchase of already existing companies (acquisitions). Wild et al. (2008) further explain that since it is difficult for companies that for example produce high technological products which are knowledge intensive to find already existing companies in the right target market. Then it is better to start from scratch. This however can be time-consuming, expensive and expose the company to risk. When a company purchases already existing firms it can gain existing competitive advantages such as a strong brand name or special technology.

2.3.4 Control aspects of entry modes

As previously mentioned the choice of entry mode strategy is critical and related to control (Blomstermo, Sharma & Sallis, 2006; Ekeledo & Sivakumar, 2004; Javalgi & Martin, 2007). According to Anderson and Gatignon (1986) and Ekeledo and Sivakumar (2004) the only entry mode categories applicable to soft-service companies are contractual (collaborative) and investment entry modes, because of the need for close physical proximity and high control posed by the characteristics of the product. The company’s need for control affects the entry mode choice and vice versa. Control contains the level of authority that the company may exercise over the systems, processes, methods and decisions of a foreign affiliate. The importance of control springs from its function as the main determinant of risk and return and ultimately the performance of the international investments (ibid). According to Blomstermo et al. (2006) a company that has high control over its entry mode can supply services to international clients on time and with good quality. Kirca (2005) states that there is a positive connection between the mode of operation and the amount of control over marketing activities. Geringer and Herbert (1991) also suggest that insufficient or ineffective control can limit the ability to effectively coordinate activities, utilize resources, and implement international strategies.

Entry modes can be divided into two control levels (Ekeledo & Sivakumar, 2004); that is high- or full-control modes, which implies full ownership, or low- or shared-control modes, which are the collaborative or contractual modes of operation. An attempt to summarize this is presented in Figure 2.4 below. High control entry modes are for example sole or majority ownership of a subsidiary and low control entry modes are licensing, cooperative and contractual modes. Normally the high-control mode requires the most in terms of a company’s resources and it is also combined with the highest level of business risk, while at the same time it allows for the highest return on investments. Shared modes on the other hand imply lower requirements of
resources, lower risk and also a low to moderate return on investments (Blomstermo et al., 2006; Ekeledo & Sivakumar, 2004; Javalgi & Martin, 2007). However other circumstances may in some cases offer firms the possibility to exercise control out of proportion to the firm’s equity in the collaboration, for example the ownership of a crucial technology (Ekeledo & Sivakumar, 2004). Kirca (2005) found that the entry mode of the international operations predicts the amount of control offered over local marketing activities and affects sales performance for service firms. The author also concludes that service firms that use more vertically integrated entry modes, such as wholly owned subsidiaries, obtain a higher sales performance due to the higher levels of control it poses on marketing activities (ibid).

![Diagram: Entry modes and the level of control]

**Figure 2.4** Entry modes and the level of control

2.4 Internationalization of knowledge-intensives service companies

According to Toivonen (2004) KIBS companies internationalize in three ways; the evolutionary model, the born global model or through partnerships.
2.4.1 Evolutionary model
The evolutionary model indicates that firms first grow domestically and then gradually expand internationally. The author mentions that KIBS often internationalize in order to follow important clients. Then the first step is to deliver services to foreign clients in the local market, followed by personnel travelling over which may require a local office to be set up. The next step would then be mergers and acquisitions, however the entry does not have to follow these different steps (ibid).

The foreign market entry can take place in a market close or similar to the domestic market or a market that differ a lot from the domestic one. Toivonen (2004) states that many KIBS are closely tied to the domestic market, so called geographically sticky because they require local knowledge. This limits the ability of remote operations and also has implications for the use of local manpower. By moving into markets similar to the domestic market companies try to reduce the exposure to risk. However the author also states that for KIBS the risk is lower than for other companies and that they often move directly into highly diverse markets, for example in order to follow major clients (ibid).

2.4.2 Born global model
The second way for KIBS companies to internationalize is the born global model meaning that the company is established in several markets from its birth (Toivonen, 2004). This is most common for KIBS companies that use computer networks for marketing, client interaction and logistics, so called hard services.

2.4.3 Partnerships
The third and last manner of internationalization for KIBS companies is according to Toivonen (2004) partnerships. This takes place in the form of knowledge-system networks or hierarchies which are based on cooperation without integration. When looking at the internationalization process of knowledge-intensive soft-service companies, which is the intention of this study, it is the evolutionary model and entry modes that it leads to that are of interest.

2.5 Frame of reference
The purpose of this study is to provide a better understanding of which entry mode(s) are used by knowledge-intensive soft-service companies and what factor(s) the entry mode decision is based on. Three theories will be used as a frame of reference for this thesis in order to answer the research questions and therefore fulfill the research purpose.

In order to answer research question one the theory of foreign market entry modes in combination with the theory of control aspects of entry modes, mentioned above, will be tested in order to fulfill the purpose of the study.

In order to answer research question two the resource-based theory in combination, again, with the theory of control aspects of entry modes will be tested, in order to fulfill the purpose of the study.

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1 Which entry modes do knowledge-intensive soft-service companies adopt to enter foreign markets?
2 What factors influence the decision of foreign market entry mode in knowledge-intensive soft-service companies?
3 Methodology

This chapter covers the research methodology, the foundation of the thesis, which is used in order to answer the research questions. The process begins with a literature survey and forming a research purpose followed by the research approach, the research strategy, case selection, data collection and data analysis. Throughout the process it is also important to consider the reliability and validity which signifies the quality of the study, this is discussed in the end of the chapter.

3.1 Literature survey

Denscombe (2000) explains that research should begin with a literature survey. It is of importance that the researcher is aware of previous studies and gets knowledge of the main problem areas, the vital questions and the obvious gaps in the present research. A literature survey also provides the reader with a possibility to understand which theories and principles that influences the researcher’s way to implement the study.

This study began with a literature survey in order to gain an increased awareness and knowledge. The gathered literature for this study originates from academic articles that are available via the Luleå University Library website. Databases that have been used are Business Source Elite (Ebsco), Emerald Insight as well as the search engine Google scholar. In order to find academic articles that was relevant to the research area following search words have been used: international, internationalization, internationalizing, international marketing, entry modes, service, service characteristics, service sector, service firms, hard and soft service, knowledge-intensive, staffing industry, management consulting, human resource consulting, recruitment, staffing, employment, human resource(s) consulting, employment/staffing/recruiting agency.

3.2 Research purpose

According to Depoy and Gitlin (1999) designs of methodology are often selected by the research purpose, which can be divided into exploratory, explanatory and descriptive approach. The methodology design selected in this thesis is based on the research purpose and therefore an exploratory, explanatory and descriptive approach was used in order to answer the research questions.

An exploratory research is according to Depoy and Gitlin (1999) conducted in an uninterrupted research situation which is not influenced or interfered by the researchers. Saunders, Lewis and Thornhill (2000) explain that an exploratory research is a fruitful method when there is a need to clarify a problem and to answer the question “what is happening”. In this study an exploratory approach has been used based on the need to clarify a situation and explore what is happening. This was a vital part of the thesis and necessary in order to be able to answer the research questions.

A descriptive research is according to Depoy and Gitlin (1999) based upon an accepted theoretical framework and the purpose is to test and support the theory by using test hypothesis and predictions. Saunders, Lewis and Thornhill (2000) explain that a descriptive study provides an accurate description of persons, events or situations. The purpose of this study has also been descriptive in order to make an accurate description of the situation by using gathered data and test existing theory.

According to McNeill and Chapman (2005) the characteristics of descriptive and exploratory research are hard to separate. The authors further point out the fact that an explanation often
needs a description and to describe something without explaining it is difficult (ibid). To use an explanatory approach was appropriate for this study due to the design of the research questions. Another reason was the need to describe and draw conclusions from variables in the research purpose. Hence, the authors of this thesis have first explored the current situation in order to then describe it and finally to try to explain the patterns.

3.3 Research approach

There are according to Denscombe (2000) two types of research approaches in social science and these are the qualitative and the quantitative approach. The author explains that qualitative research is associated with descriptive small scale studies. A qualitative method is according to Patton (1987) and Yin (1989) more detailed and concentrates on selected issues, cases or events. According to Depoy and Gitlin (1999) a qualitative design is appropriate when the already existing theories or explanations are incomplete. In such cases the qualitative strategy is preferable since it is investigative, gives new understanding and insights.

Since the purpose of this study was to examine and test the existing theory a qualitative approach was necessary. It focused on selected issues and provided a better and more detailed understanding of which entry modes were used by knowledge-intensive soft-service companies in their internationalization and what they based this decision on. Furthermore, a qualitative research approach was more appropriate since previous studies as mentioned under 1.2 Problem discussion, are described as incomplete or lacking.

3.4 Research strategy

The purpose with a research strategy is according to Saunders, Lewis and Thornhill (2000) to provide an overall plan of how to answer the research questions. Yin (1989) mentions five types of research strategies; experiment, survey, archival analysis, history and cases study. The author further explains that these research strategies differ from each other in three ways: first the form of the research questions, secondly if it requires control over the behavioral events and thirdly whether it focuses on current processes and events (ibid). An overview is presented in Table 3.1.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of research strategy</th>
<th>Influence over behavior</th>
<th>Focuses on current processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>how, why</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>who, what, where, how many, how much</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>who, what, where, how many, how much</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>how, why</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>how, why</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Yin (1989)

According to Yin (1989) case studies, histories and experiments are to be preferred when the study tries to answer questions like “why” and “how”. Case studies, histories and experiments can, according to Yin (1989) be separated further by the two variables control over the behavioral events and the focus on current events. The author states that using a case study is of strategic advantage when the objective is to examine a process where the researchers do not need control over the behavioral events and cannot influence the process.
Patton (1987) states that case studies are appropriate when the scientists want to get a deeper, detailed and holistic understanding of a problem or situation. Therefore, the author claims, case studies that provide a lot of information gathered from a few cases are preferable. When the ambition is to find individual differences or unique variations between different study units the case study is of advantage (ibid). Saunders, Lewis and Thornhill (2000) explain that a case study is a good choice of strategy when the researcher wants to test existing theories.

Yin’s and Patton’s criteria matched the purpose of this study and a case study was therefore suitable as research strategy. Our research questions were not written with the words how or why, but are intended to find answers to how and why. The questions are designed to answer how companies in the knowledge-intensive soft-service business enter a foreign market, that is, by which entry mode(s), and why they enter in the way(s) they do, meaning by finding out what factors affect the decision of entry mode. To ask “how” these companies enter a foreign market would be a too general question to ask and it would not clearly focus on through which entry mode, which was a part of the purpose of the thesis. In order to answer why the companies enter the way they do the question asked was what factors the respondents based their decision on. Hence, since the purpose was to find answers regarding how and why case studies, histories and experiments were most suitable in this thesis.

Yin (2003) explains that case studies can be of either single or multiple cases. The author further states that multiple case studies are more time consuming. However, choosing a multiple case study provides an increased opportunity to create a high-quality case study (ibid). In this study a multiple case study was conducted since it could provide more data, increase the validity and provide a chance to analyze and draw conclusions.

According to Yin (2003) there are two approaches available when to analyze the gathered data; within-case analysis and cross-case analysis. The author explains that in a within-case analysis a case is compared against the frame of reference while in a cross-case analysis the cases are compared against each others. This is done in order to find support for or deviations from theory and between the cases (ibid). In this study first a within-case analysis was implemented since it was of interest to test existing theory and therefore compare the gathered data against the theory in the frame of reference. Then a cross-case analysis was performed since it also was of interest to compare the cases against each other. This was done in order to find patterns and draw conclusions whether support for or deviations from existing theory could be found.

3.5 Case selection

Denscombe (2000) states that in an in-depth study the number of cases will be relatively small and that the choice of which case(s) to study has to be motivated. Motivations can be made based on suitability, pragmatism and constraints of the case. A good case study requires a discussion whether the selected case is suitable for the research purpose and this can be done from four variables. These variables are the typical research unit, the deviant research unit, the theory testing research unit and the least probable research unit. The author further states that if the case selection is made on logical grounds it could enable the researcher to make predictions on results if the theory is accurate (ibid). In order to match the research purpose of this thesis the case selection was based on the theory testing research unit.

Denscombe (2000) further explains that pragmatic influence can be constituted of convenience. Convenience may govern the choice when it is between equally suitable alternatives (ibid). According to Ekeledo and Sivakumar (2004) all studies of entry mode strategies previously published have used convenience samples. The authors also state that this type of sample is
acceptable for the purpose of theory testing (ibid). This study was to some extent characterized by pragmatic influence since convenience influenced the case selection because limited financial resources and limited time posed restrictions on the case selection. The objective of this study was to look at knowledge-intensive companies within the soft-service industry that had gone international, therefore the unit of analysis was companies within this industry. When looking at this area the authors of this study decided to focus the search to an industry that contained companies originating from Sweden. Another criterion was that the industry selected needed to consist of enough companies, due to the fact that not all companies might want to participate in the study. Based on these requirements one industry was found matching the criteria; the staffing and recruitment industry. The staffing and recruitment industry has emerged from management consulting which is a soft-service industry. It is also a very knowledge-intensive business-to-business service.

According to Cai and Kleiner (2004) employment agencies are driven by the highly skilled workers and the client firms. The most common services they offer are regular employment, contract services, temporary to hire (transfer of/taking over employees) and payroll services. Regular employment is the service to provide companies with talented professionals who match the job position. Contract service is a service that allows the client to utilize qualified employees from the employment agency on a temporary or contract basis. Temporary to hire allows customers to hire the employees of the employment agency as their own staff. Payroll services means that the employment agency will put employees of the customer company on their own payroll (ibid).

Antonicc, Hisrich and Ruzzier (2006) state that small and medium sized companies are increasingly facing similar international problems as those of larger firms due to the nature of today’s marketplace. Therefore an objective in the case selection for this study was to include both smaller and larger firms if possible. When considering the alternative samples, criteria governing the choice were based on the requirements set by the research questions. Several factors such as industry characteristics, geographic location, size, organization type and international activities were examined. Other studies made within this area were also reviewed to see what research that had already been done.

Four Swedish staffing and recruitment companies that had experience of internationalization were found, these were; Poolia, Proffice, StudentConsulting and Academic Work. The authors of this study chose to approach all of them and enquire if they were interested in participating in the study. Our objective was to involve as many of them as possible, for safety and credibility reasons and in order to increase the quality of our findings. Two companies agreed to participate, Poolia and StudentConsulting. Based on this result the decision was made that it was feasible to include more than two cases in the study and therefore the scope of the study was expanded to also look at companies in another country.

Norway was deemed to be appropriate by the authors of this study because of the similarities in culture. This was based on the research by Kale (1995), referred to by Czinkota and Ronkainen (2007), which, by using Hofstede’s framework, clustered European countries by their cultural characteristics. Kale (1995) claims that Sweden and Norway exist in the same cluster since both countries have small power distance, low uncertainty avoidance, high individualism and low masculinity. That the choice fell on Norway was also affected by the possibility of understanding the language and the fact that Norway had a developed staffing and recruitment market with many actors. From the Swedish Trade Council in Norway a detailed list of Norwegian companies matching the criteria was obtained. From this three Norwegian based companies that matched the requirements and had gone international were found; Xtra personell, Top Temp
bemanning and Jobzone. All three companies were approached and two agreed to participate in the study. Hence our case selection resulted in the following four cases: Poolia, StudentConsulting, Xtra personell and Top Temp bemanning.

Erramilli and Rao (1993) state that the research units that should be analyzed when studying entry mode strategies, are the individual entries and not the companies, hence it is important to focus the study on the entry mode strategies, not on the companies. In this study and the data analysis the attention was focused on the modes of entry that the companies have used and the factors that these decisions were based on.

3.6 Data collection

Data collected can be divided into primary and secondary data (Saunders, Lewis & Thornhill, 2000). Primary data is new data collected specifically for the purpose of the study whereas secondary data is data already gathered for another purpose (ibid). Furthermore, Denscombe (2000) describes four different research methods for collecting data: observation, questionnaires, interviews and written sources. They all differ from each other and are best suited in different situations. However, they can complement each other and can be combined when collecting data. By using more than one method the researcher can increase the validity of the data (ibid). In this study interviews and written sources were used to gather both primary and secondary data.

Denscombe (2000) states that it is appropriate to use interviews as a method of collecting primary data in order to acquire privileged information. If the informant is able to provide useful information that others do not have, it increases the value and the quality of the information. The information gained from interviews is often more in depth and detailed than data from other collection methods (ibid). Yin (1989) further states that the interview is the most important source of data in a case study.

Yin (1989) also states that there are three different types of interviews, the open-ended, the focused, and the survey interview. The most common one is the open-ended interview, where the interviewer can ask both about the facts, as well as opinions (ibid). Denscombe (2000) describes three different types of interviews: structured, semi-structured and unstructured interviews. The author defines the semi-structured interview as a form where the interviewer has a prepared list of what subjects to focus on and what questions to ask. The interviewer is expecting free answers with developed opinions. Denscombe’s (2000) opinion is that the best way to carry out the semi-structured interview is through a personal interview instead of focus groups or group interviews. This is due to the fact that personal interviews are easier to manage since it is only one person to arrange the meeting with and to interview (ibid).

Denscombe (2000) explains that the advantage with interviews is the detail and depth of the data since the researcher can get valuable information from key informant’s knowledge. However the author states that it is important to note that the collected information is based on the informant's own priorities and what that person thinks are the most central factors. Further, an interview is the most flexible way of gathering data since the researcher can adapt the interview during the process. The validity of the data can be controlled during the interview from clarification questions of the answer from the respondent. Since interviews are normally booked in advance the response frequency is high (ibid).

Denscombe (2000) also mentions some disadvantages of interviews. The data analysis requires time because the data is not standardized and the format is relatively open. Because of the interviewer's and the context's influence it is also hard to reach objectivity. This has a negative
3 METHODOLOGY

effect on the reliability. The interviewer can influence the respondents negatively and cause them to modify the answers due to the identity of the researcher. There is a risk that any recording equipment could make the respondent insecure or uneasy. The costs for time and travels can be relatively high if the informants are geographically far away (ibid).

In this study the data collection method used was the open-ended semi-structured interview. The reason for this choice was the ability to acquire detailed, in-depth and privileged information. A semi-structured interview would allow the respondents to develop the answers and talk more freely. It also offered the authors of this study the opportunity to ask some further clarification questions if there were any obscurities. The interviews were made over the telephone and lasted from 20 to 30 minutes per company.

A key issue was to consider who to try to contact in order to get useful and accurate data. The respondent needed to have a lot of insight into the company’s internationalization process and the decision making in order to answer the questions. Consideration was given to the problem of getting access to this person and this information, since it might be sensitive for the company. Ekeledo and Sivakumar (2004) state that a key informant is a person that has accumulated information about the organizational activities and is selected on the basis of expertise. By targeting key informants the researcher can get access to information which is not available from secondary data (ibid). When selecting the respondents the key informant approach was used to gather the data. When contacting the companies the purpose of the study and the interview were explained. The companies then referred to the CEO’s in all four cases, because they had the best knowledge and insight into the decisions regarding international market entry strategies. Hence it was not assumptions from the researchers’ side that led to the respondents but rather the basis of expertise within these issues among the respondents in the companies. Thus, the respondents in the interviews for this study were the CEO’s of the four companies selected.

The interview guide and questions for the interview were developed from the literature in the frame of reference. More information about construction of the interview guide can be found under 3.8 Reliability and validity, and the final interview guide can be found in Appendix 1. Questions for the interviews were sent by e-mail in advance to the respondents in order to give them a sense of the topic of the interview and to better understand the questions.

The purpose of this thesis is to find out which entry modes that knowledge-intensive soft-service companies adopt and what factors that influence this choice, in reality. Instead of trying to operationalize the theory into the interview questions by asking questions based on the existing terminology and the theories in the frame of reference, the authors of this study decided to phrase the questions in a way that would influence the respondents less. This was done by letting the respondents give the answers more freely, based on their own experience, using their own words, as opposed to asking whether a certain factor from theory had an influence or not. This of course has influenced the data analysis and how it could be processed, as is mentioned under 3.7 Data analysis.

Written sources are according to Denscombe (2000) books, journals, websites and the Internet, weekly and daily newspapers, protocols, letters and memos, diaries, government publications and statistics. One of the advantages of using secondary data is that it can be useful to compare with the primary data and triangulate the findings (Saunders, Lewis & Thornhill, 2007). Another benefit is that it is often permanent and available in a form that may be easily checked by others (Denscombe, 1998). In this thesis secondary data from written sources was used. Data such as annual reports books, journals, statistics, the Internet and websites, was collected and used in
order to verify the primary data. Some of the material was located by the authors of the thesis and some was offered by the companies.

3.7 Data analysis

Miles and Huberman (1994, p. 10) give a definition of analysis which is “three concurrent flows of activity: data reduction, data display, and conclusion drawing/verification.”

Data reduction concerns, according to Miles and Huberman (1994), selecting, focusing, simplifying, abstracting and transforming the data. The authors further state that data reduction is not separate from analysis but rather a part of analysis. The reduction and transformation of data can occur via a number of ways, for example through selection, summary or paraphrase (ibid). When processing the data gathered in this study the authors have presented all the relevant data in chapter four, as close to how it was presented to us by the respondents, without alterations.

The data display is generally an organized, compressed assembly of information that allows for conclusion drawing and action (Miles & Huberman, 1994). Most commonly the qualitative data display is extended text. However, for example, matrices, charts, graphs and networks may also be used. Creating and using displays is intertwined with and a part of data analysis, designing a matrix for example requires analytic activities (ibid). The data in this study was ordered in a logical order and in order to make the data more accessible and comprehensible to the reader the authors have also made a short summary of the key points mentioned at the end of each case in chapter four. In chapter five the authors of the thesis have also provided the readers with an overview matrix of the findings of the data analysis.

When looking at drawing and verifying conclusions Miles and Huberman (1994) note that, the deciding of what things mean in a qualitative analysis is starting from the beginning of the data collection, for example to note regularities, patterns, explanations and possible configurations, causal flows and propositions. Miles and Huberman (1994) further state that these initial conclusions should be held with caution and final conclusions may not appear until the gathering of data is complete. When conclusions are drawn they should also be verified either through a second thought or going back to raw materials or more elaborate through efforts of replicating the findings in another data set. By testing the plausibility, the validity of the findings is tested (ibid).

Before reading chapter four and five it is important to note that, since the questions in the interview were phrased in such a way that they would not influence the respondent but rather let them answer more freely based on own experience the data would need to be extensively analyzed and interpreted. This has forced the authors of this thesis to interpret and continually analyze the answers from the respondents thoroughly. First it was essential to process the raw data and analyze whether the answers and which of the answers that matched or did not match the factors in the theory, in order to be able to compare it against the theory. Only then could it be analyzed whether the findings supported, contradicted, or was lacking in the theory. Therefore, in chapter five, where the analysis is presented there is a mix of answers from the respondents, as well as of interpretations of the respondents’ answers made by the authors of the thesis. In order to keep the reader informed and aware of this it has been clearly stated who the source of the information is, the respondents, the authors, or both. This way the readers were provided with the possibility to examine and decide on their own whether to accept or discard the interpretations and analysis made. In chapter five the data has also been analyzed, the cases compared against each other and against theory. Then in chapter six the findings have been presented and conclusions have been drawn. The conclusions were held lightly because of the
limited ability to thoroughly verify external validity of the findings in a case study. Thereby clear generalizations of the findings are sparse.

3.8 Reliability and validity

Yin (2003) state that there are four ways to improve the findings of a case study: reliability, construct validity, internal validity and external validity.

The reliability of the research process is a key element of the quality of the thesis (McNeill & Chapman, 2005; Yin, 2003). Reliability means that the data collection methods of a study can be repeated by another researcher or the same researcher at another time, with the same results (ibid). Some methods are considered more reliable than others. However, a single researcher in an unrepeatable situation faces the risk of being considered unreliable. The research method should be available for inspection, criticism and testing by other researchers in order to be reliable (McNeill & Chapman, 2005). In order to make this thesis as reliable as possible the following measures have been taken.

When choosing interviews as data collection method it is important to note that it implies a risk of preconceptions or of becoming too personally involved as a researcher, therefore it could imply a stronger bias than for example a mail survey (McNeill & Chapman, 2005). The authors of this thesis have considered this risk, however, the fact that the interviews were conducted by telephone and e-mail should is considered to have decreased the risk of interviewer-respondent influence and vice versa and made the responses less biased than by face-to-face interviews. However this could also have made it more difficult time to build trust and to get access to sensitive information.

There is a risk of misunderstandings due to translation difficulties since some of the respondents spoke Norwegian and the authors of the thesis spoke Swedish. Also the translation of the interview responses from Swedish and Norwegian into English may have posed a risk. However, during the interview questions for clarification were asked in order to decrease the risk of misunderstanding the answers given in Norwegian. When writing the data down all three authors listened to the interview and contributed or revised the data to be as accurate as possible, this way the understanding of the data was controlled and reviewed three times. After having translated and compiled the data it was also to the respondents for proof reading, so called informant verification (Saunders, Lewis & Thornhill, 2007), along with clarification questions if something was not clear. The respondents could in that way take action if something was wrong, misinterpreted or missing.

The interview guide is the main instrument used in the data collection method of this thesis, in order to make sure that this instrument was correct and would give reliable data it was pretested. The function of the interview guide was to offer a support for the interviewers and structure to the interview. First the guide was tested by three university lecturers which commented on the structure, the wording and the content. Then the structure of the interview guide was changed to follow the layout of the research questions. The terminology was controlled so that it was consistent throughout the questionnaire and the purpose of the questionnaire was evaluated on whether it matched the theories of the study. After that it was sent to another university lecturer for a second opinion. This led to some further comments and minor adjustments in the terminology regarding the translation of English terms into Swedish. During each of the interviews the respondents were then asked what they thought of the questions and if they thought that something was missing or if they had anything to add. This way the interview guide as data collection method was tested and retested several times to reduce errors and to make it as bias free as possible.
The companies interviewed asked for the questions in advance and were sent the questions well in advance of the interview. However the respondents did not get the interview guide since that is a material designed for the researchers not the respondents. In the material sent to the respondents any examples or lists of suggestions were removed in order not to influence them. When there was something that the respondents needed more time to answer or think about follow up and clarification questions were sent via e-mail to complete the interview.

Construct validity concerns establishing correct operational measurement method for the concepts being studied, which is to evaluate the data collection method (Yin, 2003). In this context validity is concerned with whether the findings portray an accurate image of what is being studied (McNeill & Chapman, 2005). Validity problems arise if the data is more a result of the research method than of what is being studied. For example people can tell lies or may have incorrect perceptions that do not correspond to their actual behavior or attitude. This is always the risk with any research of survey style. In order to increase validity researchers can use a multiple-method approach, also called triangulation, in order to double check and verify the findings, this increases both reliability and validity (ibid).

In this study the sample selection decision was made before choosing the research method, in order not to let the data collection method, interviews, affect or limit the possible samples. The authors of the thesis have triangulated the findings to as high an extent as possible by verifying them with secondary sources. For example by comparing the interview answers with what can be seen by studying documented company actions in for example the press and from the company’s annual report. This was done in order to reduce the risk of falling for exaggerations or deceptions. The interviews were recorded in order to be able to go back and verify that the interpretations were done correctly. That way the stress of taking notes was also reduced during the interview which decreased the risk of misunderstanding the answers. Then the interviews were written down, translated and summarized within the following couple of days in order for the interviewers not to forget anything.

Internal validity is a concern for explanatory researches only (Yin, 2003). Establishing causal relationships where conditions are shown to lead to other conditions. To increase the validity when doing the data analysis it is important to look at the internal validity. One concern is that there is a problem when making the analysis and when drawing inferences or conclusions. Every case study contains an inference and it is hard to know if the inference is correct. According to Yin (2003) the case study tactics for the data analysis process are: to do pattern-matching, to do explanation building, to address rival explanations and to use logic models. By doing pattern-matching the researcher compares an empirically based pattern with a predicted one. If the patterns coincide, the result can help the study to strengthen the validity. A form of pattern-matching is to analyze the data of the case study by building an explanation for the case. The use of rival explanations provides, besides a good general analytic strategy, a good example of pattern matching for independent variables. And last, the use of logic models consist of matching empirically observed events to theoretically predicted events (ibid).

In this study the internal validity has been increased by matching any patterns found from the data with the theories from the literature review. Since there were other studies available with similar focus which had made predictions, relevant to our study, the findings from this study could be matched with these predictions and logic or rival models. Based on this matching the conclusions were drawn. The conclusions have also been connected to explanation building in order to increase the internal validity.
The fact that the questions for the interview were phrased as open questions and not directly connected to the factors in theory meant that the researchers, the authors of this thesis, had to process and analyze the data to a larger extent than otherwise, as explained under 3.7 Data analysis. The objective for this was to lessen the influence by both the researchers and the theory on the respondents’ answers. This may, however, be offset somewhat by the higher need for processing of the data which increases the risk of researcher bias on the result. The authors of this thesis have clearly indicated who the source of the statements was in order to reduce this risk. This gives a higher degree of transparency and the reader may draw its own conclusions.

The external validity (Yin, 2003) and representativeness (McNeill & Chapman, 2005) is concerned with whether the objects or situation studied are typical of others, whether a study’s findings are generalizable beyond the immediate case study and the researcher should use it when validating the research design. If one finding is applicable in one case it could be applicable in another one, within the same area (Yin, 2003). However, if the researchers are uncertain if they are representative they cannot claim that the results have relevance to anyone else (McNeill & Chapman, 2005). Critics state that it is hard to make generalizations in one-case studies (Yin, 2003). A case study provides an analytical generalization where the researcher is striving to generalize a particular set of results to some broader theory (ibid). Since this study has been qualitative, of small scale and it was difficult to claim that the samples were typical the authors of the thesis have therefore been cautious of generalizing the results or making predictions for other cases. However the cases were tested with existing theories in order to see if there was a match and whether the findings were similar to those from other similar studies made in neighboring industries.

3.9 Summary

In order to answer the research questions in this thesis an exploratory, descriptive and explanatory research design was used. A qualitative study was the most appropriate approach in order to fulfill the research purpose. A case study would give a deeper, more detailed and holistic understanding of the knowledge-intensive soft-service industry and was therefore conducted through studying four staffing and recruitment companies: Poolia, StudentConsulting, Xtra Personell and Top Temp bemanning. In order to get deeper and more detailed information, primary data from semi-structured interviews were gathered and complemented with secondary data from written sources such as annual reports and the companies’ websites. When this was done a data reduction and a data display took place together with the drawing of conclusions. Through this whole process several measures were taken in order to increase the reliability and validity of the study. The summary of the methodology of this thesis is presented in Figure 3.2 below.

![Figure 3.2 Summary of the research methodology](image)

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**Figure 3.2 Summary of the research methodology**
4 Data presentation

This chapter presents the data gathered for the study. The data was collected from two Swedish and two Norwegian staffing and recruitment companies. Primary data was gathered via telephone interviews and secondary data was collected from annual reports and from each company's official website. When nothing else is stated the data collected comes from the respondents. Each interview focused on which entry mode the staffing and recruitment companies have adopted when entering a foreign market and what factors that influenced the decision. The chapter focuses on one interview at a time and each case is followed by a summary.

4.1 Case 1: Poolia

The empirical data has been collected via information in Poolia's annual report for 2007, Poolia's website and an interview with the Managing Corporate Executive Officer (CEO) at Poolia, 30 April, 2008.

Poolia is a Swedish staffing and recruitment company focusing on providing its clients with competent office workers both temporary and permanently. Poolia specializes in the areas of finance, administration, IT and technology. Poolia has also created its own brand for health care professionals called Dedicare. Poolia was started in Stockholm 1989 by Björn Örås under the name Ekonompoolen. In 1997 Ekonompoolen and Teknikerpoolen merge and become Poolia. Since then the company has grown and Poolia is currently active in the Swedish, Danish, Finnish, British and German markets. In 2007 Poolia had a turnover of 1 340 million SEK and the number of employees was 2 136 (Poolia, No date; Poolia, 2007).

The respondent is the CEO at Poolia since 1 October 2007. He states that the industry is currently facing a positive situation in the European markets. There are ongoing deregulations in many of the European markets, while at the same time both employers and employees are requiring more flexibility in the work market. This has led to an increase of the industry acceptance and a continuing growth of the degree of penetration in the European markets. The degree of penetration is a commonly used market factor in this industry and it is defined by the number of people employed by the staffing and recruitment industry in relation to the total number of the working population in a country (Poolia, 2007).

The decision makers involved when Poolia decides on how to enter a new market include the CEO, the Board of Directors and the Group Management which consists of the CEO, the Market Director, the Finance Director and the three Country Managers for Sweden, Germany and the United Kingdom. The CEO is very much involved in the process of selecting entry mode. The current CEO has not yet been involved in any new entry into a foreign market with Poolia, however he has decided on further entry modes establishments in markets where Poolia has already entered.

When Poolia enters a new foreign market it uses knowledge and experience gained from other markets and existing staff. Because what Poolia stands for, the business concept, brand and processes that make Poolia unique, is something they want to keep and bring with them into the new markets they enter. (Poolia is today one of the strongest brands in Sweden and well known in other Nordic countries.) However to run the local daily operations it is also important to have local staff who knows the local conditions when it comes to language, laws and how the market works. It has often been the case that the local staff that Poolia employs has come from within this industry, from some local competitor. Hence, Poolia uses both existing staff as well as recruit new personnel when entering a foreign market.
In the year 2000 Poolia entered Denmark and Finland, in 2001 Norway and Germany and in 2004 it entered the United Kingdom. In Denmark, Finland and Norway the company grew organically, by building and setting up the operations as wholly owned subsidiaries. Meanwhile, Poolia entered Germany and the UK via acquisitions. In 2006 the company shut down the operations in Norway due to the lack of candidates in the staffing and recruitment industry in Norway caused by the increasing growth in the Norwegian economy. The price competition was also tough. Since 2004 the expansion has been focused on further expansion within these entered markets instead of other in foreign markets. However the plan is to continue to grow internationally with time.

The entry strategy for Poolia is to enter foreign markets exclusively through wholly owned subsidiaries and to grow organically, unless an exceptionally promising acquisition opportunity presents itself. When evaluating which entry mode to use the only ones what Poolia considers are the investment entry modes. The respondent states that for foreign entries organic growth through wholly owned subsidiaries is of preference for both Poolia and its most successful competitors. In comparison, the acquisitions which are an alternative when entering new markets are rather risky within this industry. For certain markets organic growth requires persistence and more time. The problem with organic growth is that it is more difficult to gain a large volume in a short time than it is when acquiring an existing company. However since there is so little substance in these companies when it comes to long-term contracts with clients to deliver to every month the risk is very large when purchasing an existing firm. A lot of Poolia’s competitors that have used this method have also lost large volumes when staff has resigned and started competing businesses because they did not like the new ownership.

Poolia also evaluates how successful competitors within the niche have entered foreign markets. While Poolia has the ambition to be unique as a company it still has to compare itself with the competition and which decisions it makes and what the outcome is, though the intention is not to copy any competitor.

The respondent states that within the staffing and recruitment industry there are many factors that drive the growth, development and expansion or entry into foreign markets. Among other things the regulations are a strong factor. The industry is a very young one and good legal preconditions are fundamental in order to even be able to operate in a market. However also the maturity in the market for this type of service is of importance and there are big differences between the markets. In the UK it has developed during a long time while in Sweden it was not until in the 1990's that it became possible to provide this type of services. In Germany it happened even later. Poolia’s aim is to catch on to this and enter early on in order to benefit from the growth and to establish well.

When looking at and evaluating the different markets to enter and which entry mode to use the level of penetration is of importance to Poolia. Poolia looks at how mature, how penetrated, the market is by staffing and recruitment services. This is done with those who know the local conditions. There are a lot of organizations to cooperate with in order to get market knowledge on foreign markets, such as the Swedish Trade Council. A high penetration level and a mature market offer better opportunities of acquisitions than a poorly penetrated market.

Sweden has a penetration level of around one which means that it is a relatively poorly established market. The UK was a highly penetrated and well established market, with around four percent penetration when Poolia entered in 2004. Poolia thereby seized the opportunity to acquire a British company which was fairly similar to Poolia and thereby had good preconditions from the start. However, the experience from entering the UK market has shown how
vulnerable small offices are during the entry and start-up phase and how straining it is to continue the expansion before a stable base has been reached. This has led to a restructuring where the smaller offices and less profitable contracts in the banking sector have been shut down. Now Poolia is focusing on gaining a wider customer base in London.

When Poolia selects which entry mode to use the decision is based on factors such as local employment and labor laws and what the host country market looks like. In Germany Poolia saw a great opportunity. There the ongoing deregulation was making the situation for staffing and recruitment companies more beneficial. This in combination with a low penetration level was promising, for a reasonably large growth during the coming years. This has also proven to be true and that is also why Poolia is continuing to expand further, however this expansion has been exclusively through organic growth.

When growing through acquisitions it is extremely important for Poolia that the companies are similar. Poolia has a clear specialization with a few trades as the core competence while a lot of the competitors work with both workers/laborers and office workers within various industry branches. Poolia focuses on working with qualified employees and works with economists, office, IT and technology staff. Then it would not be appropriate to buy a company that only works with workers or store men, since the business concept would not match. In addition, according to the 2007 annual report, Poolia considers the employee competence and commitment to be crucial success factors (Poolia, 2007).

Control is also a very important factor since Poolia’s structural capital3 consists of the business model, brand, etcetera and the people that produce the services. Poolia does not have a lot of long-term contracts and commitments from the clients but rely a lot on day-to-day sales, hence control is important. But in order to be able to enter a foreign market it is also crucial to have resources both in the form of competence an experience but also capital.

One reason that somewhat explains the decision between acquisitions or organic growth is host market factors. Markets in the geographical vicinity to Sweden such as Finland, Norway and Denmark are seen as local markets where Poolia have a little more control and insight. The market conditions are seen as more similar to the Swedish market. Markets in countries that are more similar to Sweden are easier to control and communicate to than countries farther away. The UK and Germany are a bit more distant and diverse markets, therefore Poolia wanted a little

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3 The structural capital is something that originates from human capital contributed to the company, owned by the company (Boisot, 2002; Choo & Bontis, 2002). Sánchez-Cañizares, Ángel Ayuso Muñoz and López-Guzmán (2007) define the structural capital as the company’s ability to transfer and store intellectual material that flows through the company. Structural capital is all types of knowledge that is not supported by a person and can be left in the end of the day, that belongs to the company and can be copied and shared, for example organizational routines, strategies, databases and more (Boisot, 2002; Carson, Ranzijn, Winefield & Marsden, 2004; Choo & Bontis, 2002; Stewart, 1998). According to Ordóñez de Pablos (2004) and Sánchez-Cañizares et al. (2007) structural capital can be divided into organizational and technological capital. Organizational capital is everything that deals with the organization of the company and the decision-taking process such as; organizational culture, company systems, work philosophy, structural design and organizational routines. Technological capital can be factors that that involve technical and industrial knowledge such as research and development or process engineering (ibid).
more substance when entering. The Anglo Saxon countries are also different from the Swedish system and then it may be necessary to purchase more experience. If Poolia would enter into countries even farther away geographically it would pose even higher demands on control.

Poolia continuously evaluate previous entries, what was done wrong or right, since it is a process that is constantly developing and it is also a learning opportunity. Since 2004 and the entry into UK Poolia has scrutinized past actions. With the experience and knowledge gained Poolia is now even more prepared and better equipped than earlier for any coming entries. Poolia has entered foreign markets in many different ways, both through acquisitions and organic growth as well as in both small and large scale. The company now has a model for expansion, of how to set up new offices. An example can be seen in Germany, Hannover, June 1, 2008, where Poolia will start up a new office in a larger scale from the start and invest a little more than done in previous cases. The office will be run as a satellite to the office in Hamburg, a working method that has proven to work well in the past.

To summarize, Poolia has entered several countries, all through wholly owned subsidiaries. This is also the only entry mode that Poolia considers. The choices made have been to enter either by organic growth or through acquisition. The difference in time scope and access to client base, that these two ways of entering offer, has affected the selection between the two somewhat. When entering a new market the company benefits from home country staff that has both experience and knowledge of the company’s processes and from previous international entries. The staff is familiar with the Scandinavian market and has developed an internationalization strategy. However, at the same time the company takes advantage of local staff with local resources. Poolia’s brand is one of the strongest in Sweden and well known in the Scandinavian countries and the company finds the organizational culture and what it stands for to be important. Therefore, the culture is something that the company wants to bring into new markets. Other factors that Poolia considers when it starts up in a new country are the regulations, the market growth, maturity and level of penetration, similarity in culture of the target country and geographical vicinity. Control is also a vital factor since the capital structure consists of the company’s business model, brand and people who produce the service and also since Poolia is focusing on day-to-day operations instead of long-term contracts.

4.2 Case 2: StudentConsulting

The empirical data of this section has been gathered from StudentConsulting’s website and from an interview with the Corporate Executive Officer of StudentConsulting, 6 May, 2008.

StudentConsulting is a Swedish staffing and recruitment company focusing on providing customers with consultants in the areas of finance, customer service, administration, IT, sales, logistics and production. StudentConsulting’s consultants are students, university graduates or young people in the beginning of their career. The company was founded in 1997 by Tobias Lindfors and Niklas Jansson. They were both students back then, with the idea of employee leasing for students to help them enter into the working life and in their career by offering temporary jobs beside the studies. StudentConsulting is Sweden’s 9th fastest growing company in the staffing and recruitment industry. Its internal motivation is to every day create new jobs for young university students, between 18 and 35 years of age. StudentConsulting employs students both full time and part time while they are studying because they want a job on the side. The more they can recruit, the more youths can work internationally. StudentConsulting is currently active in the international market in Denmark and Norway. It has a total of 127 internal employees in Sweden, Norway and Denmark, and over 7000 consultants, out of which over 800
are full time consultants. In 2007 StudentConsulting had a turnover of 312 million SEK and the respondent says that StudentConsulting estimates a turnover in 2010 of 500 million SEK. (StudentConsulting, No date)

As the founder of StudentConsulting, the CEO has been in the company since 1997. He together with the vice CEO, who is responsible for expansion in new countries, are involved in the decisions making process concerning the choice of entry mode. StudentConsulting entered the international market for the first time 2007 in Norway, where it opened up a new subsidiary company, wholly owned by StudentConsulting. The company has expanded exclusively through organic growth and started by opening an office in Oslo, and now has ten offices throughout Norway. The Norwegian market was chosen because of the large and increasing demand among students and young people who wanted to go to Norway to work. Furthermore, StudentConsulting also had contracts with large customers such as Posten, which operate in both countries, as well and needed staff in both countries. Right from the beginning the internationalization strategy has been to follow and grow with large customers that are located internationally in Scandinavian markets.

The experience gained from the entry into the Norwegian market was later taken into account when the company established operations in Denmark. The company saw the same opportunities in Denmark as they did in Norway and the entry mode used was the same as in the Norwegian expansion according to the respondent. Hence an office was opened as a wholly owned subsidiary. In both country entries StudentConsulting has used existing experienced staff at the first entry to start up the operations and then continuously hired local staff and consultants. StudentConsulting believes that it is important to keep the organizational culture and the way it works, even when going international, by using the experienced Swedish staff that know the company and can bring the experience with them into the other countries.

Hence, one of the factors that affect the entry mode choice for StudentConsulting is according to the respondent the management; to find enough competent staff. StudentConsulting considers the Swedish operations to be a nursery garden to grow and train an excess of experienced internal staff, which can later be offered the opportunity of an international career. The respondent stresses the importance of finding the right people: "It is through the experienced people we build our business, not through acquisitions." One of the main benefits of this mode is that the organizational culture is better preserved and spread throughout the whole organization including subsidiaries. StudentConsulting’s mission statement would, according to the respondent, work in all countries, but the major obstacle to overcome is to find the right person to start up local operations.

When StudentConsulting decides on the entry mode, the model is, as the respondent mentions, wholly owned subsidiaries. The operations are built up from scratch through organic growth. One of the main reasons for StudentConsulting to choose organic growth is that it better enables the important organizational culture to be implemented and spread. The respondent states that if a company cooperates with another company it is hard to keep the organizational culture. Franchising is not advocated by the respondent, not because of the nature of the product but because, as he states: "It feels too diverse and scattered". StudentConsulting has an option program instead, which offers key persons the possibility to buy shares in the company. However, he further states that acquisitions or franchising is not excluded from plausible alternatives to use for any future entries into European countries, but it will not be the main strategy. The intention is to use the same entry mode in the European as in the Scandinavian markets.
Another factor that affects the entry decision is whether there is a demand for staffing services and if the market is mature. StudentConsulting considers mature markets more suitable to enter and to be the first choice. Before deciding on which market to enter and by which entry mode, StudentConsulting bases the decision on information gathered by looking at the potential customer base and whether there is a large demand for this service. The main strategy is to work with Scandinavian contracts and follow large customers abroad, such as for example Elgiganten, which needs staff in Sweden, Denmark and Norway. StudentConsulting also takes into account the demand and interest in working abroad among existing consultants. There are a lot of Swedish students and youths interested in working in other Scandinavian countries, both during and after their study period and which affects the decision.

StudentConsulting's main traditional competitors are Manpower, Adecco and Proffice. Besides these there is another Swedish staffing and recruitment company that is called Academic Work, which operates in the same way as StudentConsulting. But according to the respondent Academic Work is not seen as a main competitor to StudentConsulting. He further states that StudentConsulting is aware of its competitors' strategies, but it does not take a lot of interest in the competitors' actions because the company has already developed its own main strategy. StudentConsulting looks at other competitors but that does not affect the choice of strategy, it is the major customers that affect which countries to enter.

To summarize, StudentConsulting uses only wholly owned subsidiaries through organic growth as entry mode strategy when going international. Other entry modes that have and may be considered are acquisitions and franchising. However, franchising it is not advocated by the CEO since it feels scattered and lacks the opportunity to bring the organization culture successfully. StudentConsulting uses employees who are experienced and international leaders that are trained in a “nursery garden” in Sweden in order to keep the organizational culture. Simultaneously the company hires local staff and consultants. StudentConsulting gathered international experience from entering Norway before it entered Denmark. The company does not look a lot at competitors, it follows customers and therefore it depends on in which markets the large customers operate. StudentConsulting considers the business mission to work in all countries and states that finding the right people to run the start-up at entry is the most important. Other factors that StudentConsulting considers when starting up in a new market are the demand of the home and host country market, market statistics, maturity, competitors and the potential customer base.

4.3 Case 3: Xtra personell

The empirical data has been gathered from the company website, the annual report from 2006 and an interview with the Corporate Executive Officer (CEO) at Xtra Personell, 7 May, 2008.

Xtra personell is one of Norway’s largest staffing and recruitment companies with seven region offices. Xtra personell’s mission statement is to provide both public and private organizations with the easiest solution when they want to hire temporary and permanent workers. Xtra personell provides services in the area of health care, IT, finance and administration. Xtra personell was founded in 1995 by the current CEO and four associates. In 2003 the company purchased Norsk Sykepleietjeneste in order to expand the service range into health care. In 2007 the company grew further through the acquisition of a company called Bemanningscompagniet, which gave Xtra personell a larger market share in Norway and an entry into Sweden. Xtra personell is currently owned by the IT company Centric, through Centric Norway AS, however Xtra Personell operates independently within the Centric organization from its head office in Oslo. Xtra personell is today established in Norway and Sweden. Xtra personell’s turnover in
2007 was 450 million NOK (approximately 544 million SEK) and the company has 80 employees working within the company and around 1 200 consultants (Xtra personell, No date; Xtra personal care, No date).

The CEO at Xtra personell, has been with the company since the start in 1995. As the respondent is directly involved in the decision of choosing entry modes together with the Board of Directors and the Management, in which he is a member of both. The Management consists of the CEO, the Finance Director, the Region Manager, the Senior Advisor, the IT Manager, the Key Account Manager, the General Manager of the Oslo office and the Managing Director for Health Management.

The respondent explains that Xtra personell entered the international market in January 2007 when it entered the Swedish market through the acquisition of a wholly owned subsidiary. Xtra personell formed a company in Sweden in 2000 but have not had any activity until the acquisition of Bemanningscompagniet in 2007. Then the Swedish subsidiary corporation Xtra personal care with a focus on health care was formed. The reason for entering Sweden was because of the geographical proximity and the fact that there was a large group of nurses in Sweden interested in working in Norway. Hence, the main reason for entering the Swedish market was a demand for this service, to recruit Swedish staff to Norway. Following large clients did not have any great impact on the decision, even though the company naturally wants to be able to service their clients with operations in both countries too. Today the subsidiary provides clients in both Sweden and Norway with staff from mainly Sweden within the health care area.

The respondent states that Xtra personell has cooperated with Swedish companies in the past. The previous cooperation with Swedish companies has been conducted on a project basis, mainly in order to provide services to clients with operations in both Norway and Sweden. It was conducted via an informal agreement to help each other to cater to each others’ clients’ needs in the respective country. However, when deciding to enter the Swedish market permanently the only entry mode that was considered was investment through a wholly owned entry mode.

Before the entry, Xtra personell mapped the Swedish market, its actors, larger customers, competitors and statistics for the staffing and recruitment industry. More general information was also gathered on differences between Sweden and Norway such as culture, legal differences and all other things related to the business.

The respondent states that it is not that easy to enter as a Norwegian company in the Swedish market and as a result it is very important to have some Swedish staff with knowledge of the local market. That was one of the reasons why a Swedish health care company was acquired, and why it was of importance to keep the local staff. Xtra personell kept the local management and added some newly recruited managers. The consultants in the Swedish subsidiary have been recruited continuously to the areas that the company wants to expand. The company acquired was also similar to Xtra personell in structure, since it was a single company with its own CEO, which also was beneficial. Today the previous CEO is still in place as the Managing Director and reports to the Board of Directors.

Today five percent of the total sales come from the international, Swedish, market. The intention is to expand in Sweden in the future. No large or specific plans are made, but initially it might be to increase operations in Gothenburg. If the entry into Sweden would prove to be a success Xtra personell does not rule out further expansions into other Scandinavian countries, such as Denmark. However, the respondent explains that since the company only has around four
percent of the market share in Norway there is still growth potential in the home country market too.

The respondent describes the operations of Xtra personell in Norway as similar to those of Poolia in Sweden. Xtra personell considers all staffing and recruitment companies in the Swedish market as competitors, but the major ones are Adecco, Manpower, Proffice and Poolia. In Norway the competition is basically the same but with an addition of other Norwegian based companies.

When deciding on the entry mode, Xtra personell looked at how other Norwegian companies have chosen to enter the Swedish market and if they have been successful or not. How Swedish companies have chosen to enter Norway has also been examined. Xtra personell evaluated the entry modes of the companies that have succeeded and took this into consideration when deciding on the choice of entry mode, in order to learn from other’s mistakes. Some things that the company picked up were to believe in the own brand, the company and the organizational culture. Another important issue is where in Sweden you choose to establish the company at the first entry. For example Xtra personell found that it is easier for Norwegian companies to start up in Gothenburg since the people understands Norwegian better than in, for example, Stockholm and it is also a closer geographical location. Another finding was that since Sweden is a larger market than Norway it may be necessary to find a niche market, a smaller segment with a certain type of clients. Since Xtra personell entered as an unknown brand it was especially dependent on networking activities.

The respondent states that opportunities and coincidences to a large extent influence smaller companies such as Xtra personell to internationalize. However, since Xtra personell today is a part of a Dutch corporate group including other types of businesses, with which has ambitions to expand into Sweden and Denmark it has affected the operations of Xtra personell to some extent. Mainly through motivating and supporting the company as well as by providing the possibility to invest the necessary funds.

To summarize, Xtra personell made an acquisition of a health care company which provides the company with local knowledge, a wider service range, and an increased market share and customer base. The type of entry mode strategy that the company uses is a wholly owned subsidiary. Moreover, a wholly owned subsidiary as entry mode is the only type of entry mode strategy that Xtra personell considers. Xtra personell believes in the own brand even though it is unknown in the new market. The company has cooperated with Swedish companies on a project-basis, however this was not something that gave international experience of the own operations in a foreign market or an entry mode choice. Xtra personell was aware of competitors’ entry mode strategies and gained knowledge from watching their entries of how to successfully start up in the Swedish market. Xtra personell is a middle size company but mentions that it is part of a corporate group that can provide needed funds and support. Hence, it can afford an acquisition of a Swedish company. The similarity between the acquired company and Xtra personell in terms of structure and culture was also vital. Because the company finds it important to have knowledge of the local market it kept the local Swedish staff. Other factors that Xtra personell considered when starting up in a foreign market was regulations, geographic vicinity, competition, demand in both home and host country, market statistics, cultural differences, language differences, niche market possibilities and remaining growth potential in Norway.
4.4 Case 4: Top Temp bemanning

The empirical data has been collected via information in Top Temp bemanning’s website and an interview with the owner and Corporate Executive Officer (CEO) at Top Temp bemanning, 9 May, 2008.

Top Temp bemanning is one of the eight major staffing and recruitment companies in Norway with a business mission to match real people to existing jobs, both temporary and permanent. The company is not limited to a specific field but focuses mainly on recruitment and employee leasing within IT, engineering, finance, sales, administration, warehouse, human relations and marketing. Top Temp bemanning was founded in 1990 by Frank Bersvendsen, and today the company has 11 offices in Norway and one in Stockholm, Sweden which was opened in 2006. The total turnover in 2007 was 305 million NOK (355 million SEK) and the company had 120 internal employees. Every week the company employs between 800 and 1 000 external consultants (Top Temp bemanning, No date)

The CEO together with the Board of Directors are involved in the decision making process when Top Temp bemanning is deciding on international entry mode strategies. According to The CEO, Top Temp bemanning chose to enter Sweden because of the simplicity to expand in a country where the company already knows the language. The company also perceives the Swedish market to be easy to operate in. Furthermore, Top Temp bemanning saw the advantage with recruiting Swedish people that wanted to work in Norway and the other way around, Norwegian people wanted to go to Sweden for work, because of this large demand the company chose to enter the Swedish market.

When this decision was made Top Temp bemanning chose to enter through starting up a wholly owned subsidiary. The company hired a manager for Sweden to start up the operations and then employed Swedish staff to the office in Stockholm. By using a computer tool translated into Swedish Top Temp bemanning trained the Swedish staff to work the same way as the staff does in Norway. According to the CEO, the company only considers using entry through investment and has not considered any other mode of entry, such as, franchising or cooperation with another company. He further states that Top Temp bemanning has considered using acquisition as an entry mode, and that it is feasible, but it is not suitable for the company and will not be used. This is mainly because of the importance of keeping the organizational culture, even when going international. That is according to Top Temp bemanning one strong reason to have wholly owned subsidiaries. Top Temp bemanning believes that it has an organizational culture that works very well and if it buys another company it comes with another culture and it is difficult to keep the own company’s organizational culture or change the culture of the acquired company. The CEO further states that it is easier to have control over business with the same structure and that is performed similarly in both countries.

It is also important to create know-how within the company about the Swedish market, clients and competitors which was another reason for growing organically. The respondent states that organic growth is less expensive than acquisitions and by growing organically the company could recruit three employees and start up a small office and then continue to grow from there. One of the reasons for starting a small office in Stockholm was also to gain international experience.

In the future Top Temp bemanning is planning to continue to expand in Sweden, and then the next step in the internationalization process would be an establishment in the rest of Scandinavia. To collect information about the market that Top Temp bemanning is planning to enter it uses an industry association which provides the company with information about the staffing and recruitment industry and which core areas that are most profitable in the potential foreign markets. This organization is an international organization located in Norway.
According to the CEO, Top Temp bemanning’s largest competitors both nationally and internationally are: Manpower, Adecco, Poolia and Proffice. Top Temp bemanning is aware of their internationalization strategies and what kind of entry mode they are using. The CEO explains that a lot of the larger companies grow through acquisitions, but it has not affected Top Temp bemanning’s choice of entry mode. Because of the difference in size between the companies Top Temp bemanning does not have the same possibilities or preconditions for acquisitions. The competitors have a lot capital, investors and they also have external owners so they have better possibilities to purchase other companies. The respondent continues to stress that it is much due to the smaller size that Top Temp bemanning is using organic growth.

Another fact, that the difference in size and available funds result in, is that the time scope needed for the entry is much longer for a small company which uses organic growth. Competitors that have more funds and can acquire a company, small or large, can access a larger market share and establish a broader customer base in a shorter time frame. Upon the entry into Sweden Top Temp bemanning has planned for a time frame of five to ten years.

Top Temp bemanning is not spending a lot of money on brand building in Sweden and expects that it will take some time for it to become established, such as the case was in Norway. The brand is rather unknown in Sweden, but the CEO believes that it is more important to bring the organizational culture to the country and that way it can start to build the brand in the same way as it was built in Norway. Furthermore, since Top Temp bemanning is a rather small company in the Swedish market, it uses the quality as its competitive advantage instead of competing with size. The most important thing of all is for Top Temp bemanning to have the right staff, having high competence employees that provide high quality services, then the company can sell anything.

To summarize, Top Temp bemanning uses wholly owned subsidiaries to enter new markets and this is the only type of entry mode that Top Temp bemanning consider. Top Temp bemanning’s brand is quite unknown in Sweden and therefore the company focuses on quality, the right staff and networking instead of size. It believes that it is vital to create know-how of the local market they enter and to still keep the company’s culture. Top Temp bemanning therefore employs and trains Swedish employees to work in the same way as the workforce does in Norway. The company has no previous knowledge of international entries. However, Top Temp bemanning has evaluated competitors’ decision of entry modes but not been influenced by them. The company has limited funds and considers the only affordable way of expansion to be by organic growth. Other factors that Top Temp bemanning consider when deciding on entry mode to start up in a new country are demand in home and host country among consultants, geographical and cultural closeness, knowledge of local language, profitability in different core areas, finding the right staff, similarity of organizational culture as well as keeping the organizational culture.
5 Data analysis

This chapter will present the analysis made of the empirical data presented in chapter four. First the data will be analyzed in a within-case analysis, comparing each case against the theory from the frame of reference. Then a cross-case analysis is made, comparing the cases against each other and the theory from the frame of reference. The structure of the two sections follows the order of the two research questions, first the choice of entry mode(s) adopted is analyzed and then the factor(s) influencing this decision are examined (for relevant theories, see chapter two, section 2.5 Frame of reference). As mentioned in chapter three, section 3.6 Data analysis, first a discussion and comparison of the data with the terminology in the frame of reference is necessary, in order to then analyze the data.

5.1 Within-case analysis 1: Poolia

When comparing the data from Poolia with the theory in the frame of reference on entry modes adopted and factors influencing the decision we have made the following analysis, presented in the two sections below.

RQ 1: Entry mode(s) adopted

Poolia is exclusively considering wholly owned subsidiaries through acquisitions or organic growth as entry mode. The main strategy for the company is to grow organically. The CEO states: “In comparison, the acquisitions, which are an alternative when entering new markets, are rather risky within this industry”. The main differences between the two ways of starting a wholly owned subsidiary are the size of the investment and the time scope needed to access a sufficient client base. As previously mentioned organic growth is less costly initially but requires more persistence to reach a solid client base, it may also be easier to bring the organizational culture. Acquisitions on the other hand requires more investments initially but offers a potential of a large customer base in a short time, however it may also make it difficult to implement the organizational culture.

RQ 2: Factors influencing the decision

Poolia has not mentioned having any proprietary technology in the interview and we cannot find that they have any either. The tacit know-how and experience of the home country staff is important in the choice of entry mode for Poolia as the CEO states. Whether the company grows organically or through acquisitions, home country staff is always used in order to bring and keep the company processes and culture when entering a new market. Poolia has several years of international experience which is beneficial when making entry mode choices. For example the company has over the years developed a strategy, which is to enter through a wholly owned subsidiary, investing in a large scale directly from the start. Later on other offices are opened up as satellite offices to the first one. Poolia consciously constantly evaluates and learns from the previous entries made since it is a process and it is important for coming entries. Accordingly, the firm-specific capabilities that affect the entry mode decision for Poolia are tacit know-how and international experience. Especially managerial skill and experience are important factors for Poolia when choosing an entry mode, which according to the resource-based theory calls for a high-control entry mode, such as wholly owned subsidiaries that the company has adopted.

Poolia has not mentioned nor can we find any specialized assets that would affect the choice of entry mode. Neither did the CEO mention that the company size is of importance for the choice of entry mode. However we believe that the size, even though not directly affecting the choice, is of importance since it provides the basic preconditions and possibilities to choose any entry mode. Hence, the size is large enough to not limit or restrain the company from selecting a certain entry mode.
The organizational culture is important to Poolia when selecting an entry mode. Poolia considers its culture to be unique and wants to keep it intact and bring it along when expanding internationally. According to the resource-based theory a valuable organizational culture may advocate a high-control entry mode, because of the risk of dissolving this advantage by using a collaborative mode. This is supported in the case of Poolia.

Poolia’s brand is well known in Sweden and other Scandinavian countries and is considered strong and valuable by the company. We draw parallels between a strong brand and a good reputation and as Poolia mentions the brand is important. Since it is a service, which is intangible and has no visible attributes that could show its quality, the brand reputation is very important. Hence, we believe that this too affects the choice of entry mode, since it affects the need of control in order to protect the reputation. Therefore a high-control entry mode would be preferable, which also is what Poolia considers.

We cannot find any evidence that Poolia would need any complementary resources and the company has not stated that any such factor affects the choice of entry mode. The firm-specific resources that influence Poolia’s choice of entry mode are thus the firm-specific capabilities (tacit know-how and international experience), organizational culture and the reputation. The company size does not seem to directly affect the choice of entry mode but offers the necessary preconditions.

When looking at the nature of the product and its influence on the decision of entry mode we find that the brand, which is a part of the micro characteristics of the product, is of importance to Poolia because it influences the need for control, by increasing it. The brand is a part of the capital structure and it is also important in connection to reputation. Having a strong brand can, according to theory, be a strong competitive advantage and is therefore important to keep, build and protect. According to theory companies with a strong brand tend to favor sole ownership which is exactly the case for Poolia.

Poolia did not mention that the nature of the product had any impact on the choice of entry mode. However the company states that the staff, that produces the service, is important and a part of the capital structure, which in turn increases the need for control. When considering this we find that one basic feature in the nature of services is that it is dependent on the staff and its competence. The staff is performing the service and thereby affects the service quality which we believe directly or indirectly affects the need for control and thereby influences the choice of entry mode towards a high-control entry mode.

Home and host country factors that Poolia has mentioned affect the decision of entry mode are legal, cultural and geographical country aspects as well as the staffing and recruitment market characteristics in the host country. Local regulations affect which entry modes may be adopted by the company. The level of penetration of the market affects the possibility of finding similar companies for acquisitions. Also the geographical and cultural vicinity affects the perception of control and insight into the market for the company. Poolia states that the farther away the market is geographically and culturally the lower is the sense of control and the larger is the need for control. According to theory this would call for an entry mode with a high level of control which also matches the strategy used by Poolia.

Poolia states that the degree of control that the entry mode offers is of great importance since the structural capital consists of the company’s business model, the brand (nature of the product) and the people who produce the service (tacit know-how). These would according to the resource-based theory correspond to the sources of the company’s competitive advantages.
which need to be used advantageously and protected when expanding internationally. Poolia also states that since the company is focusing mainly on day-to-day operations (nature of the product) instead of long-term contracts, having control is crucial. We also believe that the fact that organizational culture, reputation and host country factors are of importance for Poolia. These factors affect and increase the degree of control needed and sought. A high desire or need for control calls, according to the resource-based theory, for a high-control entry mode, which the case of Poolia is supporting.

To conclude, the factors that influence the choice of entry mode for Poolia are the firm-specific capabilities (tacit know-how and international experience), organizational culture, reputation, home and host country factors and the degree of control sought. We also believe that the company size and nature of the product affect the choice at least indirectly.

5.2 Within-case analysis 2: StudentConsulting

When comparing the data from StudentConsulting with the theory in the frame of reference on entry modes adopted and factors influencing the decision we have made the following analysis, presented in the two sections below.

RQ 1: Entry mode(s) adopted

StudentConsulting has used one entry mode, namely wholly owned subsidiaries through organic growth. The main reason for this is in order to keep the organizational culture. The company has considered franchising and acquisitions too but has ruled them out because of the threat of diluting or losing the competitive advantage of the organizational culture.

RQ 2: Factors influencing the decision

StudentConsulting has no proprietary technology influencing the entry mode decision. The company is using its own experienced home country staff to enter new countries. This would correspond to the tacit know-how in the resource-based theory. Since it is connected to the company's internal routines, which are difficult to transfer to another company because they exist in the employees, it is important to use a high control entry mode to better keep and bring it. Since StudentConsulting puts much weight in keeping the same staff and is keen on keeping the organizational culture the tacit know-how is influencing the choice of entry mode. StudentConsulting has entered two foreign countries over the past couple of years and has thereby gained international experience which it uses in its future decisions on entry mode. According to theory international experience this can be a competitive advantage and experience can only be gained over time. StudentConsulting has learned from previous entries and has developed a strategy to grow organically and follow large clients. Thus, the tacit know-how and international experience together constitute the firm-specific capabilities which affect StudentConsulting’s choice of entry mode. The most important ones are specialized managerial and international skills, and knowledge among the employees of the firm.

When looking at specialized assets, which for example comprise human investments for a particular use, like certain high skills and specialized know-how, we find that StudentConsulting has one. The CEO explains that through its internal "nursery garden" international management is grown. Among other things this provides the company with the possibility to better bring and implement the organizational culture abroad. We find this to be a vital factor for the company when choosing entry mode. StudentConsulting’s nursery garden, or specialized asset, offers specially trained leaders which constitute a competitive resource that, according to theory, comes best to use in a high-control entry mode which offers high control and low risk of losing staff or culture. This is supported in the case of StudentConsulting which uses a full-control entry mode.
The company size seems to be of little importance to the choice of entry mode for StudentConsulting as long as the company can afford the establishment abroad. The CEO does not state that the company size was of importance for the choice of entry mode. Since the company would consider using acquisitions it seems as if the company size is not limiting the choice. According to the resource-based theory the company size is an important factor in the decision of entry mode. Predictions based on manufacturing companies state that if the company is large it is more likely to choose sole ownership as an entry mode, but size may however be relative to the company's competitors in the foreign market. In the case of StudentConsulting it seems as if, even though the company size is smaller than its larger competitors, it is still using a sole-ownership entry mode.

StudentConsulting believes that it is extremely important to keep the organizational culture. It affects the entry mode choice to a high degree, towards a high-control entry mode. The CEO states that franchising is not excluded, but it is not an attractive option, since it makes it harder to keep the organizational culture. The resource-based theory claims that organizational culture can be a major source for a company’s competitive advantage and that if a company possesses a strong organizational culture and a strategy that fits with the culture, the company is likely to use a sole ownership as an entry mode. This is due to the risk of losing the organizational culture or that a competing company will copy it if the company chooses a collaborative entry mode. This corresponds to the study of StudentConsulting which is choosing organic growth based on the organizational culture factor, to keep it as a competitive advantage.

StudentConsulting does not state that the reputation has affected its choice of entry mode, neither having it nor lacking it. However, we believe that since StudentConsulting is using a follow-the-client strategy the reputation is of importance to the choice of entry mode, since the company actions in one country could get a bad reputation and cause a loss of large international clients in other countries too. According to the theory, reputation is a key asset and can be a sustainable competitive advantage if it is good, and in the same time it could be a fragile and can impose a risk for the company. Even though StudentConsulting does not mention the importance of the reputation when choosing entry mode, it is likely to have an impact on the choice of entry mode indirectly. Also the fact that the company has chosen to enter through a wholly owned subsidiary and to keep the existing brand speaks for this. Cooperating with another company in a contractual entry mode would have posed a risk for the company. Therefore reputation is of importance to the choice of entry mode indirectly.

StudentConsulting is not using any complementary resources. The company is not dependent of any co-specialized companies, therefore this does not affect the choice of entry mode.

The firm-specific resources that influence the choice of entry mode by StudentConsulting are then the firm-specific capabilities (tacit know-how and international experience), the specialized assets and the organizational culture. We also believe that the company size and the reputation are influencing the choice of entry mode indirectly.

StudentConsulting states that the nature of product does not have any impact when choosing entry mode. Theory on the other hand states that the nature of the product is a huge factor when it comes to deciding which entry mode to use and that soft-service companies will favor sole ownership. As previously mentioned, we believe that the nature of the product actually may have an effect on the choice of entry mode because it increases the need to exist locally and because of the dependence on the staff for the quality of the product.
StudentConsulting does not mention that their brand is an important factor in the decision making process of the entry mode. However since the company chooses to grow organically, follow large clients and in fact keep the brand name it seems plausible that the intention is to strengthen the brand name locally which then would affect the choice of entry mode. Another option would have been to open the local office under another brand name, but this has not been done.

StudentConsulting states that **home and host country factors** are affecting the choice of entry mode. The company evaluates both home and host country markets since it employs both expatriates and local consultants. StudentConsulting prefers mature markets and it has as a strategy to follow the customer. Furthermore, it depends on where the large customers are. StudentConsulting also look at the demand in the home country market among existing consultants if there is a driver for going international. According to the theory, home and host country are factors that are affecting the decision of entry mode. Host country factors are market, environment and production variables to consider. StudentConsulting consider both the home and host country factors when deciding entry mode and they have an impact in the decision. However, we have a difficulty seeing how the home and host country factors have had any direct influence on the choice of entry mode and believe that it might affect the choice of market to enter more than the choice of entry mode and that the influence may be more indirect.

When looking at the **degree of control sought** we find that this is high for StudentConsulting due to the importance of the organizational culture. The CEO states that using the right people to start-up at entry and to preserve the organizational culture is very important. The CEO does not mention that control was the reason for choosing this entry mode, he states that it is has more to do with the organizational culture. However, in order to keep the organizational culture we believe that control is important. The resource-based theory also suggests that an important organizational culture calls for a sole-ownership entry mode. By choosing an entry mode with high control, such as a wholly owned subsidiary, the company can better implement and bring the organizational culture.

Also, StudentConsulting states that if the offices have got similarity in work methods and processes, which are important, it reaches the control that is necessary. This statement matches the description of control from the theory as; the level of authority a firm may exercise over systems, methods, and decisions of the foreign affiliate. Hence, we believe that the degree of control sought has affected the choice of entry mode. According to theory the level of experience in internationalization that a company has affects the need for control. The theory states that the more experience a company gets the more likely it is to choose a high control entry mode. However, StudentConsulting has exclusively used wholly owned subsidiaries ever since the first foreign market entry, so the lack of experience, seems not to have had any such influence on the need for control.

In **conclusion**, the factors that StudentConsulting have expressed have had effect on the choice of entry mode in some way are; firm-specific capabilities (tacit know-how and international experience), specialized assets, the organizational culture and home and host country factors. We also believe that the company size, reputation, nature of the product and the needed degree of control influences the decision at least indirectly.
5.3 Within-case analysis 3: Xtra personell
When comparing the data from Xtra personell with the theory in the frame of reference on entry modes adopted and factors influencing the decision we have made the following analysis, presented in the two sections below.

RQ 1: Entry mode(s) adopted
Xtra personell has used only one entry mode, since it has entered only one foreign country. The entry mode adopted was a wholly owned subsidiary which was started-up through acquisition. The company considers local knowledge to be a competitive advantage and thereby decided to purchase a company with existing staff. The fact that Xtra personell is a part of a larger corporate group which is motivating and supporting the company as well as providing the possibility to invest the necessary funds is likely to affect the possibility of making acquisitions. However the CEO mentions that for smaller companies such as Xtra personell internationalization depends a lot on opportunities and coincidences.

RQ 2: Factors influencing the decision
Xtra Personell has no proprietary technology and the company has not stated that it is something that influences the choice of entry mode. Xtra personell considers local knowledge and experience among the host country staff to be vital. Therefore, Xtra personell has kept the local Swedish staff including the management and added some newly recruited Swedish managers. This implies, according to the resource-based theory, that Xtra personell values the local knowledge over the company’s existing tacit know-how, which is connected to the company routines. Furthermore, the theory explains that the company routines are difficult to move to another organization since they exist in the employees. Since Xtra personell has not mentioned the importance of tacit-know how in the decision making of entry modes we consider it to be of less importance or not important at all.

Xtra personell has cooperated on a project-basis with a Swedish company in the past in order to service large customers with operations in both nations. However, this cooperation was not a foreign market entry and the respondent did not emphasize this as an international experience. Furthermore, Xtra personell has not been an actor in the international market before and therefore lacked international experience. However the lack of experience did not cause the company to choose a low-control entry mode as the resource-based theory predicts and it was not mentioned by the CEO as an important factor in the choice of entry mode either. Hence, Xtra personell has not mentioned that any of the sub-factors to firm-specific capabilities are important to the choice of entry mode and we find no statement as evidence contradicting this, therefore it seems that no such capabilities have affected the choice. Neither can it be said that it is a lack of tacit know-how that would be the cause for the firm to acquire another company.

Xtra personell has not mentioned any specialized assets and we cannot find any support that there would be any. Hence this would not affect the company in the choice of entry mode. Neither does the CEO of Xtra personell mention that the company size had any effect on the decision of entry mode. Evidently Xtra personell is large enough to have the preconditions for making acquisitions. The fact that the company is a part of a larger corporate group may have some influence, as the CEO mentions, on the support and possibility to invest the necessary funds. Thus the size of the company seems not to have influenced the decision directly. However, having a corporate group that may provide the necessary access to capital, enabling company to choose acquisitions irrespective of the company size, may affect the choice of entry mode indirectly.
The organizational culture is according to the resource-based theory a source of the company’s competitive advantage. This theory explains that a successful company is often associated with a high degree of fit between the culture and strategy. Xtra personell evaluated the entries of successful competitors and took this into consideration when deciding the own choice of entry mode. The company noticed the importance of believing in the own organizational culture. Therefore, Xtra personell takes the organizational culture into consideration when choosing an entry mode. The resource-based theory states that a sole ownership such as a wholly owned subsidiary provides an opportunity to keep the organizational culture within the company and without risking that a local partner would copy it. Xtra personell has used a wholly owned subsidiary which corresponds to the theory. The company chose to acquire a company that was similar to Xtra personell in structure. However, we believe that the value of having local knowledge may have been perceived as higher than the value to keep the organizational culture since company chose to purchase a Swedish company and keep the existing local staff and management instead of bringing in existing home country staff. The main change and addition that was made was of the brand name and to add some newly recruited Swedish management. These changes would not necessarily help implement the organizational culture.

When looking at the company reputation and brand Xtra personell states that the company entered with an unknown brand in Sweden and therefore the company was dependent on network activities. The company has not mentioned that the company reputation influenced the entry mode decision in any way. A good company reputation would according to theory speak for a high-control entry mode, however Xtra personell has chosen a high-control entry mode regardless of the strength of the reputation. The company changed the name of the acquired company, which we consider to be the result of an intention to expand and strengthen the brand. Therefore we believe it could be possible that the brand or reputation influenced the decision indirectly towards a wholly owned subsidiary.

Xtra personell has not mentioned that a complementary resource has affected the choice of entry mode and we cannot find any either. Based on the analysis above we find that the firm-specific resources that affect the choice of foreign entry mode for Xtra personell are the organizational culture to some extent, and also in our opinion the company size and the reputation.

Xtra personell does not mention that the nature of the product has influenced the decision of entry mode. As mentioned before the literature states that the unique characteristics of soft-service firms will affect the choice of entry mode. We strongly believe that in order to provide staffing and recruitment services it is vital to exist in the local foreign market, a byproduct of the nature of soft-services. Also, the fact that the company decided to enter Sweden by a wholly owned subsidiary indicates that the company wants to establish the own brand abroad. This could indicate that the brand, as a part of the nature of the product, has affected the need for control and thereby the choice of entry mode. However, Xtra personell has not clearly stated that this would be the case.

When looking at home and host country factors Xtra personell takes regulations, geographic vicinity, competition, demand, potential customers, market statistics and cultural differences into consideration when entering a country. Some factors, Xtra personell mentions, affected the choice of entry mode directly such as the geographic location and the niche strategy. The geographic location within Sweden was very important and the fact that the Swedish market is larger than the Norwegian one made it necessary for Xtra personell to act within a smaller segment. The possibility of finding a place where the attitude towards Norway and the Norwegian language was positive affected the possibility of successfully entering through
acquisitions. When finding a niche in the local market it may be especially profitable to purchase a company within this niche in order to gain an already existing client base and a stronger foothold within the niche. Entering through organic growth as a new small competitor on the market may prove more difficult. Also, the fact that Xtra personell has chosen to acquire a company in order to get local staff with local knowledge and an existing customer base is partly a result of the host country factors. Since the company considers local knowledge to be very important and was lacking that upon entry it seems to have heavily influenced the choice of entry mode.

Xtra personell has not mentioned that the need for control has affected the entry mode decision in any way. However the company mentions that it was important and beneficial that the companies were similar in structure which we believe is an expression of a need for more possibility of control. According to theory the wholly owned subsidiary provides full control of the management and decision making. We believe that the nature of the product, meaning the need to exist locally and the importance of the brand and reputation in a service industry, as well as the host country factors have to some extent influenced the need for control by the company and thereby the decision of entry mode.

In conclusion we find that the factors influencing the choice of entry mode for Xtra personell are the organizational culture and the home and host country factors. We also believe that the company size, reputation, nature and the product and the degree of control sought have indirectly affected the choice of entry mode to various extents.

5.4 Within-case analysis 4: Top Temp bemanning

When comparing the data from Top Temp bemanning with the theory in the frame of reference on entry modes adopted and factors influencing the decision we have made the following analysis, presented in the two sections below.

RQ 1: Entry mode(s) adopted

Top Temp bemanning has only used the entry mode wholly owned subsidiary through organic growth to enter a foreign market and has made one foreign market entry. The company states that is has not considered any other alternative because of its small size and limited funds. The company considers the organizational culture to be important and that this also affects the decision between acquisition and organic growth. The company has started a subsidiary through organic growth with only local foreign market staff, but in order to bring the organizational culture abroad the company is using a translated computer tool to train the staff to work in the same way as in Norway.

RQ 2: Factors influencing the decision

Top Temp bemanning has not mentioned having any proprietary technology and we could not find any either, so it seems this is not something that would affect the choice of entry mode. According to Top Temp bemanning it is very important to create know-how of the local market while still keeping the organizational culture. Therefore the company intentionally employs and trains local staff in the foreign market to work the same way as they do in Norway. However, we believe that Top Temp bemanning is not basing the choice of entry mode to any large extent on the existing tacit know-how, due to the fact that it uses local staff when entering a new international market, which leaves the tacit know how in the home country. The effort of training the Swedish staff may be more successful in an entry by organic growth than by acquisition of a company which already has its own tacit know-how. However we cannot state that the existing tacit know-how has influenced the choice of entry mode. Top Temp bemanning has no previous experience of international entries. However, it has evaluated competitors’ entries. After examining competitors’
entries and its own means Top Temp bemanning considers investment through organic growth to be the most feasible entry mode for smaller firms with limited funds. Top Temp bemanning is therefore not basing the entry mode decision on own experience in international business but has rather learned from others. Thereby, Top Temp bemanning does not seem to be influenced by its firm-specific capabilities when choosing an entry mode.

Top Temp bemanning has not mentioned having any specialized asset or that it has had impact in the choice of entry mode. The computer tool used to train the local staff could perhaps be considered a specialized asset since it is a physical investment with a value only for particular uses. It offers a special professional relationship between the company and the subsidiary employees that enable them to gain intimate knowledge, as mentioned in the resource-based theory. This could be seen as a source of competitive advantage since it strengthens the organizational culture which is of importance. The theory states that a company that has a specialized asset might not be interested in a collaborative entry mode because it could make the company dependent on the local partner. However, having a computer training tool as a specialized asset would not necessarily make the company dependent on a local partner. Still, sole ownership eliminates that risk and protects the specialized asset. Even though this might affect the choice of entry mode, we do not believe that it has influenced the choice made by Top Temp bemanning.

Top Temp bemanning states that it has a small company size with limited funds, in comparison to its competitors. The CEO states that this reduces the possibility of acquisitions and influences the company to grow organically. Instead of size, the quality is considered a competitive advantage, by having the right staff the company can sell anything. Top Temp bemanning considers that since it is a small company, organic growth is the only option possible. According to the resource-based theory a small company would not by default choose a high-control entry mode, this is however the case of Top Temp bemanning. Thus, the decision is not influenced by company size when looking at which foreign market entry mode to adopt but rather in how to start the wholly owned subsidiary, through acquisitions or organic growth.

Top Temp bemanning states that the organizational culture is very important because it affects the decision of acquisition or organic growth. It is important that the organizational culture is the same in the organization in both countries in order to keep control. Top Temp bemanning thinks that the organizational culture works very well. Organizational culture is a vital factor for Top Temp bemanning when choosing entry mode, due to the importance of keeping the culture when going international. According to the resource-based theory, in order to keep the organizational culture intact and within the company a sole ownership is to prefer and this is also what Top Temp bemanning has chosen to use, this supports the prediction of the resource-based theory. In addition, the computer tool mentioned above is also used to further implement the organizational culture.

Top Temp bemanning did not mention that reputation has affected the choice of entry mode. The CEO states that the company did not have a well known brand or good reputation upon entering the foreign market, however they have still chosen to enter by a wholly owned subsidiary through organic growth and use the brand name. The CEO believes that the organizational culture and quality will make up for it and therefore will give Top Temp bemanning a good reputation. Instead of spending a lot of money on brand building the company tries to increase the reputation through the way the company does business once they have entered, i.e. through networking and having a high quality of the service. We believe, as mentioned in previous cases that the nature of the product has implications for the importance
of the reputation, which in turn affects the need of control and thereby indirectly the choice of entry mode. Thus, we believe that reputation is of importance to the choice of entry mode.

Top Temp bemanning does not seem to need any complementary resource and thereby does not need any support from other actors. Hence, it does not affect the choice of entry mode. The firm-specific resources that affect the choice of entry mode for Top Temp bemanning are the company size and the organizational culture. The CEO states that the only entry mode considered is wholly owned subsidiary through organic growth due to the limited size and funds.

Top Temp bemanning does not mention the nature of the product is a factor either. As for the other cases we still believe that the nature of the product affects the choice of entry mode indirectly. This is mainly regarding the importance of the brand reputation, the need to exist locally, the need for a strong culture and for a high control that influences the choice of entry mode. A further discussion on this factor is presented under section 5.5 Cross-case analysis.

When looking at home and host country factors the company mentions that similarities between the countries, cultural and geographical closeness and the ability to understand the local language are factors Top Temp bemanning is taking into account when deciding on entry mode. It also looks at industry statistics in each country and at which core areas that are most profitable. Top Temp bemanning states that the home and host factors have a large impact in the decision making of entry mode. We believe that this is true to some extent, however it may affect the choice of the market a little more than of the entry mode. The company for example states that the Swedish market is easy to operate in and the language is easy to understand, this makes a wholly owned subsidiary more attractive and feasible.

With respect to the need of control sought, Top Temp bemanning does not clearly mention the need of control to impact the decision of wholly owned subsidiaries as entry mode. However, the CEO states that it is crucial to find the right staff as well as to keep the organizational culture and the company trains the staff to work in the same way as it does in Norway in order to obtain a high quality. By starting a wholly owned subsidiary through organic growth the corporate structure and culture is kept similar in both countries, which provides better control over the business. Also, by choosing a high control entry mode, such as wholly owned subsidiaries, it is easier to implement and maintain the organizational culture. Therefore we believe that Top Temp bemanning's decision of entry mode is affected of the needed degree of control. Furthermore, since Top Temp bemanning states that it is important to have similarities in business, both domestically and abroad, the level of control offered by the entry mode should have influence on the choice.

To conclude, the factors influencing the choice of entry mode by Top Temp bemanning are the company size, the organizational culture and the home and host country factors. We also believe that the reputation, nature of the product and the need for control influences the choice of entry mode indirectly.

5.5 Cross-case analysis

In this section the four cases are compared with each other and with the theory mentioned in the frame of reference on entry modes adopted and factors influencing the decision.

RQ 1: Entry modes adopted

According to the theory on entry modes mentioned in the frame of reference, the only entry mode categories applicable to soft-service companies are collaborative (or contractual) and
investment entry modes, because of the need for close physical proximity and high control posed by the characteristics of the product. This is verified by the cases of the staffing and recruitment companies in this study. The only modes considered are the wholly owned subsidiary (investment entry mode) and franchising (contractual entry mode), however only one company considered franchising as entry mode. The only entry mode that all the four companies have actually adopted is the wholly owned subsidiary, see Table 5.1. However, how the companies have chosen to start the subsidiary has varied between opening an office through organic growth and purchasing an existing company through acquisition of a local company. It is worth noting that none of the other investment and contractual entry modes were considered. It seems as though the full-control entry mode, wholly owned subsidiary, is the default entry mode for the knowledge-intensive soft-service companies in this study.

**TABLE 5.1** Comparison of companies and entry modes adopted

<table>
<thead>
<tr>
<th></th>
<th>Poolia</th>
<th>StudentConsulting</th>
<th>Xtra personell</th>
<th>Top Temp bemanning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (MSEK)</td>
<td>1 340</td>
<td>312</td>
<td>544</td>
<td>355</td>
</tr>
<tr>
<td>Number of internal</td>
<td>2 136</td>
<td>127</td>
<td>80</td>
<td>120</td>
</tr>
<tr>
<td>employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry mode adopted</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
</tr>
<tr>
<td></td>
<td>subsidiary</td>
<td>subsidiary</td>
<td>subsidiary</td>
<td>subsidiary</td>
</tr>
<tr>
<td>Organic growth</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Acquisitions</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry modes considered</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
<td>Wholly owned</td>
</tr>
<tr>
<td></td>
<td>subsidiaries</td>
<td>subsidiaries</td>
<td>subsidiaries</td>
<td>subsidiaries</td>
</tr>
<tr>
<td></td>
<td>through organic</td>
<td>through organic</td>
<td>through organic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>growth or acquisitions</td>
<td>or acquisitions</td>
<td>growth or acquisitions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As is seen from the table above the variation in the entry mode choice is not in the entry mode itself, which is wholly owned subsidiary, but rather in how to start it, through organic growth or acquisition. It also seems as though the smaller the company size with respect to turnover the more common it is, in this study, that the company started up the wholly owned subsidiary through organic growth, which is seen as less costly and as less of a financial risk. As the company size increases so does the chance of starting up through acquisition. It should be mentioned that the company that has tried starting up through both organic growth and acquisitions used organic growth in the beginning, when the company was smaller gained, then as it expanded and gained more experience it ventured into acquisitions.

**RQ 2: Factors influencing the decision**

When analyzing which factors that have influenced the choice of entry mode, an overview of the situation is presented in Table 5.2 below. The following distinction of the responses has been made: “Y” marks the factors that the company itself considers to have affected the choice of entry mode. “X” marks the factors that both the authors and the companies state have affected the entry mode choice. “W” marks the factors that we, the authors of the thesis have found to affect the choice of entry mode but that the company itself has not clearly stated affect the choice.
TABLE 5.2 Overview of factors influencing the choice of entry mode

<table>
<thead>
<tr>
<th>Comparison of important factors influencing the choice of entry mode</th>
<th>Poolia</th>
<th>StudentConsulting</th>
<th>Xtra personell</th>
<th>Top Temp</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm-specific resources:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Firm-specific capabilities:</strong></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proprietary technology</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tacit know-how</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International experience</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Specialized assets</strong></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Company size</strong></td>
<td>W</td>
<td>W</td>
<td>W</td>
<td>X</td>
</tr>
<tr>
<td><strong>Organizational culture</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Reputation</td>
<td>X</td>
<td>W</td>
<td>W</td>
<td>W</td>
</tr>
<tr>
<td><strong>Complementary resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of the product</td>
<td>X</td>
<td>W</td>
<td>W</td>
<td>W</td>
</tr>
<tr>
<td>Home and host country factors</td>
<td>X</td>
<td>Y</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Degree of control sought</td>
<td>X</td>
<td>W</td>
<td>W</td>
<td>W</td>
</tr>
</tbody>
</table>

According to the resource-based theory the proprietary technology can be found in the company’s product, process or management technology and is often protected by a patent, trademark, brand image or trade secrets. All the companies in this study are knowledge-intensive soft-service companies and none of them have stated that proprietary technology has affected the choice of entry mode. This may be due to the type of business they are in, and especially due to the nature of the product. The staffing and recruitment service may not be influenced by proprietary technology as a source for competitive advantage.

Tacit know-how is connected to the company routines which are difficult to describe, teach or move because it exists in the employees and in order to gain an advantage from it the company is forced to use a full control entry mode. When looking at this variable we find that Poolia and StudentConsulting both have stated that it is important and they have also used their own existing staff to enter new countries which is a sign that it affects the choice of entry mode. Xtra personell and Top Temp bemanning are using and training local foreign market staff to create a local know-how and gain local knowledge, which does not bring the company’s existing tacit know-how to the new country. Hence, the importance of tacit know-how seems to differ between the companies.

Two of the companies have gained international experience from previous entry mode choices. Poolia and StudentConsulting have entered a couple of foreign countries and have thereby gained experience which they state has influenced their following decisions on entry mode. Xtra personell and Top Temp bemanning did not have any international experience and have not stated that it influenced them, neither having it or lacking it. According to the resource-based theory in the frame of reference a soft-service firm that is inexperienced and not accustomed to the local foreign market culture is likely to use a low-risk, low-control, collaborative entry mode. This is contradicted by the data found in this study. Regardless of having or lacking international experience all four companies have used a full-control entry mode when entering new markets. Three of the four companies have chosen to make their first foreign market entry by a wholly owned subsidiary and organic growth. One company started the internationalization by acquiring a company at the first foreign market entry, but still entered via a wholly owned subsidiary. Poolia did not use acquisitions until later in the internationalization.
A human investment with a value only for particular uses or to very few users such as a high level of professional skills or specialized know-how can be an example of a specialized asset. The only company that clearly expressed having, what we consider to be, a specialized asset which is consciously and deliberately taken into account when deciding on which entry mode to use is StudentConsulting. This fact, that the company has an internal “nursery garden” to grow good international leaders in order to bring and implement the organizational culture when starting up local operations in a foreign market, is heavily influencing the choice of entry mode. This is a source of competitive advantage which is important to use well and protect. This motivates the choice of wholly owned subsidiary through organic growth that the company has made. To some extent the computer tool that Top Temp bemanning is using to train the local employees in the foreign market to work in the way they do in Norway, could be seen as a specialized asset in our view. However, the company has not stated that it has affected the choice of entry mode and we cannot say that it has, at least not directly.

We find that for soft-service companies the size seems to be of little direct importance to the choice of entry mode as long as the company has the preconditions, that is the necessary funds, to afford starting up a local office. In our study, all companies irrespective of the size, have chosen a wholly owned subsidiary. Top Temp bemanning is the only company that has stated that the company size has affected the decision, however only in how to start up the wholly owned subsidiary, not the decision on which entry mode to adopt. The company considers organic growth to be the only possible option because of the limited company size. The CEO of Top Temp bemanning also states that starting up a new office organically in the staffing and recruitment industry is not very costly, however it requires time and persistence. Thus it seems as if the economic precondition to start a wholly owned subsidiary through acquisitions and thereby enter via a high-control entry mode, is not very financially demanding in this industry. However, when it comes to acquisitions as a means to start a wholly owned subsidiary we consider the size to affect the possibility, since such a purchase requires more funds. This may be verified by looking at Poolia, when the company was smaller and started to enter foreign markets it chose organic growth and later on when the company had grown it tried acquisitions. Xtra personell is not a large company in comparison to its competitors, but it is a part of a large corporate group which can motivate and provide necessary financial support. Thus, company size does not seem to directly affect the choice of entry mode, a wholly owned subsidiary seems to be the default, but since it affects the necessary preconditions it may influence how to start up the office, through organic growth or acquisition. It is also plausible that having a company size that allows the company to start a wholly owned subsidiary is a basic precondition for entering international markets within this industry.

The resource-based theory states that a strong and cohesive organizational culture of adaptive or entrepreneurial nature may be a source of competitive advantage and that it may prove a risk to adopt a collaborative entry mode because of the danger of dissipating this advantage. All of the companies in our study have clearly stated that the organizational culture is very important to them and all of them have chosen wholly owned subsidiaries which is a full-control entry mode. This is in line with the predictions of the resource-based theory. One company mentions that a collaborative entry mode, such as franchising, is not excluded but is also not attractive because it makes it more difficult to keep the organizational culture. In two of the cases it seems as though the need for local knowledge may have been higher than the need to bring the organizational culture since the company chose to start up through acquisitions and keep the local staff. It is likely that the acquired company has its own organizational culture and using existing home country staff at the takeover may facilitate the implementation of the organizational culture. One of these two companies used a computer tool in order to implement the same way of working as they do in the home country market which can bring some of the culture. Finally, it seems as
though the organizational culture is considered a competitive advantage and of importance to the choice of entry mode for all the staffing and recruitment companies in this study.

The resource-based theory states that the reputation of a company has implications for how attractive it is as a partner and that it affects the choice of collaborations because it imposes a risk on the company. The theory also states that if a company has a good reputation to protect it likely that the company will choose an entry mode that provides maximum protection such as sole ownership. None of the companies in this study have stated that reputation has affected the choice of entry mode, neither having nor lacking it. However, we draw parallels between the brand and the reputation since the reputation is strongly connected to the brand. Poolia states that the brand is of importance when deciding on foreign market entry mode since it needs to be protected. Top Temp bemanning states that the company lacked a well known brand upon entering, however the company has still chosen to enter through organic growth and a wholly owned subsidiary. Top Temp bemanning does not spend a lot of money on brand building but instead tries to increase the reputation through the way the company does business once it has entered, for example through networking and having a high quality of the service. StudentConsulting is using the same brand in all countries and is following the larger clients internationally, this makes the company reputation very important. If the reputation is damaged in one country and with some international client it is possible that the company will lose the business with that client in another country. Because of these reasons above the brand and reputation are important motivators towards choosing a high-control entry mode. It also seems like all four companies value using their own brand since they have chosen to use it in the new countries they have entered, this further supports the notion that the reputation, in connection to the brand, is of importance in the selection of entry mode. By choosing a collaborative entry mode the reputation and therefore the brand might be exposed to risk, but, as mentioned, all the companies in this study have chosen a full-control entry mode and avoided that risk.

A complementary resource is a factor that poses a constraint on the firm-specific resources and on enhancing marketing capabilities, making a merger or joint-venture an appropriate entry mode. The resource-based theory states that complementary recourses can be good for a company if it possesses a certain valuable asset and need cooperation with another company to be able to use it internationally. The most appropriate entry mode choice for such a need is the merger or joint-venture mode. None of the companies in this study are using complementary resources and do not need such support from other actors. They are not dependent of co-specialized companies. Hence, complementary resources do not have any impact of the entry mode decision for the companies in this study.

According to the resource-based theory in the frame of reference, the nature of the product, whether it concerns soft-services or manufactured goods, affects the entry mode decision and the only entry mode categories considered applicable to soft-service companies are collaborative and investment entry modes, because of the need for close physical proximity and high control posed by the characteristics of the product. The theory also states that soft-service companies will favor sole ownership due to the inseparability of production and consumption, which makes it necessary to locate production facilities in the local market to make the offering accessible to local consumers. For the companies in this study, the nature of the product is such that without a local office of any kind it would be difficult to meet and interview new consultants and clients or at all perform staffing and recruitment services. Thus the nature of the product influences the choice of entry mode.

None of the companies in this study have stated that the nature of the product has influenced the choice of entry mode in any way. However, we believe that the nature of the product does
have impact on the decision at least indirectly. The nature of the product, that it is intangible and has a non-separable production and consumption affects the need for control and the need to operate locally. It may be physically possible to export consultants from the home country into another country, however none of the companies has mentioned it as even a plausible or considered alternative. Instead this speaks for a high-control entry mode such as wholly owned subsidiaries which is what the companies in this study have adopted. This then supports the theory.

Also the nature of the product, that it is intangible and non-customizable makes it, in nature, highly dependent on the staff. This is because the staff is performing, or the source of, the service and is therefore directly affecting the quality of the service and the customer satisfaction. From our viewpoint the staff is not a resource that is, can or should be “controlled” in the same way as other important company resources. Instead, we believe that these companies, because of the large importance of the staff performance, try to build a strong and cohesive organizational culture in order to motivate, guide and lead the employees. A strong culture could also affect the attitudes, values and the people’s capacity to efficiently and effectively reach the company’s goals. This has impact on the service output and in turn the perceived quality of the service which in turn affects the reputation that is strongly connected to the brand. So, it is important to have high control in order to build a strong brand and a strong brand, in turn, will call for a high-control entry mode. In addition, a good and strong culture can also build relationships and bonds between employees and the company which may be important in this business since it is easy to lose employees to other companies. That would mean losing an important resource and a source of competitive advantage. The company will need to have a high-control entry mode such as a wholly owned subsidiary in order to bring and implement the organizational culture and not lose or dissipate it.

As mentioned by the theory the brand is a part of the micro characteristics of the product. Poolia has mentioned that the company brand is well known and established in the market, it is also a part of the structural capital which is important and increases the need for control. Poolia also states that having competent staff is very important, we believe that this is highly connected to the fact that the staff is important for the quality and reputation of the service which is strongly connected to the reputation of the brand, as mentioned above. The other three companies have not mentioned that the brand is important in the decision making. However, we find that even though their brand might not be their strongest competitive advantage all the companies have chosen a full-control entry mode and have chosen to establish their own brand abroad through a wholly owned subsidiary. Thus we believe that the brand, a characteristic of the product, is of importance to the decision of entry mode, at least indirectly.

We believe that the nature of the product, the fact that it is a knowledge-intensive soft-service, has impact on the choice of entry mode even though the companies have not clearly expressed it. It could be that the nature of the product is such a basic precondition that the companies do not consider its effect on the choice of entry mode. The nature of the product mainly affects the other factors such as the importance of the reputation and organizational culture, the need for control as well as the need to exist in the local market, factors which in turn influence the choice of entry mode.

All the companies have mentioned that the home and host country factors affect the choice of entry mode. According to the theory on market entry modes, the market, environmental and production factors of the host country market can affect the choice of entry mode. For Poolia local regulations affect the choice of entry mode, for example whether it is permitted to start a wholly owned subsidiary. The maturity and penetration level of the market affects the amount of
possible and attractive acquisitions. The perception of control in geographically closer markets also affects the perceived risk and need for local knowledge. Poolia states that in countries close to the home market there is a larger sense of control and understanding of the market and then a wholly owned subsidiary through organic growth is used. StudentConsulting states that the demand of the service among expatriates and local consultants affect the decision of whether to enter and how. Also whether the company’s existing large customers are established in the market affects the choice to enter and start up an office. Xtra personell considers the regulations for starting up offices and ownership, geographic vicinity, competition, demand and cultural differences when deciding on entry mode. The possibility of finding a geographic location where the attitude towards Norway was positive and where the Norwegian language was understood affected the possibility of entering successfully through acquisitions. Also when finding a niche market to enter the market penetration may affect the profitability and possibility to enter in a certain entry mode. Top Temp bemanning explains that the similarities between the country markets, cultural and geographical closeness, and the ability to understand the local language affects the choice of entry mode.

We believe that the home and host country factors may have a larger effect on the choice of market to enter than on the choice of entry mode since all the companies, regardless of the differences or similarities the between home and host country, have chosen wholly owned subsidiaries as entry mode. However, it still influences the choice of entry mode. The feeling of control seems, when the cultural and geographical distance is high, connected to the understanding of the culture and ability to run operations in the country. In our study, the larger the perceived need for local knowledge is, the more likely the company is to make an acquisition and purchase local knowledge and market share instead of building organically. This in turn might seem contradictory since acquisitions are stated to pose a higher economic risk and are perceived as offering less control as well as more difficulties of implementing the organizational culture than for example organic growth. But it seems as if the benefits of gaining local knowledge and a larger market share faster outweighs the disadvantages and gives a larger feeling of control. Also, as StudentConsulting states, if the company expands in more distant countries franchising might become an option. Hence, the host country market affects the preconditions for which entry modes are attractive to adopt.

According to the theory in the frame of reference the greater the cultural distance between the home and host country market, the more likely it is that service firms will use a high control entry mode since it allows for more freedom, learning about the culture and accumulating knowledge that is not available in the home country market. This is supported by the findings of this study, by the response from the company that has entered more culturally distant markets.

When comparing the companies based on the country of origin we see that the Swedish companies have stated that the experience from previous international entries have affected the choice of entry mode. We could not find that this was the case for the Norwegian firms, mainly because of the fact that the Norwegian companies had not entered any foreign market before. We also find that the two Swedish companies have chosen to use the tacit know-how by using existing staff as expatriates who are involved in starting up the new offices in order to bring the tacit know-how, make use of the international experience and also implement the organizational culture. Both Xtra personell and Top Temp bemanning have chosen to use only Swedish staff, either newly recruited or existing in the company acquired, in order to gain local knowledge. This gives the impression that the local knowledge was more vital than using the existing tacit know-how and bringing the organizational culture. This could be an effect of the lack of international experience and knowledge of the local culture.
When looking at the **degree of control sought** the theory in the frame of reference defines control as “the level of authority a firm may exercise over systems, methods, and decisions of the foreign affiliate”. The resource-based theory states that as the international experience and brand name value increases so does the desire and need for control. It is further stated that soft-service companies are more likely to choose a high-control entry mode than manufacturing companies.

Poolia has clearly stated that the need for control is high because of the importance of the structural capital (i.e. brand, business model) and because the company is focusing on day-to-day operations and then needs a higher operative control. We also believe that the value of the organizational culture also increases the need of control sought. StudentConsulting states that the similarity in work methods and processes is important and also mentions the importance of the organizational culture, using existing staff and its knowledge. We believe that this signifies a need for high control as previously mentioned. Xtra personell has not mentioned that the need for control affects the choice of entry mode. However, the CEO states that it was important that the company that was acquired was similar in structure. We believe that this is an expression of a need for control. Top Temp bemanning also mentions that having a similar organizational structure and way of working between the subsidiary and the company is important, which to us is a way of having control over systems, methods and decisions of the foreign affiliate. Also the fact that Top Temp bemanning values the organizational culture highly speaks for a need of a high-control entry mode. Thus, the only company that clearly states that the degree of control sought affects the choice of entry mode is Poolia. However for the other three companies we find that they mention other things to be important, things that, as mentioned previously, are closely connected to and influence the need for a high level of control. Thereby we gather that the degree of control sought is in fact of importance for the companies in their choice of entry mode. As witnessed in this study, in all cases, the companies have also adopted a full-control entry mode.
6 Findings and conclusions

The intention of this chapter is to fulfill the research purpose by answering the two research questions posed in chapter one. This chapter will present the findings and conclusions from the study. Also, implications for theory, suggestions for future research as well as recommendations for practitioners are given in the end of this chapter.

6.1 RQ 1: Which entry modes do knowledge-intensive soft-service companies adopt to enter foreign markets?

As stated before there are several different entry modes for companies that are going international to choose between. According to previous studies, the only entry modes applicable to soft-service companies are contractual and investment entry modes. This corresponds to the findings of this study. These four knowledge-intensive soft-service companies in the staffing and recruitment industry solely consider adopting the entry mode wholly owned subsidiaries (investment entry mode). One company has considered franchising (contractual entry mode) as entry mode but states that it is not an attractive entry mode because of the threat of diluting or losing the competitive advantage of the organizational culture. Other studies show that a wholly owned subsidiary is the preferred entry mode choice for soft-service companies. This too is supported in this study since all of the four companies state that the preferred entry mode is wholly owned subsidiary. This is also the only entry mode adopted by these four companies. According to the theory the wholly owned subsidiary is the entry mode that offers the most control, which is the main determinant of risk and return of the international investment. We find that the main benefits of using a wholly owned subsidiary are for example that it offers full control, the possibility of taking advantage of tacit know-how, it enables the organizational culture to be better maintained, it gives a better grasp of the service quality, the company brand and reputation is better protected and developed and the company can better make use of its specialized assets.

It seems as though, irrespective of the company size all the companies in this study consider the wholly owned subsidiary to be the default entry mode. The wholly owned subsidiary is established either by organic growth or by acquisitions. Three of the four companies within this study have in the early stage of their internationalization process used organic growth. One company started directly with acquisition. One of the companies that started by organic growth has later on tried entering through acquisitions. The companies within this study have stated no current intention to use any other entry mode than wholly owned subsidiaries. The question is rather whether to start-up the subsidiary through organic growth or acquisition.

We have compared the reasons and motives mentioned by the companies for using organic growth versus acquisitions. We find that the main benefits stated for organic growth are that it requires fewer funds in the start-up and it may allow for a better preservation of the organizational culture if managers with tacit know-how from the home country office are used. The main disadvantage is that it requires more time and persistence to reach a large customer base. For acquisitions the main benefits are a quick access to a large customer base and to local knowledge, it may also offer a successful and quick entry into a highly penetrated or niche market. The disadvantages of acquisitions are that it is costly and it is perceived as a higher risk than organic growth. This depends on the fact that there is often very little substance in the companies acquired, for example in the form of long-term contracts, and there is also the risk that staff will resign and leave the company. Another disadvantage is that it may also prove to be more difficult to implement the organizational culture into an existing local company.
To summarize, when comparing the data gathered from this study of knowledge-intensive soft-service companies against the theory of entry modes mentioned in the frame of reference we have come to the following conclusion:

- The only entry modes considered are wholly owned subsidiaries, through organic growth or acquisitions, and franchising. The preferred entry mode to adopt is a wholly owned subsidiary, which is a full-control entry mode since it requires no cooperation with another company. To decide whether the other investment and contractual modes of entry are applicable or not applicable to knowledge-intensive soft-service companies a larger study is necessary. However, we draw the conclusion that the default entry mode for knowledge-intensive soft-service companies is the wholly owned subsidiary. This we conclude is an effect of the nature of the product that makes it necessary to establish the company locally and increases the need for a high level of control.

6.2 RQ 2: What factors influence the decision of foreign market entry mode in knowledge-intensive soft-service companies?

When looking at the factors influencing the decision of foreign market entry mode we have compared the data found with the factors in the resource-based theory and made the following findings which are displayed in an overview, see Table 6.1 below, and then discussed separately.

**TABLE 6.1** Applicability of factors influencing the choice of entry mode

<table>
<thead>
<tr>
<th>Factors influencing the choice of entry mode</th>
<th>Findings from this study</th>
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<tbody>
<tr>
<td><strong>Firm-specific resources:</strong></td>
<td></td>
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<tr>
<td>Firm-specific capabilities:</td>
<td>Applicable</td>
</tr>
<tr>
<td>Proprietary technology</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Tacit know-how</td>
<td>Applicable</td>
</tr>
<tr>
<td>International experience</td>
<td>Applicable</td>
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<tr>
<td>Specialized assets</td>
<td>Applicable</td>
</tr>
<tr>
<td>Company size</td>
<td>Applicable</td>
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<tr>
<td>Organizational culture</td>
<td>Applicable</td>
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<tr>
<td>Reputation</td>
<td>Applicable</td>
</tr>
<tr>
<td>Complementary resources</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Nature of the product</td>
<td>Applicable</td>
</tr>
<tr>
<td>Home and host country factors</td>
<td>Applicable</td>
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<tr>
<td>Degree of control sought</td>
<td>Applicable</td>
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</tbody>
</table>

In this study of staffing and recruitment companies we find that none of the companies seem to be influenced by any proprietary technology as a source of competitive advantage in the decision of which entry mode to adopt. Thus, this factor may be unusual, irrelevant or poorly applicable to the companies within this industry.

The tacit know-how is considered to be important and a source of competitive advantage within this industry according to our findings. However it does not necessarily influence the choice of entry mode. Only two of the companies in this study have proven to take advantage of the existing tacit know-how within the company upon entering a foreign market by using the existing tacit know-how as a source of competitive advantage.
home country staff at the start-up. Though, both these two companies have both used a full-control entry mode which verifies predictions made by the resource-based theory.

According to our findings the international experience does not seem to affect the choice of entry mode in the way as it is suggested in theory. The theory states that as a company gains more international experience, both industry and geographical, it will favor a wholly owned subsidiary. It also says that a soft-service company that is inexperienced and not accustomed to the local culture is likely to use a collaborative entry mode. However, the findings of this study are contradictory and show that irrespective of whether the company has any international experience, or the level of this experience, and regardless of the cultural distance between the countries the companies will favor a wholly owned subsidiary. However, it is important to note that the companies within this study have started to internationalize by entering foreign markets which have a similar culture, such as neighboring countries. In time, as international experience has grown, markets with less cultural similarities, farther away, have also been entered. However, the farther away the markets are, the more likely the companies are to consider acquisitions or franchising as a means of entering, in order to get access to local knowledge.

In this study only one of the companies had a specialized asset that seemed to affect the choice of entry mode. This specialized asset was particularly intended to facilitate and ameliorate the adoption of a wholly owned subsidiary through organic growth. This would make it unsuitable to adopt a collaborative mode. The other three companies did not have any specialized asset to protect but still did not consider using a collaborative entry mode. According to the resource-based theory a specialized asset would call for a high-control entry mode, this is supported by the findings in this case study.

According to the resource-based theory the company size is a common indicator of constraints and advantages regarding the ability of accepting high costs and risk in, for example, a sole ownership entry mode. However, contradictory to theory, in this study we have not found any relationship between company size and the choice of entry mode with regard to high or low control entry mode. All the companies in this study, regardless of size, chose the full control entry mode wholly owned subsidiary. Though, we do find that the larger the relative company size, regarding turnover, the more probable it is that the company will invest in an acquisition, which as we mentioned earlier is more risky and expensive. We have also come to the conclusion that the costs of starting up an office and enter via a full-control entry mode, within the staffing and recruitment industry, are relatively small and that this is of importance to the choice of entry mode since it enables even smaller companies to start up wholly owned subsidiaries. This makes the factor of company size less important for the entry mode decision.

Organizational culture is of large importance to the companies in this study, they have all mentioned that it affects the choice of entry mode. According to the resource-based theory that means that a high-control entry mode would be preferable in order to keep and implement the organizational culture. This matches the choice made by the companies in this study which have chosen a full-control entry mode. Thus, the finding of this study supports the predictions of the resource-based theory regarding the factor organizational culture. We have also come to the conclusion that the organizational culture is an important competitive advantage for staffing and recruitment companies mainly due to the nature of the product as discussed below.

A good company reputation is according to the resource-based theory an important competitive advantage, however it is very fragile. A good reputation is important to protect and guard by a high-control entry mode. We have in this study drawn parallels between company reputation and the brand, because the reputation concerns the brand. One of the companies in the study
has clearly mentioned that the fact that the brand is strong has an impact on the need for control. Even though the other companies have not mentioned having a strong brand or that the reputation was of importance to the choice of entry mode we believe that indirectly it is of importance. This is due to the fact that for a knowledge-intensive soft-service company, with intangible, non-customizable products that require simultaneous production and consumption, the reputation is important because it is an indicator of the service quality. Also when a company is following large customers such as one of the companies in our study does, the reputation is vital. All the companies in this study have chosen to keep the company brand and adopt a full-control entry mode. Our findings support the assumption made in the resource-based theory that a strong reputation and a need to protect the reputation will lead to a high-control entry mode.

None of the companies in this study seem to have been influenced by the need of a complementary resource. According to theory the need for such a resource speaks for an acquisition, merger or joint venture. None of the companies in this study need such support from other actors. Hence, complementary resources have not had any impact of the entry mode selection among the staffing and recruitment companies in this study. It could be that this factor is an unusual phenomenon within this business or that it is not applicable.

The nature of the product is, according to the resource-based theory, heavily influencing the choice of entry mode. The micro and macro characteristics that describe the nature of the product define which entry modes are feasible to use by a company. When looking at soft-service companies, the resource-based theory states that, due to the protruding characteristics of non-separable production and consumption and that it is not customizable, soft-services cannot be exported. This is supported by the findings of this study, none of the companies interviewed have even considered exporting. The only entry modes that the companies in this study have considered are wholly owned subsidiary and franchising, and the only entry mode adopted is wholly owned subsidiary.

As mentioned in the data analysis we find that many of the factors are intertwined or linked. The non-separability of production and consumption in combination with that it is non-customizable makes it very dependent on the staff performing the service. Since the staff cannot be controlled as other important sources of competitive advantage, the organizational culture as a means of motivating, guiding and leading the employees towards a high service quality is extremely important to staffing and recruitment companies. We believe that the quality of the service in turn affects the reputation and thereby the brand. The resource-based theory states that in order to take advantage of a strong organizational culture and to protect the company brand a high-control entry mode is necessary. This is how the nature of the product increases the need for control for these companies. All the companies in our study have clearly stated that they want and prefer to have wholly owned subsidiaries which offer full control. One factor that all of the companies have mentioned strongly effects the choice of entry mode is that the organizational culture is very important. This could support our conclusion.

From the findings in this study, all the companies consider home and host country factors to influence the decision of entry mode. We believe that this is true, but that it is difficult to see how home and host country factors affect the decision in some cases. It seems as though it affects the choice of market more than the choice of entry mode. Still, as an example, legislation can limit the legal company forms and forms of ownership and thereby the choice of entry mode. However, this seems to be more of a prerequisite for entering the market since a wholly owned subsidiary is the preferred and default entry mode.
The host market penetration affects the possibility of attractive acquisitions. Also, the farther away the market is located and the larger dissimilarity between the cultures, the less is the feeling of control and the more likely the company is to make an acquisition in order to gain local knowledge. All the companies within this study have chosen to enter via a wholly owned subsidiary regardless of the difference in home and host country factors. The expansion normally starts in the neighboring countries and then continues farther away.

One thing that this study shows is that the greater the cultural and geographical distance is, the lower is the perception of knowledge of the local market and culture as well as the feeling of control. This corresponds to the description in the resource-based theory. However, it does not have any real impact on the choice of entry mode towards a low-control entry mode as the resource-based theory predicts, the companies in this study have still chosen wholly owned subsidiaries. This would then contradict the predictions by the resource-based theory.

According to the theory in the frame of reference, control is the level of authority a firm may exercise over systems, methods, and decisions of the foreign affiliate, and a full control mode offers the best protection for a company’s competitive advantage gained from its resources. The **degree of control sought** is according to the resource-based theory influenced by the other factors. For example the theory states that the greater the cultural distance the more likely it is that soft-service firms will use a high-control entry mode since it allows for more freedom, learning about the culture and accumulating knowledge that is not available in the home country market. In this study, regardless of how distant the cultures have been the entry mode used has still been the same, wholly owned subsidiary. The degree of the international experience and the strength of the brand name are, according to theory, also affecting the degree of control sought and thereby the choice of entry mode. In this study however, the preferred entry mode has still been wholly owned subsidiaries regardless of the level of international experience or the strength of the brand.

The resource-based theory states that the level of control that an entry mode offers is the basic criterion for evaluation of the entry mode choice in service firms. The companies in this study have not all clearly stated that the degree of control sought has governed the choice of entry mode. But the other factors that they have mentioned are all closely connected to and as mentioned above influencing the need for control. For example, a high-control entry mode provides a better possibility of implementing the organizational culture and to protect the company brand and a strong organizational culture and brand, in turn, calls for a high-control entry mode.

A previously mentioned, the nature of a soft-service, strongly affects the need for control but as an underlying cause. Partly because it affects the need for local presence in the market, without a local office it is difficult to meet local consultants and clients. It is also partly because of its characteristics of intangibility, non-separable production and consumption and non-customization which make it heavily dependent on the staff performing the service. The staff strongly affects the service quality and the service quality in turn affects the reputation of the brand which is the strongest indicator of the product value to the company’s clients. This has implications for the need of a strong organizational culture and the importance of the brand reputation which, as mentioned, affects the need of control. Thus, it strongly affects the choice of entry mode even though indirectly. The nature of the product, that it is a knowledge-intensive soft-service, is somewhat of a basic precondition in the choice of entry mode, calling for a high-or full-control entry mode.
Finally we have found that management perceptions play an important role in the interplay between the influencing factors and their importance to the choice of entry mode. It is not necessarily the existence of a factor that influences the choice of entry mode but rather the management perception of its importance, for example regarding specialized assets, the sense of control and cultural differences in other countries. This would mean that the management attitudes, knowledge and experience might influence what is perceived as a source of competitive advantage and therefore is of importance to the choice of entry mode.

To summarize, when comparing the data gathered from this study of knowledge-intensive soft-service companies against the resource-based theory mentioned in the frame of reference we have come to the following conclusions:

- When comparing the resource-based theory with the data from this study we find that the factors called proprietary technology and complementary resources might not be applicable to this type of industry. This seems to be a result of the nature of the product, that it is a knowledge-intensive soft-service.

- Also, we find that though both the resource-based theory and the data from this study state that the international experience influences the choice of entry mode, the way it is influencing differs between the two. According to theory a soft-service firm that is inexperienced in international business and not accustomed to the local foreign market culture will favor a collaborative entry mode. This is not supported by the findings in this study, the entry mode adopted in this study was still the wholly owned subsidiary. However, we conclude that a lack of international experience and of knowledge of the local culture seem to make the company more prone to acquire a local company than to grow organically in order to start the wholly owned subsidiary.

- The other factors in the resource-based theory seem applicable to the data gathered from this study and seem to influence the choice of entry mode as it is mentioned in theory. Based on this we conclude that, in general, the resource-based theory still is applicable to knowledge-intensive soft-service companies.

- We conclude that the factors firm-specific resources, the nature of the product, home and host country factors and the degree of control sought all influence the choice of foreign market entry modes for knowledge-intensive soft-service companies to various extents. We draw the conclusion that the organizational culture, which is a part of the firm-specific resources and a source of competitive advantage, is one of the major factors influencing this choice within this industry, due to the preconditions posed by the nature of the product.

- We also conclude that irrespective of having or not having any so called firm-specific resources which constitute the source of competitive advantage, regardless of home and host country factors and the stated degree of control sought, all the companies have chosen wholly owned entry modes. The only factor that is held constant is thus the nature of the product since all other variables vary. This, we believe, offers support for the conclusion that answers research question one. That the nature of the product that
makes it necessary to establish the company locally and increases the need for a high level of control, making wholly owned subsidiaries the default entry mode for knowledge-intensive soft-service companies.

6.3 Implications for theory
The purpose of this study was to gain a better understanding of which entry mode(s) are used by knowledge-intensive soft-service companies and what factor(s) the entry mode decision is based on. We posed two research questions to investigate this. The study has been carried out through a literature review which led to the frame of reference and the gathering of data. From the data analysis and comparison with the theory we have found both support for and inconsistencies with the theories. This can be seen as a contribution to testing the external validity of existing theories. The conclusion is that there is need for more research on the applicability of these theories on the soft-service knowledge-intensive industry.

6.4 Recommendations for managers
This research has provided a better understanding of the selection of foreign market entry mode by knowledge-intensive soft-service companies. The findings of this study are that due to the nature of the product, that it is intangible, non-separable and non-customizable, it is important for these companies to exist locally. These characteristics also make the product highly dependent on the staff performance because the service quality affects the reputation of the brand, which is the strongest indicator of the product value to the company's clients. This implies that it is of importance to build a strong organizational culture and to bring and implement it when going international. This is best achieved through a full-control entry mode, namely the wholly owned subsidiary, and by using home country staff's knowledge and experience. It may also be advantageous to begin an international expansion in countries with a similar culture to gain international experience before continuing further establishments. Tough, it is important to be aware that there is still a cultural difference to take in to consideration. When entering countries of a larger cultural distance it may be appropriate to consider acquisition in order to gain local knowledge quickly. Yet, there is a balancing act to consider, because acquiring another company with an existing organizational culture might also present obstacles to implementing the own organizational culture. Therefore it is advisable to take the similarity or dissimilarity of the company structure and organizational culture into consideration when evaluating a potential acquisition and to consider using home country staff's knowledge and experience if possible. Finally it is of importance that practitioners are aware of the company's competitive advantage(s) and how these need to be protected and implemented when going international and choosing a foreign market entry mode.

6.5 Implications for future research
Based on the findings of this study we find that there is a need for further research in the area of knowledge-intensive soft-service industry with regards to the entry mode selection and the influencing factors. In general, the resource-based theory that this study has investigated seems applicable for knowledge-intensive soft-service companies, though it seems as though a few of the factors are less relevant than others or not relevant at all to the companies in this industry. However, this study has only looked at staffing and recruitment companies. It would be of interest to investigate other industries within the knowledge-intensive soft-service area. The researched staffing and recruitment industry is focusing some factors in the theory, perhaps
other industries would consider other factors important for the choice of the entry mode. It could also be interesting to make the same study within other countries. The sample could also be extended with regards to size, culture, scope and experience of the companies in order to increase the external validity. The study could be made with a quantitative approach, with a purpose to try to rank the importance of the influencing factors and increase the possibility of generalizing the findings. That might also show whether some factor is irrelevant for the knowledge-intensive soft-service industry. Also, this study provides a static picture, if and how the choice changes over time would also be of interest to study.
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**Books**


REFERENCES


Doctoral dissertations


Internet


Appendix 1

Interview guide in English

Background

Name and title of the respondent?

For how long have you been working in the company?

Are you involved in the decision making process concerning the selection of entry mode?

- Have you been involved in deciding on the mode of entry at the first entry into a foreign market?

- Have you been involved in deciding on the mode of entry when making a further establishment in a foreign market?

Who founded the company and when?

What was the company’s total turnover in 2007?

How many employees did the company have in 2007?

What is the company’s core competence?

Which entry modes do knowledge-intensive soft-service companies adopt to enter foreign markets?

- Entry modes – level of control

- Export methods:
  - Direct exporting (without middlemen)
  - Exporting (without middlemen)

- Contractual methods:
  - Licensing
  - Franchising

- Investment methods:
  - Wholly owned subsidiaries
  - Joint venture (shared ownership of a subsidiary)
  - Strategic alliances (cooperation with another company)

- Other: ?
Questions:
For how many years has the company been acting in the international market?
Which entry modes have you used?
In which countries have you internationalization and when?
  - Why were these countries chosen?
  - Which entry mode did you use for respective country?
Who decides on the choice of entry mode in your company?
How do you collect information before the decision?
Do you use existing staff or new recruitment?
What do the investments look like for the different entry modes you have used (with respect to for example time and resource demands)?
How much of your total sales revenue come from international sales?

What are the reasons that they base the entry mode decision on?
  - Resource-based theory
  - firm-specific resources,
    - firm-specific capabilities,
    - specialized assets,
    - firm size,
    - organizational culture
    - reputation
  - nature of the product
  - home and host country factors
  - the degree of control

Questions:
What are the reasons of your choice of entry mode (causes, factors)?
  - If you chose different entry modes, what were the reasons for that?
How important is the degree of control when choosing entry mode?
- How did it affect the choice?

How do previous experiences of entry mode selection affect future choices?
Who are your major competitors domestically and internationally?
Do you know which entry modes they are using?
Have their choices of entry mode affected your choice of entry mode?

Is there anything you believe is important that you would like to add?
Appendix 2

Interview guide in Swedish

Bakgrund

Namn och titel på respondenten?
Hur länge har du jobbat vid företaget?
Är du involverad i beslutsprocessen gällande val av inträdesmetod?
   - Har du varit med om att besluta om inträdesmetod vid nynärade på en främmande marknad?
   - Har du varit med om att besluta om inträdesmetod vid vidareuterheling inom en främmande marknad?

Vem grundade företaget och när?
Hur stor var företagets omsättning under 2007?
Hur många anställda hade ni år 2007?
Vad är företagets kärnkompetens?

Which entry modes do knowledge-intensive soft-service companies adopt to enter foreign markets?

- Inträdesmetoder - grad av kontroll

- Exportmetoder:
  o Direkt export (utan mellanhänder)
  o Indirekt export (med mellanhänder)

- Kontraktsmetoder:
  o Licensiera
  o Franchising

- Investeringsmetoder:
  o Helägda dotterbolag
  o Samägda dotterbolag (joint venture)
  o Strategiska allianser (samarbete med annat företag)

- Annat: ?
Frågor:
Hur många år har företaget agerat på den internationella marknaden?
Vilken eller vilka inträdesmetoder (entry modes) har ni använt er av?
I vilka länder valde ni att börja internationalisera och när?
   - Varför valde ni dessa länder?
   - Vilken inträdesmetod använde ni respektive respektive inträde?
Vem beslutar om valet av inträdesmetod vid ert företag?
Hur samlar ni information inför det beslutet?
Använder ni befintlig personal eller nyrekrytering?
Hur ser investeringarna ut för de olika inträdesmetoderna ni använt (är de exempelvis mycket tid- och resurskrävande)?
Hur stor andel av er totala försäljning sker internationellt?

What are the reasons that they base the entry mode choice on?
• Resource-based theory
  • firm-specific resources,
    - firm-specific capabilities,
    - specialized assets,
    - firm size,
    - organizational culture
    - reputation
• nature of the product
• home and host country factors
• the degree of control

Frågor:
Vilka är anledningarna till att ni valt de inträdessätt ni valt (orsaker, faktorer)?
   - Om ni valt att använda er av olika inträdessätt, vad har det berott på?
Hur viktigt är kontroll vid ert val av inträdesmetod?
   - Hur har det påverkat era val?
Hur påverkar erfarenheter från tidigare val av inträdesmetod fortsatta val?
Vilka är era främsta konkurrenter nationellt och internationellt?
Vet ni vilka inträdesmetoder de använder sig av?
Hur har deras val av inträdesmetod påverkat era val?

Är det något som vi inte frågat om som ni anser är viktigt i detta sammanhang?