Department of International Business

Internationalization and Foreign Market Entry Mode Choice
- An Alternative Approach:

The Kristianstad 3° Model

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Abstract

Historically there have been several theories that propose to give an explanation of a firm’s behavior regarding international expansion. As with all theories, each of these has met strong criticism for a variety of reasons. This dissertation attempts to develop an alternative theory for the internationalization of firms that will account for some of the major criticisms of the most prominent theories. In an effort to provide a logical model with common sense appeal, the foundations are built simply upon the interaction between a company’s ability to invest abroad, and its motivation to commit to a specific market. The suggested theory is based upon many vital concepts of these prior models, especially that of the Uppsala model because of its use of a stages approach. What separates the proposed model and that of Uppsala is the divergence from the concept of incremental movement through stages. Instead, stages are reached on a conditional basis, which allows for free movement between stages based on certain factor conditions. The model was founded on an interaction between the degree of a firm’s ability, and the degree of a firm’s motivation, which in turn depicted a certain level of commitment as regards foreign entry mode choice. Propositions were created to test the validity of the factors, as well as for testing how strategy also plays a role in entry mode choice. As this study was deductive, after the theory was developed with the help of existing literature, empirical testing was then able to take place on a sample of consumer product companies. Transaction Cost Analysis, the Eclectic Paradigm, and the Network theory were also instrumental in the development of this theory; therefore the paper includes an extensive literature review prior to the discussion of the theory. The results of empirical testing are then included, as well as an in depth analysis of those result. The analysis contains a detailed description of the findings from each specific proposition, and ends with a discussion of the combined results. Finally, the conclusions are presented to summarize the results, and to offer thoughts on practical implications as well as suggestions for further research.
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Chapter 1: Introduction

This first chapter will briefly describe the background of internationalization. Further, the problem and the aim of this dissertation will be discussed. The section will end with an outlined presentation of this paper.

1.1 Background

The internationalization of markets is an important process in the global world today. Internationalization can be defined the process of a firm’s adaptations to the demands of the international marketplace (Calof & Beamish, 1995). More and more companies enter new markets by export, licensing, joint ventures or by internalizing production facilities (FDI). In the past, companies began conducting international business in markets close to the domestic. Due to modern information technologies distant markets are coming closer together and they can be entered by new, ‘born global’ companies as well as by established ones.

In general, the internationalization process has sped up and it is much easier to internationalize than decades ago. The political and economical environment has also changed, and due to trade agreements like GATT and the common market in the European Union it is possible to gain access to almost every market and
location on the globe. The liberalization of markets also provides a large amount of resources, which makes it more beneficial to engage in international business. Companies are in a real fever to internationalize and some fall victim to being a bit overzealous. Instead of expanding rationally, some companies expand their business regardless of their actual ability to maintain the pace. The most cautious companies, of course, are thinking very carefully about the right entry mode before undertaking a foreign investment.

The idea for the subject of this dissertation arose when the authors found themselves questioning the behavior and motivation of people as they interact with foreigners. It was then thought to translate this idea into the work of the dissertation, and the topic of cultural differences made the Uppsala Model stand out. In turn, the decision was made to critique this model, and create one that could account for its criticisms. The process took many different directions to reach the actual aim of this paper, but the foundations came from this idea.

1.2 Problem Discussion

Many companies face the problem of how to internationalize, that is, which entry mode will best suit its needs and abilities. Small and medium sized companies are especially wary of this problem because their resources are limited. To choose an appropriate entry mode is of essential importance for companies because a failure to do so could prompt a large financial loss. Why a company chooses one market over another is discussed in the literature (for example Eclectic Paradigm, Network theory or Uppsala model), but a detailed explanation of why one entry mode is chosen over the other is not widely discussed in the theories. Similarly, the theories neglect to explain why and when mode changes occur. Existing literature attempted to explain these things, but has been unsuccessful in proving some basic behaviors of firms, and therefore it is not fully applicable to reality.
1.3 Research Aim

Based on the problem discussion above, the aim of this dissertation was to determine how companies behave as regards their choice of foreign market entry mode. The authors sought to prove that the degree that a company is willing to commit to internationalization depends on the ability a company has in terms of resources, as well as their actual motivation in terms of what the market has to offer. In connection with the ability and motivation factors, strategies such as risk minimization, control maintenance and profit maximization are discussed to explain the behavior of companies. To achieve this, a testable model was developed, consisting of several ability and motivation factors whose combination would explain the degree of a firm’s commitment.

1.4 Limitations

The research was limited to small and medium sized companies due in part to the limited time and resources of the researcher. It was difficult to find a general definition of small and medium sized companies in the literature; depending on the country of publishing, the number of employees varies. For simplification of this dissertation, small and medium sized companies are regarded by the researchers as those with less than 5000 employees. Most large, multinational companies began their internationalization process decades ago and it would be impossible to investigate their behavior in the past with any precision. In order to do this one would need to contact a high executive, which would be nearly impossible for one company, let alone enough for an entire sample. As mentioned before, the model fails to explain why companies choose one market over another, nor does it explain why firms initially choose to expand into foreign markets. This latter problem was considered of little consequence to the researchers because it can generally be assumed that companies are continually seeking to expand market share in areas where they are not represented.
1.5 Outline

Chapter 2: Methodology
This section deals with the methodology used for conducting the research. The research philosophy will be discussed as well as theoretical and empirical research methods and an introduction to the chosen theory. In the end the used sources will be reviewed critically.

Chapter 3: Literature Review
This chapter is a presentation of existing theories in the field of internationalization. They are widely recognized and discuss why and where a company will start their international business. The theories in this chapter provide the framework for this dissertation and they are used as a basis for the development of the proposed theory.

Chapter 4: Proposing an Alternative Model
This chapter incorporates many concepts from the preceding literature review in an attempt to create an alternative internationalization model that is more practical for the modern international marketplace. It begins with an overview and a description of the model, then continues with definitions of each factor involved, as well as a series of propositions that were developed for analysis in the empirical study.

Chapter 5: Empirical Method
In this section the method for the empirical research will be explained. This will include the research strategy and the data collection method as well as the sample selection. Further will be a discussion of the questionnaire, the operationalization and the data analysis. This chapter ends with a discussion of reliability and validity.

Chapter 6: Analysis
This chapter will present an evaluation of the empirical results. Every factor will be analyzed separately to explain the entry strategy according to the developed
theory. The values of the factors will also be tested in this chapter to determine whether or not the proposed model was correct.

Chapter 7: Conclusions
This final chapter will begin with a brief summary of the findings from the study, then it will continue with conclusions regarding the positive, as well as the negative aspects of this study as a whole. Also included will be several suggestions for future research, and in closing will be some final thoughts from the researchers.
Chapter 2: Methodology

This section deals with the methodology used for conducting the research. The research philosophy will be discussed as well as theoretical and empirical research methods and an introduction to the chosen theory. In the end the used sources will be reviewed critically.

2.1 Research Approach

The choice of a research approach is connected with the existence of theories. If there are already well established theories, a deductive approach is most suitable compared with an inductive approach that assumes a lack of theory. According to Saunders et al. (2003) “…your research should use the deductive approach, in which you develop a theory and hypothesis (or hypotheses) and design a research strategy to test the hypothesis, or the inductive approach, in which you would collect data and develop theory as a result of your data analysis.” Also according to Saunders et al. (2003: 86), a deductive approach is one in which a theory is developed and tested through a rigorous test. Different theories of internationalization have been reviewed, and as a result they have provided basic ideas for this dissertation. Therefore a deductive approach was used for this study because an inductive approach would assume the absence of theory and this is not the case.
Robson (1993: 19; cited in Saunders et al., 2003) lists five sequential stages through which deductive research will progress:

1. deducting a hypothesis (a testable proposition about the relationship between two or more events or concepts) from the theory;
2. expressing the hypothesis in operational terms (that is ones indicating exactly how the variables are to be measured), which propose a relationship between two specific variables;
3. testing this operational hypothesis (this will involve an experiment or some other form of empirical inquiry);
4. examining the specific outcome of the inquiry (it will either tend to confirm the theory or indicate the need for its modification);
5. if necessary, modifying the theory in the light of the findings.

During the development of the new theory/model, different variables were identified that were assumed to influence the commitment of firms in internationalization. Further, these factors were evaluated in a survey to test the model. The intention was to find out whether they had a predictive or explanatory capacity and whether it is possible to generalize the model. The outcome of the inquiry was analyzed carefully in order to obtain valid conclusions that would either confirm the theory or indicate the need for its modification.

2.2 Choice of Theory

Through extensive research on the topic of internationalization, the authors of this paper have encountered several theories and models offering its explanation. Based primarily on the general consensus of various researchers, but also on the personal opinion that they are the most helpful in the development of a new model, four (4) schools of thought have been chosen for review.

Most important for this study is the stages approach, best exemplified by the Uppsala Model of Internationalization. This approach describes foreign entry as an incremental process in which a multinational enterprise sequentially moves
from stage to stage, involving a gradual increase in geographic and psychic distance as experiential knowledge is obtained (Johanson & Vahlne, 1977). As will be discussed below, the model developed in this paper is a modified version of the stages approach; therefore this school of thought will be discussed at length.

First of the remaining theories is the transaction cost approach, developed initially by Coase (1937) and Williamson (1971). Designed primarily to explain why a firm chooses either to buy parts or components from a supplier, or produce them itself, this theory emphasizes the costs involved in doing one over the other. Second is the eclectic paradigm, which was pioneered by John H. Dunning in 1980. He focuses on the advantages a firm can capitalize upon that are specific to the firm, the location, or the internalization of processes. Last to be discussed will be the network approach, which explains foreign entry as dependent on international network relationships and contacts (Johanson & Mattsson, 1988).

Each of these theories has enjoyed widespread recognition. A great deal of empirical studies has also been undertaken in response to the impact that they have had on economics. However, criticisms of these ideas have surfaced among this admiration, therefore this paper attempts to draw upon the positive qualities of each, while attacking the criticisms they fail to explain.

2.3 Scientific Approach

The research philosophy depends on the way knowledge is developed. Three (3) different philosophies can be chosen; positivism, interpretism or realism. “They are different, if not mutually exclusive, views about the way in which knowledge is developed and judged as being acceptable” Saunders et al. (2003: 83).

Characteristic for the positivistic research philosophy is that the researcher is a kind of objective analyst who makes coolly detached interpretations of collected data in a value-free manner. The aim of the researcher is to have an output that
allows replication. An important factor to achieve this is that the researcher is independent and not able to influence or be influenced by the subject of the research. The results are law-like generalizations (Saunders et al., 2003).

The interpretivistic philosophy is characterized by the understanding of processes. This philosophy tries to regard the details of the situations to understand the reality or perhaps a reality working behind them. These situations take place in a complex, unique environment that is difficult to generalize. The knowledge developed in such research is subjective due to the fact that motivations for actions are regarded. The researcher is directly affected by the reality, actively and passively by influencing and being influenced (Saunders et al., 2003).

The existence of a reality, independent of human thoughts and beliefs is the basic idea of realism. People’s perception can be influenced by large-scale social forces that can be seen as indicated by this idea. The perception of the environment of these people will be influenced by social phenomena or objects, whether they are external to, or independent of these people. Realism considers the socially constructed interpretations and meanings of people to understand the nature of people's views and behaviors (Saunders et al., 2003).

For the research of this dissertation, a realistic research philosophy was chosen. The reason for this is related to the theory that is discussed in this dissertation. In the theory the behavior of companies is explained. Giving this, the authors were unable to generalize their findings like nature scientists do in the positivistic research philosophy; however the gap is very thin between these philosophies regarding the objective nature.

Two different types of data can be collected, regardless of the chosen research philosophy. This data can either be qualitative or quantitative, depending on the level of measurability. Quantitative methods are widely measured by statistical and mathematical formulas. Due to this, a questionnaire must be standardized and equal for all recipients. Qualitative based research tends to use non-standardized questions and therefore a personal contact is inevitable. The
outcome of such a method is used to understand and interpret rather than having exact numbers.

In this dissertation the development of propositions and the intention to test them led to the decision to collect quantitative data. The quantitative data was collected in a survey. The intention was to test the propositions on French, German and U.S. companies of small and medium size. The sample was selected beginning with the collection of secondary data about potential companies. A questionnaire was created and sent out by e-mail.

2.4 Critical Review of Used Sources

Many researchers have investigated the internationalization process of companies and parts of their thoughts are contained in this dissertation. Instead of being a threat to new ideas, each chosen theory contributed in a positive way to the output – by limiting the concepts and guiding the research. However, more theoretical research can be done and internationalization of firms is a wide field. The developed theory in this dissertation may improve other, already existing theories or might be improved by them.

The advantage of questionnaires is that all participants can answer the questions without being influenced by the researcher. The participants have to interpret the questions in their way of thinking and in a familiar surrounding. Other advantages are the speed of data collection and lower costs, especially due to the fact that the questions were delivered by e-mail.

Disadvantages came from the fact that the survey was quite ambiguous for the recipients. They did not know anything about the research or the people behind it. It was also unclear who would receive the survey, and what position they would be in. It was very helpful that the answers came back by e-mail so that the signature gave an indication.
Chapter 3: Literature review

This chapter is a presentation of existent theories in the field of internationalization. They are widely recognized and discuss why and where a company will start their international business. The theories in this chapter provide the framework for this dissertation and they are used as a basis for the development of the proposed theory.

3.1 Introduction

Several theories exist in business literature that explain the internationalization process of firms. The existing theories give attention to the question why and where a company will enter a new market. There is the monopolistic advantage theory (Caves, 1982), the product life-cycle theory (Vernon, 1966), the Uppsala internationalization model (Johanson & Vahlne, 1977), the oligopolistic reaction theory (Knickerbocker, 1973), the eclectic paradigm (Dunning, 1980), the network theory (Johanson & Mattsson, 1988), the transaction costs analysis (Williamson, 1991), the internationalization theory (Buckley & Casson, 1976), monopolistic advantage theory (Caves, 1982), strategic choice theory (O’Farrell et al., 1998) and other. In this dissertation, the Uppsala internationalization model, the transaction costs analysis, the eclectic paradigm and the network theory are critically reviewed, as they were considered by the researchers to be the most relevant.
3.2 Uppsala Internationalization Model

The basic assumptions of the Uppsala theory are that companies begin their operations abroad in fairly nearby markets. After some time, they start to penetrate more distant markets. Another basic assumption is that companies entered new markets first through export.

The table below illustrates the different modes of operation and market commitment:

<table>
<thead>
<tr>
<th>Mode of Operation</th>
<th>Market (Country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Regular Export (Sporadic Export)</td>
<td>Market A</td>
</tr>
<tr>
<td>Independent Representatives (Export Modes)</td>
<td>Market B</td>
</tr>
<tr>
<td>Foreign Sales Subsidiary</td>
<td>Market C</td>
</tr>
<tr>
<td>Foreign Production and Sales Subsidiary</td>
<td>Market D</td>
</tr>
<tr>
<td>FDI</td>
<td>Market N</td>
</tr>
</tbody>
</table>

Increasing Market Commitment
Increasing Geographic Diversification
Increasing Internationalization

Figure 3.1: Internationalization of the Firm. An Incremental Approach.
(Source: Adapted from Forsgren and Johanson, 1975)

Johanson & Wiedersheim-Paul (1975) distinguish between four different modes of entering an international market. Johanson & Wiedersheim-Paul describe four different stages, and the successive stages represent a higher degree of international market commitment. In the first stage, companies do no regular
export activities. The only international activity they participate in is the processing of unsolicited orders. An advanced foreign entry mode is a regular export via independent representatives, which, according to Johanson & Wiedersheim-Paul is stage two. Stage number three is the establishment of a foreign sales subsidiary. The last stage is the engagement in foreign production and manufacturing.

This theory was established after Johanson & Wiedersheim-Paul investigated the behavior of four Swedish companies. The authors do not expect the development to always follow the whole chain, but gradual process of internationalization is claimed to be the most typical (Johanson & Wiedersheim-Paul, 1975).

Johanson & Vahlne later adapted their model by stating that there were three exceptions to explain how some companies tend not to behave like predicted in the stages model. First, firms with large resources can take larger steps. The second exception is that market knowledge can be gained in other ways than through experience, especially if market conditions are homogeneous and stable. The last exception is that it might be possible to generalize the experience to a specific market if the company has considerable experience from markets similar to the one the company wants to penetrate (Johanson & Vahlne, 1977; 1990).

The Uppsala theory also suggests when it comes to internationalization across countries, that a company would enter new markets with successively greater psychic distance. The first study was made by Wiedersheim-Paul in 1972 (Johanson & Wiedersheim-Paul 1975). The psychic distance is defined as a combination of factors that influence or disturb the flow of information between the market and the company. Factors could be differences in language and culture, the level of education, industrial development, and the political system in the new market (Johanson & Vahlne, 1977; 1990). Due to these factors, companies start internationalization by going to markets where uncertainty is low and they will easily understand.

According to Johanson & Wiedersheim-Paul (1975) and Johanson & Vahlne (1977) the psychic distance is correlated with geographical distance. Exceptions could be, for example, a close psychic distance between Great Britain and Australia or the United States. On the other hand The United States and Mexico
have a relatively large psychic distance but geographically they are very close to each other. However, psychic distance is not a static pattern, it could change due to increased trade or developed communication systems.

The main structure of the Uppsala-model is given by the distinction between state and change aspects of internationalization variables. The change aspects are decisions to commit resources and performance of current business activities. The state aspects are the market commitment and knowledge about foreign markets and operations. The basic idea concerning the model is that market knowledge and market commitment affect both commitment decisions and the way current decisions are performed. These, in turn, change market knowledge and commitment.

**State Aspects**
According to Johanson & Vahlne (1977) two factors are important regarding the market commitment. First, the amount of resources committed, and second is the degree of commitment. The amount of committed resources could be described as the size of investment in the market. This includes investment in marketing, organization, personnel etc. The degree of commitment could be explained as the difficulty to find an alternative use for the resources and transferring them to this alternative. The higher degree of commitment, the more the resources are specialized. Regarding market knowledge, a distinction can be made between general market knowledge and market-specific knowledge. Internationalization requires both. Market knowledge about a specific market (business climate and business culture) is mainly gained through experience. This experience is the critical element because it can only be acquired personally. It is assumed, that there is a direct relation between market knowledge and market commitment. The commitment will increase with a better knowledge about the market (Johanson & Vahlne, 1977).

**Change Aspects**
The major sources of experience are current business activities. A distinction can be made between firm experience and market experience. Usually experience has to be acquired through a learning process within the company (firm experience)
in connection with current business activities. However, it is possible to hire people with special market experience to speed up this process. This process will lead to specific market knowledge in the future (Johanson and Vahlne, 1977). Regarding commitment decisions, it is important to think about risk and opportunities in the market and therefore the commitment decision will depend on experience. Concerning risk, the firm is willing to take further commitment, when the risk that is taken for this operation is acceptable. The experience will depend on currently performed operations in all markets, domestic and foreign.

*Critique of the Uppsala Model*

Criticism concerning the Uppsala theory is quite varied. One that most researchers can agree on is its tendency to be too deterministic (Calof & Beamish, 1995). This is to say that its explanation of incremental movement between stages does not allow for any variation, such as a company with a great deal of experience that continues exporting to some markets. It also cannot account for firms that are able to leap-frog stages.

A study made by Nordström (1991) regarding the behavior of Swedish firms, showed that the average of them was entering West Germany, the United Kingdom and the United States before the neighboring countries Denmark, Norway and Finland. According to Nordström a reason could be that the internationalization process as a whole seems to have sped up. In his article Nordström discussed two tendencies that limit the explanatory power of the Uppsala model. First, Nordström refers to Porter (1980) who claims that the world has moved towards homogenization. The force that drives the world towards one convergent unit is, according to Levitt (1983), technology. Nordström argues that it is hard to separate cause and effect, because the interaction of political technological and economic forces is to complex. Indeed, the common market in the European Union and trade agreements like GATT has deregulated the world trade and contributes the process of homogenization. Homogenization reduces uncertainty for companies entering new markets because homogenization lowers the psychic distance.
Secondly, companies have much better knowledge regarding internationalization. Nordström (1991) argues that due to universities and management training centers, obtaining knowledge about internationalization is faster and more readily available. Instead of developing knowledge within the company, companies tend to hire people with knowledge in international business. If it is impossible to hire this kind of people, consulting firms can contribute their knowledge to overcome uncertainty and compensate a lack of experience. The development of information technologies helps also companies to get knowledge of a distant market and contributes to the leap-frog strategy of some companies.

Another study, made by Lindqvist (1988) was investigating the behavior of small technology based firms. In this study, Lindqvist showed that that the companies were not following the stage model predicted in the Uppsala theory for their internationalization. It was mainly explained that the size of firms were rather small. Another explanation could be that technology based companies are very focused on technological factors which limit the explanatory power of psychic distance suggested in the Uppsala theory.

Nevertheless, the Uppsala theory is applicable for explanations of firms’ behavior in internationalization regarding commitment and experience combined with cultural distance. Due to the fact that the theory is not applicable for service industries it is limited to exporting businesses.

### 3.3 Transaction Cost Analysis

Transaction cost analysis offers an approach unlike the Uppsala model in that the primary emphasis (or unit of analysis) is placed upon the costs and benefits associated with the transaction, rather than the attributes and behavior of the firm. This idea was first proposed by John R. Commons in 1934 (Williamson, 1991).
Broadly defined by Arrow (1969), transaction costs are the “costs of running an economic system” (cited in Williamson, 1991). The concepts associated with this approach were pioneered by Ronald Coase in his paper, *The Nature of the Firm* in 1937. Coase begins with a discussion of the price mechanism in economics, and how it is believed by economists to be the coordinating force behind supply and demand, as well as production and consumption. Subsequently he asks why firms even exist if the price mechanism truly acts in this way. He then proposes that, “The main reason it is profitable to establish a firm is that there is a cost of using the price mechanism.” Firms therefore reduce these costs through (among other things) the allocation of resources. Alternatively, then, must come the question why all production is not carried out by one massive firm. The problem is that a firm increases in size as it conducts a greater amount of transactions, but as this amount increases, the costs may begin to outweigh the returns, or resources may be incorrectly allocated. Therefore an equilibrium must be reached in which the cost of an additional transaction is the same within the firm as it would be if performed in an exchange market (Coase, 1937).

Coase (1937) distinguished the market and the firm as different governing modes of organization for the same transactions. He uses sales tax as an example to describe how it applies only to transactions occurring on the market, and does not apply to those same transactions if conducted internally. Oliver Williamson (1991) created a more detailed classification of these polar governance modes as market, and hierarchy (the firm), as well as the hybrid mode, which includes (not exhaustively) contractual agreements and joint ventures. Each mode has general strengths and weaknesses with regard to adaptability, incentive and control instruments, and contract law.

Williamson (1991) suggests that, “transactions, which differ in their attributes, are aligned with governance structures, which differ in their costs and competencies, in a discriminating (mainly transaction-cost-economizing) way.” He further identifies these differentiating dimensions as transaction frequency, uncertainty, and most importantly asset specificity. Asset specificity is especially relevant in transaction cost analysis because it refers to the difficulty or ease (high or low cost, respectively) with which an asset can be transferred, or used in
another fashion than originally intended. It is then subdivided into six separate forms of specificity: (1) site specificity, (2) physical asset specificity, (3) human-asset specificity, (4) brand name capital, (5) dedicated assets, and (6) temporal specificity (Williamson, 1991). Therefore the destination of a transaction is dependant upon the combination of its attributes as just described, and the attributes of the alternative modes of governance (Williamson, 1996).

Two main assumptions are paramount within the transaction cost framework, and they are bounded rationality, and opportunistic behavior (Andersen, 1997). Bounded rationality is the idea that as a situation becomes overly complicated, our sense of logic eventually loses its ability to interpret that situation. This problem is compounded by the fact that when complicated situations are interactive, that is, involving several agents or parties, each cannot expect that the other will respond with perfect rationality. “The bounded rationality of firms, both a cause and a result of path-dependencies, behaves as a binding constraint, especially in more dynamic and competitive environments” (Nelson & Winter, 1982; cited in Madhok, 1998). This assumption is one that acts as an advocate for the internalization of production, because if rationality is to be bounded, it is best bounded by the firm than the individual.

Opportunistic behavior is believed to be in the nature of a person, in that one will work with his or her best interests in mind, often taking advantage of an asymmetric distribution of information to misrepresent the value to another party (Madhok, 1998). Opportunistic behavior is also a result when know-how of a firm is especially tacit. Tacit knowledge is that which is especially difficult to articulate, and therefore assign a value to. In other words, the value lies in the actual knowledge. For example, a licensor would not want to completely discuss the knowledge with a licensee until payment has been made, but the licensee would not want to pay until it had an idea of what exactly the knowledge was. This buyer uncertainty problem, or ‘information paradox’ is believed to provide a strong argument for internalization (Madhok, 1998). Incomplete contracts also bring about opportunism, as Teece (1976) explains that there are “risks associated with relying on contracts…open displays of opportunism are not infrequent and very often litigation turns out to be costly and ineffectual.”
At the heart of most early research in the area, authors “emphasize the benefits of control in response to situations in which there are difficulties in writing or enforcing complete contracts” (Grossman & Hart, 1986). Therefore, transaction cost analysis offers a great deal of predictive ability when analyzing the vertical integration of firms (Whitelock, 2002). In other words, it is useful in describing the “make or buy” decision, that is, whether a firm will produce according to its own needs, or obtain products or services through an outside supplier (Williamson, 1996). Five types of market failure defend the position that in most cases, internalizing production (vertical integration) can minimize transaction costs. These types are: (1) static markets, such as oligopolies; (2) contractual incompleteness, which induces high costs and many times, litigation; (3) strategic misrepresentation risk, such as costs from uncertainty; (4) information processing effects, which are a firm’s abilities to realize economies of information exchange; and finally, (5) institutional adaptations, such as avoidance of sales tax (Williamson, 1971). Most simply, Transaction cost analysis helps to prove how a company looking to maximize profits will choose to internalize activities when it is ultimately less expensive than outsourcing (Alchian et al., 1978).

This predictive ability is mostly due to the fact that the analysis places emphasis on the polar modes of governance, market and hierarchy, while hybrid modes are treated as heterogeneous (Andersen, 1997). It is because of this relationship to vertical integration that transaction cost analysis is also very closely linked with internalization theory, which clearly draws upon the TC approach. Each theory advocates the minimization of transaction costs in relation to all types of market failure, as well as the choice of governance mode, which assists in this minimization (Madhok, 1998). “The primary difference is that the focus of internalization is on the market for know-how while that of TC economics is on more microlevel transaction characteristics such as asset specificity” (Teece, 1986; Madhok, 1998).

Although empirical studies within the field have been relatively successful, criticisms of the transaction cost approach have surfaced. One of these is that transaction costs are quite difficult to measure. A kind of paradox is apparent
because the consideration of transaction costs should take place before the choice of entry mode is determined, but it is almost impossible to calculate them until after the foreign entity has been established. Another criticism is that many of the studies that have taken place have used modified forms of the transaction cost theory. These modifications give the implication that the original decision criteria of transaction cost minimization is obsolete because using other criteria will almost surely provide results that are incompatible (Andersen, 1997).

3.4 Eclectic Paradigm

The eclectic paradigm, also known as the OLI paradigm was introduced by John H. Dunning in 1980, and explains how the choice of a firm’s international market entry strategy is dependent on three types of advantages, namely owner-specific advantages, location-specific advantages and internalization.

According to Dunning, the answer to the question of whether a firm is going to engage in a foreign direct investment depends on three determinants. First are its firm-specific assets, which are those that competitors do not have. Second, the firm must decide whether it will use these assets by itself instead of selling or leasing them to other firms. Finally, the exploitation of these assets must be more profitable in conjunction with the endowments in the host country than of those in the home country (Dunning, 1980).

(1) **Owner-specific advantages** are advantages that a firm gets due to the fact that it has a specific size, capital, brand name, or specific management skill (Dunning, 1980). These **general** owner-specific advantages exist regardless of any international activity. The result of strong ownership-specific advantages is the temptation of an investment abroad. However, it can be difficult to serve these markets, especially with competition from domiciled competitors. According to Hirsch, the firm must own additional ownership-specific advantages to compensate the disadvantages of an unfamiliar environment (Hirsch, 1976; cited in Dunning 1980). The term **additional** (or special) owner-specific advantages refers to advantages that exist due to
internalization, such as risk reduction by the diversification of capital investments, the ability to shift liquid assets between currency areas and to engage in international transfer pricing (Rugman, 1979; cited in Dunning 1980). Dunning also suggests parallel production, the ability to develop differentiated products, reduction of impacts of strikes and efficient access to resources (1977). To provide the firm with an competitive advantage in the entry mode selection, ownership specific advantages need to be unique and substantial. (Brouthers et al., 1996; Porter, 1980)

(2) **Advantages** that arise from a **specific location** refer to the institutional and productive factors which are present in a particular geographic area. According to Dunning (1988) these factors are available to all firms in that particular market. Competitive advantages arise when a firm uses these country specific factors. For example, exploiting low labor costs to have a cost advantage in all markets where the products are sold. Another possible competitive advantage could be within the new market, one example being better coordination of firm activities (Dunning, 1988). This can be achieved through access to favorably priced raw materials and human resources, close proximity to the consumer, or incentives by the host government like tax reduction and subventions (Dunning, 1980). In addition, measures of location advantages include similarity in culture, of market infra structures and the availability of lower production costs (Dunning, 1993).

(3) Under **Internalization**, all advantages that are connected with a firm’s internal value creation process are subsumed, such as a reduction of the search of information, the avoidance of high negotiation costs, reduction of contract risks and control costs, or simply the protection of know-how (Dunning, 1980). The internalization advantages are related to the integration of transactions into multinational hierarchies through FDI (Dunning, 1988). Williamson (1981) refers to costs (transaction costs) that arise from internalization. These costs must be regarded in connection with the costs of finding and maintaining an external relationship to perform the same functions in the internal market.
Table 3.1: Eclectic Theory of International Production (Source: Macharzina, 2003: 844)

<table>
<thead>
<tr>
<th></th>
<th>Owner-specific advantages</th>
<th>Internalization advantages</th>
<th>Location-specific advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment</td>
<td>existing</td>
<td>existing</td>
<td>existing</td>
</tr>
<tr>
<td>Export</td>
<td>existing</td>
<td>existing</td>
<td>not existing</td>
</tr>
<tr>
<td>International contracts</td>
<td>existing</td>
<td>not existing</td>
<td>not existing</td>
</tr>
</tbody>
</table>

Regarding the table above, it is apparent that for all market entry strategies the existence of owner-specific advantages is a necessary condition, but it is not self-sufficient. Firms that only have owner-specific advantages, handle their foreign business with international contracts. Firms with owner-specific advantages and internalization advantages prefer exports, while firms with all three types of advantages might have a tendency to do foreign direct investment (Macharzina, 2003). The question arises, why would a firm exploit its owner-specific advantages itself rather than selling or leasing them to other companies (externalize) in a particular market? One possible answer, according to Dunning, is to overcome the disadvantages of the market imperfections. These market imperfections can arise when transaction costs are high, or information about the product is not available or difficult and costly to acquire (Dunning, 1980). Another answer might be that the firm wants to keep control over its assets, or control the quality and the after-sales. The legislation of the host country, including the tax system, can also stimulate a company to internalize rather than externalize (Dunning, 1980).

**Critique of Eclectic Paradigm**

Dunning’s eclectic theory uses several basic theories to explain the choice of entry mode. International trade theory, transaction cost theory and the resource based theory are all partially included. Due to that, the concepts of each theory provides complementary and sometimes overlapping of foreign entry mode. Another problem could arise due to the different variables. It is difficult to analyze and interpret each effect of interrelationships among the determinant
factors (Itaki, 1991). Transaction costs must be included in the consideration of entry-modes (Hennart, 1989; Gatignon and Anderson, 1988), but it is nearly impossible to accurately calculate them before the internationalization has been established (Dunning, 1993; Buckley 1988).

3.5 Network Theory

According to Anderson et al. (1994) a business network is “a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors”. These actors include suppliers, distributors, customers, governments and competitors as well (Sharma & Johanson, 1987). Usually, networks have an informal character. However sometimes formal groups, associations, and governments can build up a network; the participating companies can then have a common goal.

Johanson and Mattsson’s Network Approach to Internationalization

According to Johanson & Mattsson (1988), if a firm internationalizes, the strength and number of the relationships between various parts of the business network increases. Under a business network Johanson and Mattsson consider the relationships a company has with its suppliers, distributors, customers, governments and competitors. All the involved actors have a mutual benefit from that network. Business networks will emerge in fields where coordination between specific actors can give strong gains and where conditions change rapidly. If a company internationalizes, the company can create and maintain relationships with other firms in other countries. This can happen in different ways: First, a company can build relationships with other foreign companies that it is not yet involved with (international extension). Second, a company can improve its commitment in already established networks in other countries (penetration). Third, a company can integrate itself better in networks in different countries (international integration).
The network allows firms to exchange information and acquire knowledge. According to Hadjikhani (1997), the role of information and knowledge in the internationalization process means that the use of business networks improves understanding of internationalization. The network also helps companies to overcome cultural barriers and improve their knowledge of new markets. It also allows companies can gain access to markets and resources. The assumption in the network model is that companies can gain access to resources controlled by other companies through that network.

**Network Categories**

Johanson & Mattsson (1988) explain four categories of companies in the network model: The Early Starter, the Lonely International, the Late Starter and the International Among Others.

The **Early Starter** is a company that has few international relationships with its suppliers and competitors. Due to that, the Early Starter has limited knowledge of foreign markets. As a result it is difficult for the Early Starter to acquire this knowledge in the domestic market. To overcome this problem, the Early Starter uses an agent to enter foreign markets. The benefit of this mode of entry is a reduction of cost and uncertainty. The Early Starter can also take advantages from the previous knowledge and investments of that agent. Customers or distributors in that new market provide a potential reason why companies become an Early Starter.

Characteristic for the **Lonely International** is that it is highly internationalized, but the other actors are still focused on the domestic market. The Lonely International has acquired his market knowledge in prior undertakings and he is the only company who is able to promote the internationalization of the market because he has a well established position in the network. The firm’s relationships may function as a bridge for its suppliers and customers to other national networks.

The **Late Starter** is a company in a market environment that is already internationalized. Due to his suppliers, customers and competitors, the Late
Starter has indirect relationships with business networks abroad. These relationships drive the Late Starter to internationalize, but markets with close psychic distances might be difficult to enter. Competitors already have more market knowledge and it is difficult for a newcomer to gain access to an already established network. This might be the reason, why Late Starters enter more distant markets than markets with a close psychic distance. Depending on the resources of the company it is also possible to gain access to a network through a joint venture or an acquisition.

The last category is the **International Among Others**. Typical for an International Among Others is that it operates in a highly internationalized market and has already acquired international knowledge. This highly internationalized environment is connected through various international networks. Due to these networks, the company gains access to external resources. The International Among Others has the possibility of using the position in one network to get access to another network to penetrate and extend activities. This can increase intra-firm trade and production coordination across borders. Due to this, the International Among Others has to speed up with the establishment of foreign sales subsidiaries to coordinate sales and marketing in different markets.

**Critique of the Network Model**

One thing to criticize is the lack of discussion regarding the decision-maker. It might happen that the network is going to internationalize, but the decision-maker fails to recognize it. The decision-maker also may be unwilling to follow internationalize for various reasons, like losing control over the company. This is supported by Calof & Beamish (1995), who contend that it is the attitudes of managers that drive internationalization.

Another point to criticize is that the model does not explain how companies manage problems that can be created through the network relationships. Due to these relationships, the company might be controlled in that way, the markets the company will enter next. Further on, relationships must be cultivated and since resources and time are low, the number of relationships limited. Thus new and
perhaps more valuable relationships cannot be formed nor cultivated (Gulati et al., 2000). Further, the model does not regard external factors such as government decisions about economic policies and intensive domestic competition, nor does it say anything about relationships that are created by interactions from formal associations. It just explains relationships that are self-established between companies.
Chapter 4: Proposing an Alternative Model

This chapter incorporates many concepts from the preceding literature review in an attempt to create an alternative internationalization model that is more practical for the modern international marketplace. It begins with an overview and a description of the model, then continues with definitions of each factor involved, as well as a series of propositions that were developed for analysis in the empirical study.

4.1 Devising the Model

Subsequent to the in depth critique of the Uppsala model of internationalization, it became increasingly clear which facets of the model were applicable in practice, and which ones could not be well supported beyond theory.

Generally speaking, the framework of the stages approach is quite logical and undeniable, considering that increasing amounts of commitment, whether resources or investment, are necessary when moving from export at one extreme, to FDI at the other. This concept has been widely accepted, and provides a logical structure from which theories can be based. The major problem that these theories fail to resolve is the manner in which a firm moves between these stages, and what those moves are motivated by. To more accurately describe this discrepancy, it can be said that Uppsala, for example, theorizes that movement
between stages is incremental (see fig. 4.1). In other words, a firm moves step by step down the line of entry modes, gradually increasing their commitment. This, however, is not always the case. In fact, Millington & Bayliss (1990) suggest that it should be considered as an exception rather than the rule (cited in Calof & Beamish, 1995). Further, the model describes the cause of this movement to be based upon a single independent variable, or determining factor, that being experiential knowledge. The assumption that a single factor determines a firm’s progression through various entry modes leaves room for an unacceptably large margin for error during empirical testing.

The concept of incremental movement through stages suggests that a stage cannot be reached before all preceding stages have first been reached. It can be illustrated as shown in figure 4.1.

![Figure 4.1: Incremental Movement](image)

Each stage can be though of as a separate, adjacent room, with each one being connected by an inner door. For a company to pass through a door to the next stage it must have a certain key to unlock it. Using the Uppsala model again as an example, this so-called key is a certain level of experiential knowledge. As the company enters each room it is necessary to acquire a new key (new experiential knowledge) to enter the following room.

As noted above, this concept fails to answer many questions regarding the behavior of some companies in reality. The two most notable examples are, (1) how are some companies able to skip, or “leap frog” certain stages, and (2) why are there companies that have all the necessary “keys” of experiential knowledge but choose to remain in a lower stage of foreign entry mode? In the most basic sense, the first question gives the indication that companies such as those have some special ability to skip stages, and the second question indicates that those firms have some special motivation to remain in a lower mode. It is these two
factors, ability and motivation, that replace experiential knowledge as the “key(s)” in the new model. Aside from having two determinant factors instead of one, the new model’s structure is not incremental, but rather conditional. In other words, firms do not move between stages step by step. Instead, they can potentially enter any stage based on the condition of their ability and motivation. The previous illustration, adjusted to accommodate these new conditions, appears as shown in figure 4.2.

![Figure 4.2: Conditional Movement](image-url)

Rather than using an inner door, the rooms are connected by an outer “corridor,” which makes them all potentially accessible. Again, each door can only be entered with its corresponding key, but in this model each door requires two keys, an ability key and a motivation key. The ability key is composed of factors that are available within the firm. These factors are: financial resources, firm-specific assets, network, market knowledge and experience. On the other hand, the motivation key is connected with an evaluation of a specific market. The motivation key is composed of these factors: market potential, transaction costs, risk, geographic and psychic distance and locational incentives. The motivation key relates only to a specific market because every market has its own characteristics, whereas the ability factors regard the firm and will remain the same in every market. The ability and the motivation of each company are the variables that will be the fundamental basis for measuring firms’ commitment within the new model. Further definition of the ability and motivation factors will be discussed at length below.
4.2 The Kristianstad 3° Model

Internationalization has yet to be adequately described in a fashion that accounts for firms of all size and experience. With this in mind we sought to conceive a model that was simple in construction without being so broad in scope that its predictions were overly vague.

A stages approach offers a well-defined structure to explain the process of internationalization because it is clear that a firm’s degree of commitment increases as the mode of entry shifts from exporting to foreign production. Our task, however, was to attempt an explanation of why the shifts in entry modes are not usually incremental, as the most notable stages approach suggests. It seems appropriate to say that this decision will rely on much more than experiential knowledge. More important are a firm’s degree of ability and degree of motivation. Therefore, this modernized model is comprised of three central stipulations (see Figure 4.3):

**P1:** The greater the degree of ability a firm maintains, the greater their degree of commitment can be;
This statement suggests that as a firm’s ability rises, it has the potential to use a foreign entry mode of increasing commitment. However, a high level of ability does not obligate the firm to a higher commitment.

- **and** -

**P2:** The greater the degree of motivation a firm maintains for a market dictates how great the degree of ability needs to be;
This statement suggests that even if a firm is motivated to make a high level of commitment, it can only commit to the degree allowed by its degree of ability.

- **therefore** -

**P3:** The lowest degree between ability and motivation dictates how great the degree of commitment will be.
A chain is only as strong as its weakest link, and that is demonstrated here because commitment is decided upon the highest degree shared by both ability and motivation.
The numbers depicted along each axis represent the degrees of ability and motivation. Further in this chapter, the system will be explained in which data of a firm is translated into a numerical so that the firm can be plotted on the graph to reveal its suggested stage of market entry mode.

Existing literature tends to focus on specific segments of internationalization, namely the firm, the market, or the transaction. Analysis of only one of these, however, provides only a partial picture of the process because international commerce is built around the interaction between these segments. Therefore, this model attempts to explain this interaction through an analysis of the relationship between a firm’s ability and its motivation to enter a certain market.
4.3 Commitment Stages

Following the direction taken by the Uppsala model of internationalization, there are four (4) stages in this model, each succeeding the previous by an increased level of commitment (Johanson & Vahlne, 1977). However, the Uppsala model neglects to differentiate beyond this point, which is a decision that is believed to make the model unacceptably vague. Therefore they are divided into further subcategories to recognize that each stage may contain more than one type of foreign entry mode. These subcategories are a variation of those suggested by Pan & Tse (2000).

- **Stage 1:** This stage includes direct and indirect exporting, exporting through an agent, or export to a distributor. These entry modes are grouped together because they all require a low level of commitment, meaning they are the least costly and there is low risk. The modes in this stage also allow the firm to maintain a high level of control regarding how and where its products are sold.

- **Stage 2:** The entry modes included in this stage are licensing and franchising. They both require further commitment due to increased risks arising from loss of control, and this is becoming an increasingly serious concern for international franchise companies (Walker & Cross, 1989; Swerdlow & Chasel, 1990; cited in Quinn & Doherty, 2000). There is larger profit potential with these modes, but firms put themselves at risk by selling know-how and processes that may eventually be used by competitors.

- **Stage 3:** Firms in Stage 3 are involved in a joint venture. Joint ventures vary in type as well as in the percentage owned by each party, though these distinctions are beyond the scope of this paper. Partial ownership requires a more substantial commitment, and the control of management decisions depends on the percentage owned.

- **Stage 4:** The final stage is comprised of wholly owned subsidiaries, which can be further divided into greenfield investments or acquisitions. Firms in Stage 4 enjoy a high level of control while facing the largest level of risk (see table 4.1).
### Table 4.1 Stage Characteristics

<table>
<thead>
<tr>
<th>Control</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate/High</td>
<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate/High</td>
<td>High</td>
</tr>
</tbody>
</table>

Stages 3 and 4 involve the organization of an entirely new business entity, therefore they also involve the ownership of a certain level of equity in the new entity. This is not true of Stages 1 and 2, which only involve some sort of contractual agreement. A broader distinction exists, then, between Stages 1 and 2, and Stages 3 and 4. Referring to terms coined by Pan & Tse (2003), the former would be classified as non-equity entry modes, and the latter as equity entry modes.

Boundaries between stages were determined after researching the amount worldwide activity in the major entry modes like exporting, franchising, and FDI to see if they were evenly distributed. It was difficult to find conclusive figures for Stage 2 and 3 modes, but statistics published by the United Nations stated that there was $1.1 trillion of global FDI inflows in 2000, while worldwide exports in 2000 reached over $5.4 trillion. Recognizing this gap, it was decided to make each stage of equal size except for Stage 1, which would be twice as large as the others (see figure 4.3). Although the sizing of each stage could have been more intricate, further complications would have had a poor effect on an already detailed model, so these were determined for the means of simplification.

### 4.4 Factor Measurement

In the attempt to empirically test this proposed theory, it was necessary to assign numerical values to each factor. The most difficult problem that existed was the inability of the researcher to place a value on certain factors, as some were more tangible than others. In other words, certain factors were measurable by some physical quantity, while others could only be valued using some kind of
qualitative or opinionated data. The simplest method to accomplish this was to create a scale of equal size for each factor, and calculate the mean from the resulting values. It was determined that this would create inaccurate results, however, because each factor carried a varying amount of importance, which could not be accommodated by a mean system based on equal weight.

Clearly there should be varying levels of factor importance, considering that as a company desires to commit itself further towards foreign production, certain ability factors emerge as absolutely necessary, while others remain only complementary. Regarding ability, for example, if a company wishes to undertake a greenfield foreign direct investment, even if it possessed a great deal of knowledge about the market it would be impossible to do so without significant financial resources. Conversely, a firm with very little knowledge of a foreign market can still establish a foreign direct investment if it is endowed with immense financial resources.

To accommodate this difference, each factor was assigned an ‘influence coefficient’ to indicate whether it had a high, moderate, or low influence on a firm’s ability or motivation.¹ The variance of each factor’s influence coefficient was designed to differentiate them according to their importance, or influence on a firm’s ability to internationalize. In this way, it could be shown that factors with a high coefficient were not only more influential, but also more independent, meaning that these factors could provide the firm with a greater amount of ability or motivation regardless of the other factors’ values. Based on research and on the opinions of the authors, the decision to employ this method is described below, along with the definitions of ability and motivation and the descriptions of their corresponding factors.

4.5 Ability

The firm is the unit of analysis when determining its degree of ability. A firm is only able to enter an international market if it is endowed with the appropriate

¹ The influence coefficients for each factor are listed in table 5.1.
means to do so. Many factors contribute to the means in which a firm can thereby internationalize, and it is a combination of these factors that will determine the specific degree of ability for use within the model. Ability factors are as follows: Experience, Market knowledge, Financial resources, Firm-specific assets, and Network.

4.5.1 Experience
In product manufacturing, experience effects appear through practice, that is, learning by doing, and also through the spreading of costs over a larger volume (Hill, 2003). International experience is similar to production experience except that instead of benefiting from lower costs, a company is able to capitalize on skills acquired through the continued establishment of international relationships. These procedural skills are ‘internationalization knowledge’ that is not especially market-specific, but rather transferable, and can subsequently be used when entering other international markets (Chetty & Eriksson, 2002).

Experience is an intangible asset, therefore making it quite difficult to measure. In the most basic sense, however, it should be measured according to the quantity and frequency of actions rather than the length of time involved in the actions. In other words, more experience is gained through five joint ventures spanning one year, than from exporting to one country for twenty years. A

Figure 4.4: Variant of Experience Curve
company’s international experience can be likened to skiing: after skiing the children’s hills all day for ten years, person A will become very skilled and well accustomed to doing it. However, after person B skis the most difficult slope a few times in one day, she gains more experience than person A did after all the time on the children’s hill. This idea is shown in figure 4.4, where although the units on the frequency axis are fabricated numbers, it is intended to display how a lower frequency of FDI will supply a firm with more experience than a higher frequency of exporting.

Although researchers recognize the benefits associated with experience, especially in the Uppsala school, conclusive results that portray experience to be absolutely necessary have not been produced. It is for this reason that in the purposes of this model, experience will be assigned a low influence coefficient for use in analysis.

4.5.2 Market Knowledge
Penrose (1959) defines market knowledge as the things a firm learns from interacting with a specific foreign market (cited in Chetty & Eriksson, 2002). Whereas experience was more transferable, market knowledge is that which is specific to a particular market, and due to this specificity this kind of knowledge cannot be transferred for use in other countries, or even between different units of a firm (Chetty & Eriksson, 2002). This knowledge can sometimes be purchased, but it can also be acquired through an employee with previous experience in the market in question, or through investigative visits made to these markets by firm representatives. The influence coefficient assigned to this factor is low due to its complementary nature. In other words, market knowledge alone will not suffice for entering that market, but it will surely offer some advantages when combined with other ability factors.

4.5.3 Financial Resources
For the purposes of this paper, financial resources are considered to be those that are liquid or otherwise accessible. A company’s level of cash, as well as the bills and notes that can be easily converted to cash make up the sum of this amount. While other assets or commodities may occasionally be used as payment or
collateral, it is the liquid assets that are generally used for foreign investments. Further financial resources can be obtained from banks or other lenders but these in turn are translated as debt for the firm rather than assets, and relationships such as those are better categorized by a company’s network, which will be described below.

Complications arise when considering the incompatibility of data collected from enterprises of substantially differing size. For example, cash reserves of $1 million may be impressive for a firm consisting of five employees, but they would mean disaster for a company of considerable size. This problem lies in other important values that could be used for comparison such as gross income and net profit. Initially, then, it was thought that financial ratios could be compared because these show how well a company is performing regardless of size. The problem with ratios, however, is that they fail to portray the actual buying power of the firm in the way that liquid assets do, and this power is what needs to be compared to comply with the model. It is the most correct method because if a company with five employees has $1 million in cash and an amazing profit ratio, it still has less buying power (and therefore ability) than a larger company with a terrible profit ratio but larger profits simply due to its size. This outlines the basic idea that a company with large financial resources maintains a higher degree of ability than one who does not, regardless of size considerations.

Financial resources have been assigned a high influence coefficient because of its independence as a factor. In a study conducted by Calof & Beamish (1995), interviewed executives stated that the ability of their firm in terms of skills and financial resources was frequently the reason behind entry mode choice. Great financial resources allow a company to accomplish many things despite a lack of other factors, and although a company can possess ability without great financial resources, it can not reach the highest level of commitment without them. This can be seen within the same study by Calof & Beamish (1995). When discussing entry mode choice, 40% of all executives interviewed replied by saying their firm simply did not possess adequate financial resources to use a higher investment mode such as a wholly owned production subsidiary.
4.5.4 Firm-Specific Assets

Firm-specific assets as a factor can be greatly attributed to what Dunning (1980) refers to as ownership-specific advantages. This paper incorporates them in a broader sense so that they include those assets that a firm possesses while its competitors do not, as well as those that other firms may possess but that nevertheless heighten ability. The former includes patents, valuable know-how in management or processes, highly differentiated (in price or attributes) or specialized products, or a strong brand name. An example of the latter would be a well-established e-business sector, or an efficient just-in-time inventory system such as that of Dell Computer Corporation, who possesses both of these assets. Dell is not able to procure a patent or place a brand name on its strength in e-business, making it potentially available for any firm to duplicate with their own processes. However, even if other firms have successful e-business sectors it still remains an asset to Dell (Hill, 2003).

Firm-specific assets were considered as very influential on a firm’s degree of ability. Therefore they were assigned a high coefficient, like that of financial resources because only a firm with a differentiated product is able to enter foreign markets unless it is large enough in size and resources to change the nature of competition (Merino & Salas, 1998). When a company possesses a recognizable brand name or a process that allows it to price aggressively low, typically there will be demand somewhere to be found or created. Without the other factors, firm-specific assets still enable a company to make some commitments because they make their owner attractive to potential partners in licensing, franchising, joint ventures and so on.

4.5.5 Network

Defined by Anderson, et al. (1994), a business network is “a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors.” All members of a network mutually benefit from the opportunities created by it, such as information exchange and knowledge transfer. Access to these advantages tends to expand exponentially as well. As a new direct relationship is made between two international companies, for example, indirect contacts are also created for each company by the other’s existing direct relationships. A company is able to
acquire new direct relationships through its existing network, or by contacting a firm outside the network. It can also be done by accepting an offer from another company within the network, or outside it.

Again the problem arises when defining what a large or small network is, considering that a large network for one company could be a tiny network for another. Logically, however, a greater number will supply more opportunities than a smaller one regardless of size, therefore size should not be considered. Since it would be nearly impossible to calculate or even estimate the number of direct and indirect relationships that exist in a company’s network, for the purpose of this paper, a company’s ability resulting from its network will be based solely on the number of its direct international relationships.

While firm-specific assets and financial resources bear the greatest influence on a firm’s ability, the creators of this model feel that a firm’s network has more significance than its market knowledge or experience. This can be said because especially in small and medium sized companies that might lack other resources and assets, the network is vital for acquiring knowledge, and gaining access to foreign markets. Therefore, the network has been assigned a moderate influence coefficient.

4.5.6 Summary

A firm’s degree of ability is a characteristic that that will either rise or be relatively static. This is because in most cases it would be much more difficult to lose experience, network relationships or firm-specific assets than to gain them. Ability could diminish in terms of financial resources, however, from bad investments or poor sales that yield negative returns, and in other cases such as upon an expired patent, or bankruptcy. If these changes are drastic enough, they could necessitate a mode change within the current market, or a withdrawal from that market and a new entry into another.

P4a. The influence of each ability factor is as follows:

• High: Financial resources, Firm-specific assets
• Moderate: Network
• Low: Market knowledge, International experience
4.6 Motivation

The market is the unit of analysis when determining a firm’s degree of motivation. For the purposes of this paper, instead of simply desire or ambition, the definition of motivation is the attractiveness of a market after a thorough cost-benefit analysis of all the motivation factors. These include market potential, transaction costs, risk, geographic and psychic distance, and locational incentives.

4.6.1 Market Potential

Market potential is a conglomerate factor as it is a consideration of many economic figures such as a market’s population and its growth, as well as its per-capita income and its growth. A market also becomes more attractive as its communication or transportation infrastructures are strengthened. Another key element of market potential is the opportunity to benefit from first-mover advantages, described by Hill (2003) as “the economic and strategic advantages that accrue to early entrants in the industry.”

A multinational enterprise maintains several reasons for doing business abroad, but the fundamental concept is that a company simply pursues potentially profitable opportunities wherever they may arise. This practical nature of modern international trade can be attributed to a much higher level of international communication and awareness than in previous decades through the use of the internet. Many developing countries are also reaching an ideal level of growth and prosperity that is extremely attractive to foreign investors. Much of the international marketplace in developed countries has become saturated with competitors, leaving businesses in search of this untapped profit potential. The 1995 study of Calof & Beamish states that:

“Executives indicated that mode choice could be attributed to their view of potential sales volume in the foreign market (market size and executives’ confidence in the market potential), belief that each mode could generate a certain sales volume, and beliefs regarding the costs of each mode.”
Other factors are secondary to the condition that a market must be profitable, therefore market potential has been assigned a high influence coefficient, along with costs as described below.

### 4.6.2 Transaction Costs

Transaction costs are simply, “the costs of running an economic system” (Williamson, 1991). These costs are determined after first considering the complexity of the product involved in the transaction because high asset specificity allows for more opportunistic behavior, and raises exit costs (Madhok, 1998). Also involved are the production costs, transportation costs, and other sunk costs that are associated with the foreign market involved in the transaction. The basic idea is that as these costs become greater, i.e. more expensive and complicated to make a transaction, it becomes more profitable to internalize these transactions. In other words, if transaction costs are low should prefer some kind of export, while high transaction costs advocate a subsidiary (Madhok, 1998).

The major problem with transaction costs is that they are quite difficult to measure prior to the entry mode choice has been made, and transactions have taken place. This means that when managers consider transaction costs, they can rely only on perception and estimation (Andersen, 1997). Calculating transaction costs allows managers to analyze the feasibility and practicality of each potential foreign entry mode, therefore greatly influencing this choice. The influence coefficient assigned to this factor, then, is high.

### 4.6.3 Risk

If market potential is considered as the factor comprising all the positive financial possibilities, then risk can be its opposite, that is, a factor comprising all that could potentially cause financial loss. One example is political instability, when perhaps a government is troubled or overthrown by an aggressive rebel group. To compliment that problem could be one of political corruption. Both of these risks could damage a firm by unclear or unfair legal and tax requirements. Another risk to consider is that of currency exchange. While a country may have
a great deal of potential, many losses could be incurred in the exchange, as well as in the transfer across borders, especially if there are corrupt officials involved.

Some of these risks may be measured through statistical reports of other international firms that have recently entered the market, or through poll results that show the popularity of existing government officials or militant groups. Regarding corruption, this risk is constantly being researched and updated on Transparency International’s Corruption Perceptions Index, which can be accessed via internet (TICPI, 2002). Although risk is an important factor to be considered, a firm that recognizes great potential in a market does not simply neglect that market because it is risky, it simply undergoes greater precautions to safeguard itself from these risks. Acknowledging this, a moderate influence coefficient has been assigned to this factor.

4.6.4 Geographic Distance

Geographic distance measures the physical distance between the home market and the foreign market in question. Markets in neighboring countries, for example, would have a low geographic distance, while markets in countries that occupy opposite hemispheres have a high geographic distance. These distinctions are made to recognize the difficulties that may arise from entering a market with a high geographic distance, such as high transportation costs and risks, as well as delayed communication.

While transportation costs still exist, modern international commerce has virtually eliminated the communication problem through the use of the internet, global positioning systems, and satellite telecommunication. Geographic distance, therefore, has been assigned a low influence coefficient because studies confirm that this factor is generally irrelevant with exception to some smaller, more inexperienced firms.

4.6.5 Psychic Distance

A market’s psychic distance is defined as a combination of factors that disturb the flow of information between the firm and the market, including differences in language, culture, political systems, level of education, and level of industrial
development (Johanson & Wiedersheim-Paul, 1975). For example, a market in the United States would generally have a short, or low psychic distance from a market in Australia, while it would have a much further, or higher psychic distance from a market in Haiti, or the Dominican Republic.

Psychic distance maintains a low amount of influence in today’s international commerce because of several advances, such as English being used almost universally as a business language, and e-commerce increasing market share regardless of culture or geography (Axinn & Matthyssens, 2002). It should still be acknowledged as a factor, however, because just as with geographic distance, it is still regarded as a somewhat applicable factor for many small firms. Therefore it has been assigned a low influence coefficient.

### 4.6.6 Locational Incentives

The idea behind locational incentives stems from two existing theories. Developed first, the Heckscher-Ohlin theory contends that comparative advantages exist due to factor endowments associated with a particular country or market, such as land, labor, and capital. By land, the theory suggests that perhaps certain raw materials are plentiful, while labor could mean that either highly skilled or very low cost workers are readily available (Hill, 2003). Similarly, Dunning (1980) refers to these endowments as location-specific advantages. He adds to the list offered by Hecksher-Ohlin with factors such as proximity to the consumer, market infrastructure, and incentives offered by the government such as tax reductions or subventions (Dunning, 1980; 1993).

While these factors are undeniably existent, their overall importance and influence on a firm’s motivation is rather low. One reason is the existence of the Leontief Paradox, which basically is a strong empirical contradiction to the Heckscher-Ohlin theory that has raised doubts as to its practical application, regardless of its common sense appeal (Hill, 2003). Therefore a low influence coefficient has been assigned to this factor.
4.6.7 Summary
A firm’s degree of motivation is very much dependant on the market. Each market has its own characteristics and it is impossible to calculate a generalized form of a firm’s motivation. If a firm considers entering a market, it must be careful when considering the special requirements and characteristics of that market because some of the characteristics may change over time.

P4b. The influence of each motivation factor is as follows:
- **High**: Market potential, Transaction costs
- **Moderate**: Risk
- **Low**: Geog./psych. distance, Locational incentives

4.7 Changes in Motivation

A firm’s degree of motivation is a much more changeable characteristic than that of ability, which tends to be rather static. One reason for this is that each analysis of a new market requires a reevaluation of the degree of motivation because each market, of course, has a completely different level of potential, transaction costs, incentives, and so on. Therefore, as each market has different characteristics, the degree of a firm’s motivation must be different for every market.

Another reason why motivation changes is that there are many examples in which a company’s degree of motivation can be altered by changes in certain external factors that were unforeseeable at the time of the initial foreign entry mode decision. Similar to force majeure in European Community law, these elements are those that are not only unforeseeable but also completely beyond the control of the company (van Houtte, 2002).

For example, changes could occur within the governmental or legal structure of the host nation such as a shift in political authority, an increase in taxes, or other various financial barriers. A company’s motivation could also suffer from opportunistic behavior by a partner, which could in turn make that partnership unsatisfactory, unprofitable, or in the worst case, void. Another possibility is
associated with relationships in a company’s network. As those partners have strategies of their own, they could change their location therefore forcing dependant partners to move with them or make adjustments to accommodate the move. It can also be mentioned that especially in an oligopolistic situation, competitor activity could dictate a change in entry mode strategy for the sake of remaining competitive. According to Calof & Beamish (1995), many changes in entry mode can largely be attributed simply to intuition, or gut feeling that a change was necessary.

Discussion of changes in external factors was necessary to demonstrate how the first entry mode used in a market may not be the last or most desirable. This was surely not an exhaustive list of examples but it was a sample of those events that have been known to happen but are still unavoidable. The unforeseeable nature of these factors makes them immeasurable, therefore their appearance requires a reevaluation of the previous motivation factors for the market in question. External changes may cause a market to lose its profitability, in turn making a completely different market more attractive, or they may simply make it so a different entry mode is preferable.

4.8 Strategy

The strategic direction taken by an international enterprise plays an important part in its market entry decision. This direction is influenced by what is valued most within the firm, whether it be minimizing costs, expanding market share, realizing economies of scale, or maintaining control. In normal circumstances it seems that strategy should more or less correspond with the degree of motivation a firm maintains. For example, in a risky market, a company’s strategy might be to simply minimize risk through a cautious commitment of resources. Strategies can sometimes contradict, however, such as in a company that wishes to maintain absolute control of their knowledge through exporting (thereby avoiding future costs), despite high degrees of ability and motivation.
It is difficult to generalize management strategy, and practically impossible to measure it simply because literally every enterprise maintains its own specialized form, which many times can vary between markets. However, it is our contention that strategy can logically be divided into two broad categories, which are Risk/Cost Minimization, and Profit Maximization. Clearly, both of these are strategies that a firm is endlessly searching for in some combination, but one should tend to predominate.

4.8.1 Risk/Cost Minimization or Profit Maximization

Risk/Cost Minimization and Profit Maximization are logical divisions because they correspond with what Pan & Tse (2000) refer to as equity based modes and non-equity based modes, respectively. Equity based modes are those that obligate the company involved to commit significant resources as compared to non-equity modes, which do not necessitate the development of a new organization, and can be easily limited in time. All entry modes have distinct differences, but the most dramatic difference lies between an equity mode, and a non-equity mode (Pan & Tse, 2000). As noted above, both of these strategies can essentially be applied to all entry modes, especially profit maximization. Theoretically, however, a firm that is truly minimizing costs and risks would only use non-equity based modes.

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<thead>
<tr>
<th>Table 4.2: Strategy Distinctions</th>
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<tr>
<td>(Non-equity based)</td>
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<tr>
<td>Cost/Risk Minimization</td>
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<tr>
<td>☑ Export</td>
</tr>
<tr>
<td>☑ Agent</td>
</tr>
<tr>
<td>☑ Distributor</td>
</tr>
<tr>
<td>☑ License</td>
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<tr>
<td>☑ Franchise</td>
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</table>

For the purpose of this model, a firm’s strategy must be taken into account after its ability and motivation have been discussed and measured. If a firm’s actual mode of entry matches that which was initially suggested by the model, the strategy should correspond. If the actual mode chosen does not match the
suggestion it was because of a conflicting strategy. This distinction between strategies was developed primarily for the purpose of explaining a firm’s decision to implement a non-equity based mode in spite of its ability and market motivation degrees suggesting an equity based mode. In other words, if the model suggested that a firm should enter with a Stage 4 mode, but the firm used a Stage 1 mode instead, it was the result of a Cost/Risk minimization strategy. Conversely, if the model suggested that a firm would use a Stage 1 entry mode, in theory it would be impossible for that firm to use a mode from any other stage because its low level of ability would not allow it. Therefore, conflicting strategies have no effect if the degrees of motivation and ability do not support them. For example, a company whose strategy is Profit Maximization still cannot establish an equity based mode unless its degrees of ability and motivation comply.

**P5:** Firms with a strategy of Cost/Risk Minimization will have a higher propensity of participation in non-equity based modes (Stage 1 or 2).

**P6:** Firms with a strategy of Profit Maximization will have a higher propensity of participation in equity based modes (Stage 3 or 4).

### 4.8.2 Control Maintenance

Control maintenance is a third category of strategy that also has an effect on a firm’s choice of foreign entry mode. Briefly mentioned above, the interesting characteristic of control is that high levels can be achieved at each extreme of commitment. Stage 1 commitment involves entry modes in which the company itself is making all decisions concerning the end product. Although sometimes resold through a distributor, the producer maintains all control of production quantity, quality, and price, while still keeping its know-how secret. All these advantages are available in Stage 4 as well because the home country management controls all foreign production. There may be some danger of knowledge spillover when transferring know-how to the host country, but it is
more protected because it is being handled by employees as opposed to licensees who have less responsibility to be loyal.

Stage 2 offers the least amount of control because the licensor is not involved in the production strategy decisions aside from the way in which the license is used. Price, quantity produced, advertising, and many other decisions are in the hands of the licensee. Some stipulations can be laid down in the contract, but there is always the possibility of a breach that could cause damage to the reputation of the licensor or its brand name, regardless of any resulting punishment to the licensee.

![Control Curve](image)

**Figure 4.5: Control Curve**

“When tight control over a foreign entity is desirable, horizontal FDI is preferable to licensing” (Hill, 2003). Control in Stage 3 varies in accordance with the percentage of ownership maintained by each organization involved, but more control is achieved than in Stage 2 because each firm enjoys actual ownership, at least partially. Beamish and Banks (1987) say that “low control modes (for example, joint ventures) are used when a foreign firm requires access to complementary assets for international expansion” (cited in Lu, 2002). In all stages, firms with lower levels of control will not necessarily always suffer damage, but high control allows firms to avoid that possibility.

**P7:** Firms with a strategy of control maintenance will have a higher propensity of participation in Stage 1 and Stage 4 entry modes.
4.9 Theory Conclusion

The propositions made within this chapter were devised with rationality in mind, that is, the authors focused a few existing theoretical discrepancies, and attempted to solve them. Although there were many others to discuss, the scope of this paper was limited to these. It was crucial to determine the most necessary aspects to include because as the development went on, the difficulty was actually having to disregard ideas, again so that the model would remain as succinct as possible.
Chapter 5: Empirical Method

In this section the method for the empirical research will be explained. This will include the research strategy and the data collection method and the sample. Further, the questionnaire will be discussed, as well as the operationalization and the data analysis. This chapter ends with a discussion of reliability and validity.

5.1 Research Strategy

The purpose of this dissertation is the development of a testable model of a new theory of market entry. As stated in chapter 2, the intention was to test the suggested propositions that were described in the theory. The aim of this test was to determine the relationship between the motivation- and ability-factors and the commitment of firms. The empirical research attempted to test the developed model and try to generalize from the outcomes received.

Comparing different kinds of research strategies, it is important to carefully choose the most fitting one. There are several kinds of research strategies in the literature: experiment, survey, case study, grounded theory, ethnography, action research, cross-sectional and longitudinal studies, as well as explanatory, descriptive and explanatory studies (Saunders et al., 2003; 91).
The characteristics of a survey are most suitable to fulfill the requirements of this dissertation. To test propositions for generalization a collection of large amount of data from a sizeable population is necessary. The fact that this data was collected through a questionnaire allows easy comparison. Disadvantages arise regarding the limited numbers of questions on the questionnaire. The willingness to participate in a survey is dependent upon the number of questions and the time participants have to spend to answer (Saunders et al., 2003). The research through a survey either confirms the developed theory or rejects it, in which case it would need to be adjusted.

5.2 Data Collection Method

Two types of data can be considered in theory, and they are primary and secondary data. Data that is already collected and available from other sources is secondary data. Secondary data is used to give the reader a theoretical background of the internationalization theories. Here the focus is on books, Internet, articles in established business journals etc. However, primary data is used to conduct a development and evaluation of factors in the internationalization process. Primary data is created through the accomplished research (Saunders et al., 2003). In this dissertation both primary and secondary data were used. To obtain primary data, different survey methods can be used. The most common is using questionnaires, but interviews are also possible. The primary data to test the model in this dissertation was collected by questionnaires (see appendix 1). These questionnaires were set by e-mail with the advantage of speed and low costs.

5.3 Sample Selection

To attain the purpose of our study, it was necessary to collect data that would represent the variance of multinational corporations with regard to size and geographical proximity, so that the authors of this paper can account for trends occurring due to or without connection to these variances.
In order to accomplish this, we have selected 78 companies for our initial sample. The aim was to have a sample consisting of 25 companies from each country, France, Germany and the United States. Three more companies were acquired due to the network of one researcher; one participating company forwarded the questionnaire to its business partners. The criteria used for selection required each company to be consumer product oriented, multinational in operations, and headquartered in one of three countries: Germany, France, or the United States. The countries were chosen, because the authors of this paper are coming from these countries. As noted above, company size was also considered so that nearly the entire sample consisted of small and medium sized companies (5000 or fewer employees as written in the limitations, chapter 1.4). Although the model discussed in this paper might be applicable for firms of all size. The sizes selected for the sample were decided upon, because we have not the resources nor reputation a researcher would normally need to collect data from major global enterprises. It is also true that firms of great size have most likely been conducting foreign affairs for several decades, making it difficult to uncover reliable and actual data regarding the processes that were used. The way the sample was chosen was unconventional. The authors contacted companies they were familiar with, regardless of any connection between them. All contacted companies were in the consumer product industry, with different kind of products; a few examples being wine, sporting goods and hair products. The ratio of the companies regarding their country of origin was almost equal to each other. The respondents were managing directors or owners of the companies, however in some received questionnaires were unusual descriptions like “sales develop specialist” in the signature.

Electronic mail was chosen as the method for contacting our sample, as the authors felt that directly contacting an individual would provide a higher response than sending a letter to an anonymous recipient by post. E-mail addresses were found via Internet, and in some cases a preliminary inquiry was sent through a generic form provided by the company on its website so that a specific e-mail address could be obtained.
5.4 Questionnaire

Questionnaires are a cheap and easy possibility of collecting information. On the other hand there are several risks. The researcher does not know who is answering the questionnaire. It might be possible that an assistant is answering with his or her best knowledge, because of lack of time of the responsible person. Another risk could be that the participant lies, because he or she does not want to share confidential knowledge.

The questionnaire used in this dissertation is a self-administered questionnaire that was delivered to the respondents by e-mail. The reason why self-administered questionnaires were sent out by e-mail was to reach participants in three different countries in a short period of time. Regardless of the country the questionnaire was sent to, the questionnaire was written in English in order to reduce translation mistakes. Translations show a wrong picture due to various expressions for the same word in other languages. Using a uniform language creates a better chance that all respondents will interpret the questionnaire in the same way. Together with the questionnaire, a personal cover letter was delivered. In this cover letter, the background and purpose was explained. Confidentiality and anonymity were promised to all participants.

5.5 Response Rate

From 78 questionnaires sent out to companies in France, Germany and the United States, 13 were returned, giving a response rate of 16.7 %. 27 companies (34.6 %) answered that they did not want to participate in a survey due to the fact that they did not want to give confidential information to persons they did not know. The other 38 companies (48.7 %) failed to respond at all. Companies had not answered the questionnaire within one week after receiving it were reminded by e-mail. Due to the low response rate it was not possible to draw definite conclusions for companies from each country separately or to generalize for the entire population. The response rate regarding each country was almost similar;
from the United States and France were each four questionnaires received, and from Germany there were five.

5.6 Operationalization

According to Saunders (2003), operationalization specifies the way in which a concept is to be measured quantitatively. The questionnaire was carefully designed with scale questions, where the respondents answered the companies’ ability and motivation factors (question one to eleven) on a scale from very low to very high with four steps in between. To use a scale with six steps eliminates the risk that recipients take the middle to answer quickly without further thinking. Question number twelve (12) is also a scale question, but in this question it is an opinion question where the importance of ability and motivation factors was asked. The recipients were asked to rank these factors from one to five. The advantage of scale questions is that they are easy to compare.

Question 13 and 14 are category questions where attributes are asked for. The former asks for the entry mode used in the most recent market so that the reality could be compared with the mode suggested by the model, while the latter asks for the company’s strategy in order to examine how it affects entry mode choice. Question 15 and 16 are open questions; in these questions the respondents are supposed to fill in the countries in which they do business along with the related foreign entry mode so that the researchers can observe any trends that appear. The last question, number 17 was an attribute question about the amount of employees in order to control our sample.

5.7 Analysis of the Material

The response rate of the questionnaires played an important role in the strategy to analyze data. Due to a small response rate, it was not appropriate to analyze the questionnaires statistically. However statistical measures of central tendency and standard deviation were used to show statistical pattern of the response. It
also allowed the researchers to interpret the findings regarding the developed model and if necessary an adjustment in a systematic way.

To measure a central tendency, the mean value was used. Standard deviation was used to reflect the amount of spread that the scores exhibit around the central tendency. The standard deviation was also used in order to show the homogeneity of the responses and in order to determine whether the mean value was reliable or not. If the standard deviation was equal to zero it meant that all responses were identical, while a standard deviation of two means that all responses were completely different from each other. To find out a trend in the received questionnaires, the mean value of the ability and motivation factors (question number one to eleven) was calculated. A standard deviation was not appropriate, because every company was entering a different market with its own characteristics.

Since the response rate was low in real numbers no comprehensive statistical analysis could be performed. Therefore a nonparametric test (Mann – Whitney Test) was computed. This test was performed in order to estimate the significance of the sample and to calculate the deviation of two groups of respondents. The sample was divided into two groups according to the mode of entry. The first group includes the companies that chose a non-equity based entry mode (Stage 1 or Stage 2) and the second group is comprised of the firms that chose equity based entry modes (Stage 3 or Stage 4). For every question on the questionnaire (see Appendix 1), the mean value was calculated in order to make generalizations of the results.

5.8 Calculating Ability and Motivation

The first step for calculating the value for each degree was to devise a general scale to accompany each factor on the questionnaire. The researchers felt that the benefits of a general scale were the pleasing visual appearance of uniformity, and its ability to give the recipient the sense that no bias or emphasis was placed on any certain factor. In order to avoid ambiguous data, a scale of 1 – 6 was chosen
so that it was impossible to answer on the median. This scale also seemed to be the right choice because 1 – 8 would have most likely intimidated the recipients and 1 – 4 would yield results too limited in scope.

As there are 5 ability factors and 5 motivation factors, a scale of 1 – 6 would provide a maximum total of 30. However, as was argued in Chapter 4, the influence of some of the factors was deemed to be greater than that of others. The influence coefficients are shown in bold in table 5.1. After taking these into consideration, the maximum total becomes 45.

<table>
<thead>
<tr>
<th>Table 5.1: Correlation Coefficients</th>
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<tbody>
<tr>
<td>Financial Resources</td>
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<tr>
<td>Firm-Specific Assets</td>
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<tr>
<td>Network</td>
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<tr>
<td>International Experience</td>
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<tr>
<td>Market Knowledge</td>
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<td></td>
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<td>Market Potential</td>
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<tr>
<td>Transaction Costs</td>
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<tr>
<td>Risk</td>
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<td>Locational Incentives</td>
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<td>Geog./Psych. Distance</td>
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Next, the rating provided for each factor was taken from the questionnaire, and multiplied by that factor’s influence coefficient. After the value for each factor had been determined, the sum of the ability factors was calculated separately from the sum of the motivation factors, and those two final numbers were the figures that were regarded as the firm’s degrees of ability and motivation.

The final step in the measurement process was applying the calculated degrees to the chart of the model (see figure 4.3) to determine which stage each degree was associated with. As mentioned previously in chapter 4, there are numerical boundaries that separate each stage. The width of each stage is listed below in table 5.2.

<table>
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<th>Table 5.2: Stage Boundaries</th>
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<td>Stage I</td>
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<td>Stage II</td>
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<tr>
<td>Stage III</td>
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<td>Stage IV</td>
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After the stage had been determined for each degree, the process was completed by adhering to Proposition 3, which states that an entry mode from the stage of the lowest degree should have been selected.

Question number twelve was analyzed with a mean value and standard deviation because on this question the general opinion was asked about the influence of factors to any market. Analyzing the question this way allowed the researchers to see whether the predicted importance according to the model was correct. The standard deviation was used in order to show the homogeneity of the responses and in order to see if the mean value is reliable or not.

Question 13 was not analyzed statistically, but rather was used to verify whether or not it was congruent with the suggested mode of entry for each company. The responses to question 14 were used in a similar fashion, that is, to verify whether the strategy used for each company was the same as that which was suggested by the model. For both questions 13 and 14, percentages were calculated to show the extent that the suggestions were correct.

It is worth mentioning that the open questions (question 15 and 16) asked in the questionnaire could not be analyzed quantitatively. The data collected from these questions was used to determine whether the behavior of the sample followed the Uppsala model.

5.10 Reliability and Validity

Problems of empirical evaluations arise when developed theory is transferred through empirical testing into the reality. Some questions in the theory are difficult to operationalize and it is possible to get wrong answers showing a distorted picture of the reality. According to Saunders et al. (2003) “Reducing the possibility of getting the answer wrong means that attention has to be paid to two particular emphases on research design: reliability and validity”.
5.10.1 Reliability
Reliability is given if each time the operationalization for the same thing gives the same result. To prove this, a re-test under equivalent conditions would be necessary.

It is argued that the survey is conducted in away that similar results can be derived, if this topic is researched again. However, it might be possible that the answers by the respondents are their own opinion and if the survey is conducted after some time, the respondents might change their opinion due to different circumstances. The way questions were formulated might influence the answers as well, however the questions were asked in a neutral way. Internal consistency is one possibility to control the reliability. A grouping of the responses to each question with other responses of other questions allows showing one picture of related facts. Even though, asking the same questions it is not possible to draw a clear picture that allows to rules out uncertainty. Another possibility to increase the reliability are check-questions. Problems arise, because check-questions must be substantial equivalent to the other questions. Check-questions also increase the length of the questionnaire. This was the reason why this dissertation was done without them.

Language might lead to misunderstanding of the managers of the German and French companies due to the fact that they are not native speakers. However it is assumed that respondents’ high positions indicate good knowledge in English.

5.10.2 Validity
“Validity is concerned with whether the findings are really about what they appear to be about” (Saunders et al., 2003; 101). This means that the operationalization must be correct and the intended variables are measured. The variables explained in the developed theory are strongly connected with the empirical research. Thus allows expecting a high validity.

The aim of the questionnaire was to find out how the ability and motivation factors dictate the commitment. To reach this aim the questionnaire was designed with scales from “very low” to “very high” with four steps in between. The validity of the data might have been influenced by the sensitivity of the asked data; some firms refused to give any information, others were maybe not telling
the truth. One reason for this is that the asked companies do not know anything about that research or the researcher. Another reason is that the asked companies are small and medium sized companies and they are not used to give confidential information (e.g. financial resources) away and are afraid that the research can affect the company in a certain way.

Regarding validity, it can be difficult to ensure who the respondent actually was. The advantage of delivering the questionnaire by e-mail is that the participant is responding to the questionnaire from his computer with his e-mail address. Usually a signature is in the answer that allows controlling this to a certain degree. But still the question remains whether this person was familiar with the subject or not. Some companies entered a foreign market a long time ago. To make it easier for the respondent and reduce errors, the questions were related to the most recent market entry. The size of the sample as compared with other researches quite small. Due to the small response rate, the authors could not generalize and were unable to state with certainty whether the propositions were supported or not. However the results can vaguely support or reject the propositions, therefore some speculations were made.

5.11 Critique

To test the model, a rigorous test would be necessary. The sample was chosen carefully, but due to the small response rate, its significance might be limited. The available data in this subject is very wide, which means that a rigorous sample would have been impossible to collect and analyze, taking time, money and access restrictions into consideration. Also an analysis with advanced statistical tools could reach different results. As the generalization ability then is not given, better empirical work should be conducted in further research.
Chapter 6: Analysis

This chapter will present an evaluation of the empirical results. Every factor will be analyzed separately to explain the entry strategy according to the developed theory. The values of the factors will also be tested in this chapter to control, whether the predicted model was correct.

6.1 Analysis of Proposition 1

Proposition 1: The greater the degree of ability a firm maintains, the greater their degree of commitment can be;

Analyzing the questionnaires regarding the ability factors the mean value of all respondents is 4.3. This shows that it tend to a higher level of ability for all in the survey participating companies. Question number four is below four (3.9), which means that the companies have in general less strong financial support. Question number two was answered with a mean of 4.5 what indicates that the asked companies have a strong firm-specific asset. This results maybe of the chosen sample, because the companies are to a certain degree well known by the authors. This allows the assumption that the companies have a strong brand name. The international experience asked in question number 1 was answered by the companies with a mean of 4.6. That shows that the companies have participating in international business for a while and experience was acquired in
the past on other markets. Question number five with a mean value of four (which is below the average of all ability factors) shows that the companies have a relatively high degree of knowledge to the specific market, but it also shows that there are still some deficits in knowledge before entering. To overcome this, companies might have used their international network. Question number three regarding international networks was answered with a mean of 4.3 which is exact the mean of all asked ability factors.

<table>
<thead>
<tr>
<th>Question 1 (Level of international experience)</th>
<th>Mean value (maximum 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 2 (Strength of firm-specific assets)</td>
<td>4.5</td>
</tr>
<tr>
<td>Question 3 (Number of international relationships - Network)</td>
<td>4.3</td>
</tr>
<tr>
<td>Question 4 (Level of available financial resources)</td>
<td>3.9</td>
</tr>
<tr>
<td>Question 5 (Level of market knowledge)</td>
<td>4</td>
</tr>
<tr>
<td>Question 1 - 5</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Regarding all companies separately it will show the degree of ability that a company reached. Company 11 and company 1 reached a very low level of ability, which allows them, according to the established model, to enter the specific market by export. Company six has a degree of ability that allows this company to enter a new market by licensing. Company 10, company 3 and company 8 could enter, according to their ability factors, the market by a joint venture. The highest degree of ability reached company 5, company 13, company 12, company 7, company 2, company 4 and company 9. They could enter the foreign market by establishing a FDI.
### Table 6.2: Degree of Ability Factors

<table>
<thead>
<tr>
<th>Company</th>
<th>Degree of ability (maximum 45)</th>
<th>Suggested entry mode</th>
<th>Actual entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 11</td>
<td>13.5</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 1</td>
<td>17</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 6</td>
<td>20.5</td>
<td>Licensing</td>
<td>Export</td>
</tr>
<tr>
<td>Company 10</td>
<td>30</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 3</td>
<td>34</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 8</td>
<td>35</td>
<td>Joint venture</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 9</td>
<td>35.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 4</td>
<td>36</td>
<td>FDI</td>
<td>Export</td>
</tr>
<tr>
<td>Company 2</td>
<td>37.5</td>
<td>FDI</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 7</td>
<td>37.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 12</td>
<td>38.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 13</td>
<td>38.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 5</td>
<td>40.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
</tbody>
</table>

### 6.2 Analysis of Proposition 2

**Proposition 2:** *The greater the degree of motivation a firm maintains for a market dictates how great the degree of ability needs to be;*

The mean value of motivation factors is 3.8 of all received answers. Analyzing each question separately the mean of question number eleven (risk) is the highest with a value of 4.3. Question number six (market potential) with a mean of 4.2 is second. This shows that the asked companies were willing to take the risk due a good expected market potential. The mean value for the transaction costs (question seven) was 3.6 and the geographic distance (question nine) was each 3.7. This indicates that the companies enter still markets that are not geographic far away. Question number ten (psychic distance) was answered with a mean value of 3.8 which shows that the psychic distance is higher than the geographical. Interesting is question number eight (locational incentives) with a mean value of 3. Regarding this mean value this factor was not influencing to a large extent the decision for entering the market.
Table 6.3: Mean Value of Motivation Factors

<table>
<thead>
<tr>
<th>Question</th>
<th>Mean value (maximum 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 6 (Amount of market potential)</td>
<td>4.2</td>
</tr>
<tr>
<td>Question 7 (Transaction costs)</td>
<td>3.6</td>
</tr>
<tr>
<td>Question 8 (Advantages available in the location)</td>
<td>3</td>
</tr>
<tr>
<td>Question 9 (Geographic distance)</td>
<td>3.7</td>
</tr>
<tr>
<td>Question 10 (Psychic distance)</td>
<td>3.8</td>
</tr>
<tr>
<td>Question 11 (Risk)</td>
<td>4.3</td>
</tr>
<tr>
<td>Question 6 - 11</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Company 3 reached a degree of motivation that allowed it to enter a new market by export. Company 11, company 1, company 6, and company 2 degrees of motivation high enough to internationalize through licensing. The next step to start business in a new market by joint ventures is according to the data possible for company 5, company 8, company 7, company 4, and company 10. The highest levels of motivation have company 12, company 9 and company 13. For these companies it is possible, according to the motivation factors, to enter a new market by FDI.

Table 6.4: Degree of Motivation Factors

<table>
<thead>
<tr>
<th>Company</th>
<th>Degree of motivation (maximum 45)</th>
<th>Suggested entry mode</th>
<th>Actual entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 3</td>
<td>17</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 11</td>
<td>21.5</td>
<td>Licensing</td>
<td>Export</td>
</tr>
<tr>
<td>Company 1</td>
<td>23.5</td>
<td>Licensing</td>
<td>Export</td>
</tr>
<tr>
<td>Company 6</td>
<td>24</td>
<td>Licensing</td>
<td>Export</td>
</tr>
<tr>
<td>Company 2</td>
<td>26</td>
<td>Licensing</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 5</td>
<td>27.5</td>
<td>Joint venture</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 8</td>
<td>29</td>
<td>Joint venture</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 7</td>
<td>30.5</td>
<td>Joint venture</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 4</td>
<td>31</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 10</td>
<td>31</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 13</td>
<td>35.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 9</td>
<td>37</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 12</td>
<td>40</td>
<td>FDI</td>
<td>FDI</td>
</tr>
</tbody>
</table>
6.3 Analysis of Proposition 3

**Proposition 3:** The lowest degree between ability and motivation dictates how great the degree of commitment will be.

Connecting the degree of ability and the degree of motivation should show which entry mode a company chose. According to the model, the lowest degree of ability and motivation decide which entry mode is suitable.

Company 11, company 1, and company 3 reached at the maximum 17 points which allows entering a market by doing export. The actual entry mode these companies chose was exporting. Licensing is according to the model suitable for company 6 and company 2. According to the received questionnaires, company 6 chose as actual entry mode export while company 2 is doing a joint venture. A joint venture as a suggested mode of entry is considered for company 5, company 8, company 10, company 7 and company 4. Just one company, company 8 chose this mode of entry for itself. Company 5 and company 10 chose FDI as mode of entry, where as company 10 and company 4 found the lowest mode of entry (export) most appropriate. The highest mode of entry, FDI, is according to the data reasonable for company 9, company 12, and company 13. The actual entry mode for these companies follows the suggested entry mode; all three companies are doing FDI.

All analyzed data regarding the actual commitment as compared to the suggested is shown in table 6.5, where the total is 54.8 % correct. Reasons for this deviation from the predicted model will be explained below.
Table 6.5: Degree of Ability and Motivation Factors – Suggested Entry Mode

<table>
<thead>
<tr>
<th></th>
<th>Degree of ability (maximum 45)</th>
<th>Degree of motivation (maximum 45)</th>
<th>Suggested entry mode</th>
<th>Actual entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 11</td>
<td>13,5</td>
<td>21,5</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 1</td>
<td>17</td>
<td>23,5</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 3</td>
<td>34</td>
<td>17</td>
<td>Export</td>
<td>Export</td>
</tr>
<tr>
<td>Company 6</td>
<td>20.5</td>
<td>24</td>
<td>Licensing</td>
<td>Export</td>
</tr>
<tr>
<td>Company 2</td>
<td>37,5</td>
<td>26</td>
<td>Licensing</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 5</td>
<td>40.5</td>
<td>27,5</td>
<td>Joint venture</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 8</td>
<td>35</td>
<td>29</td>
<td>Joint venture</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Company 10</td>
<td>30</td>
<td>31</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 7</td>
<td>37,5</td>
<td>30.5</td>
<td>Joint venture</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 4</td>
<td>36</td>
<td>31</td>
<td>Joint venture</td>
<td>Export</td>
</tr>
<tr>
<td>Company 9</td>
<td>35.5</td>
<td>40</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 12</td>
<td>38.5</td>
<td>35.5</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Company 13</td>
<td>38.5</td>
<td>37</td>
<td>FDI</td>
<td>FDI</td>
</tr>
</tbody>
</table>

6.4 Analysis of Proposition 4

Proposition 4a. The influence of each ability factor is as follows:

- **High**: Financial resources, Firm-specific assets
- **Moderate**: Network
- **Low**: Market knowledge, International experience

Proposition 4b. The influence of each motivation factor is as follows:

- **High**: Market potential, Transaction costs
- **Moderate**: Risk
- **Low**: Geog./psych. distance, Locational incentives

Question 12 of the questionnaire (see appendix 1) asked the recipients to rank which factors they felt had the most influence on their firm’s ability and motivation to internationalize. This information was needed by the researchers to
validate the influence coefficients that were assigned to each factor, as was indicated in chapter 5. For the model, each of the five factors of ability and motivation were assigned to one of the three levels of influence: two (2) were assumed to be high, one (1) moderate, and two (2) low. Table 6.6 displays the hypothesized levels of influence for each factor, as well as the actual levels of influence as determined by calculating the mean value of the data collected from question 12 of the questionnaire.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Suggested Influence</th>
<th>Actual Influence</th>
<th>Actual Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Resources</td>
<td>High</td>
<td>High</td>
<td>1.92</td>
</tr>
<tr>
<td>Firm-Specific Assets</td>
<td>High</td>
<td>High</td>
<td>2.38</td>
</tr>
<tr>
<td>Network</td>
<td>Moderate</td>
<td>Low</td>
<td>3.77</td>
</tr>
<tr>
<td>International Experience</td>
<td>Low</td>
<td>Moderate</td>
<td>3.38</td>
</tr>
<tr>
<td>Market Knowledge</td>
<td>Low</td>
<td>Low</td>
<td>3.53</td>
</tr>
<tr>
<td>Market Potential</td>
<td>High</td>
<td>High</td>
<td>1.46</td>
</tr>
<tr>
<td>Transaction Costs</td>
<td>High</td>
<td>Moderate</td>
<td>3.23</td>
</tr>
<tr>
<td>Risk</td>
<td>Moderate</td>
<td>High</td>
<td>2.62</td>
</tr>
<tr>
<td>Locational Incentives</td>
<td>Low</td>
<td>Low</td>
<td>3.77</td>
</tr>
<tr>
<td>Geographic/Psychic Distance</td>
<td>Low</td>
<td>Low</td>
<td>3.92</td>
</tr>
</tbody>
</table>

The majority of the levels of influence assumed in the Proposition proved to be correct for the small sample. 3 out of 5 ability factors were correct, and the same amount was correct for the motivation factors as well. Although 60% was not a convincing percentage, it became more convincing after considering that the two incorrect factors were merely off by one level, and therefore the coefficients were only off by .5 points. To clarify, in the case of the ability factors, the factor that was assumed to have a moderate level of influence (coefficient = 1.5) actually had a low influence (coefficient = 1), while one of the assumed low factors actually had a moderate influence. Similarly, the motivation factor assumed to have moderate influence (coefficient = 1.5) turned out to actually have a high influence (coefficient = 2), and one of the high factors actually had only a moderate influence. The negative implications that these differences had on the overall results were seemingly inconsequential because such a small
change in only 2 coefficients created a very small variance between the data that was computed using the assumed coefficients and the data computed with the actual ones.

Standard deviations were then computed for each factor to determine the reliability of the results, that is, to see if generalizations could be made from the mean values or if the data was too sporadic to be meaningful. Most of the deviations were near or around 1, which was acceptable considering the extremely small sample. The difficulty with a small sample size when computing standard deviation is its sensitivity. For example, the respondents generally rated international experience in a similar fashion, but a few submitted a rank that was drastically different from that of the rest, therefore accounting for its high deviation. Higher deviations also possibly were the result of ambiguous factor definitions. In such a short survey it was difficult to express a complex definition in a few words, let alone to a recipient who most likely was unfamiliar with the recent educational business terminology. Firm-specific assets and locational incentives are examples of those terms that may have been unfamiliar, and therefore prompted a wide range of responses.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Resources</td>
<td>1.07</td>
</tr>
<tr>
<td>Firm-Specific Assets</td>
<td>1.21</td>
</tr>
<tr>
<td>Network</td>
<td>0.89</td>
</tr>
<tr>
<td>International Experience</td>
<td>1.55</td>
</tr>
<tr>
<td>Market Knowledge</td>
<td>1.28</td>
</tr>
<tr>
<td>Market Potential</td>
<td>1.08</td>
</tr>
<tr>
<td>Transaction Costs</td>
<td>0.97</td>
</tr>
<tr>
<td>Risk</td>
<td>1.21</td>
</tr>
<tr>
<td>Locational Incentives</td>
<td>1.37</td>
</tr>
<tr>
<td>Geog./Psych. Distance</td>
<td>0.73</td>
</tr>
</tbody>
</table>
6.5 Analysis of Proposition 5

**Proposition 5:** Firms with a strategy of Cost/Risk Minimization will have a higher propensity of participation in non-equity based modes (Stage 1 or 2).

Of the 13 accepted responses, only 15% answered that Cost/Risk Minimization was the strategy used for the most recently entered market. The combination of a small sample size and having so few respondents that chose this answer could only produce inconclusive results because generalizations could not be made according to such a small response. It was especially inconclusive because exactly 50% of those using this strategy undertook an entry mode suggested by the proposition, which therefore fails to portray any sort of trend. Therefore, decisive support was not found for this proposition but as the results were inconclusive, it cannot yet be dismissed without further investigation.

Aside from trying to determine which modes of entry would be used with this strategy, proposition 5 was initially developed to help explain the reason why companies would choose a lower stage of commitment regardless of high levels of ability and motivation. Therefore it is notable that company 4 maintained ability and motivation levels that, according to the model, would have suggested a joint venture as its entry mode, but it decided to export instead, which theoretically would be due to their strategy of Cost/Risk Minimization.

In hindsight, it is also of the authors’ opinion that there may have been so few companies to validate this proposition for a couple of reasons. First, it could have been purely for psychological reasons. Perhaps it could be that in modern business there has been an increasing push towards aggressive and ambitious business tactics that can be seen through the sharp rise in merger and acquisition activity since the end of the last century. The attitude created by this could possibly have made it so that the conservative proclamation that one’s firm was not willing to take risks would connote passivity or weakness. The second reason there were so few validations is that none of the respondents participated in Stage 2 commitment, which limited the explanatory ability of the proposition.
6.6 Analysis of Proposition 6

Proposition 6: Firms with a strategy of profit maximization will have a higher propensity of participation in equity based modes (Stage 3 or 4).

Although the sample size is small, it was easier to devise a comparably more reliable analysis of this proposition as compared with P5 or P7 because it had the strongest response. In fact, 7 out of 13 respondents answered that their company entered the said market with profit maximization as its strategy, which accounts for 54% of the total sample. The data was in support of the proposition but it was not especially decisive. Only 57% of these profit maximizing firms entered the market with a mode from Stage 3 or 4.

As each of the strategies has been associated with two stages, proposition 7 was created to validate the idea that firms seeking maximum profits would enter using a Stage 3 or 4 entry mode. There were only 2 instances of Stage 3 entry modes being used, however, and neither of the respondents chose profit maximization as the accompanying strategy. In fact, as there were no instances of Stage 2 entry modes, the remaining 43% of the firms choosing this strategy entered with a Stage 1 mode.

Such blatant contradictions in the data have led the researchers to believe that no conclusions can be made regarding this proposition. As with proposition 5, the appearance of some support in the data provides a reason for this proposition to be investigated again further, but for the purpose of this study it was not supported.
6.7 Analysis of Proposition 7

**Proposition 7:** *Firms with a strategy of control maintenance will have a higher propensity of participation in Stage 1 and 4 entry modes.*

Of the 13 respondents to the questionnaire, 31% answered that control maintenance was the strategy used in their most recent market. Again, the explanatory power is limited by the sample size, but the data was in agreement with the proposition because 75% of the companies that chose control maintenance utilized a mode of entry in either Stage 1 or Stage 4.

Proposition 6 attempted to explain which entry modes were used with control maintenance as a strategy. It also sought to provide another reason why certain companies find it beneficial to only make a small commitment even if their levels of ability and motivation suggest a greater commitment. Company 10 supported this, as it could have potentially entered the market through a joint venture, but to maintain control it had chosen a Stage 1 entry mode. Proposition 6, however, also recognizes the concept that control can be maintained just as well with Stage 4 commitment if the condition of a company’s ability and motivation allows it. Support for this was found in the data provided by company 12 as it undertook FDI to maintain control.

Although 25% of the companies with control maintenance as a strategy did not enter the market with a Stage 1 or Stage 4 mode, this 25% did choose a joint venture (Stage 3). Referring back to figure 4.5 (p.43), it can be seen that depending on the percentage of ownership, Stage 3 modes can potentially provide a substantial level of control, and surely more than Stage 2 modes. Having accounted for this, as well as the other 75% that validated the proposition, it was felt by the authors that proposition 7 was supported.
6.8 Analysis According to the Mode of Entry

In this section, an analysis will be made to determine the differences between companies entering a market using a Stage 1 or Stage 2 entry mode (non-equity based) and companies using a Stage 3 or Stage 4 entry mode (equity based). A nonparametric test was chosen by the authors as the most suitable instrument to investigate differences of the mean value within the sample.

The Mann-Whitney test is a nonparametric test of determining whether two statistical populations of continuous values are identical to or different from one another (Kohler, 1993). In this section, the population (all participating companies) is divided in two groups according to their chosen mode of entry. The first group had chosen a non-equity entry mode (export or licensing), the second group an equity based entry mode (joint venture or foreign direct investment). Group number one consists of six (6) companies, and group number two contains seven (7). To investigate whether these two groups were similar, the p-value was chosen. The p-value is the probability that the result achieved would have occurred randomly. If the p-value ≤ .01 the hypothesized parameter value would be rejected strongly. If the p-value ≤ .05 but > .01 the hypothesized value parameter would be rejected weakly, whereas the p-value is > .05 the hypothesized parameter value would be accepted (Kohler, 1993).

6.8.1 Analysis of Significance for Ability Questions

It is difficult for companies to estimate their own ability because firms are rather subjective. This is the reason why the spread between the answers is high and therefore the p-value is low.

<table>
<thead>
<tr>
<th>Question 1 (international experience)</th>
<th>Question 2 (firm-specific assets)</th>
<th>Question 3 (network)</th>
<th>Question 4 (financial resources)</th>
<th>Question 5 (market knowledge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>p-value</td>
<td>.181</td>
<td>.014</td>
<td>.366</td>
<td>.002</td>
</tr>
</tbody>
</table>
The p-value for question 1 and question 3 can be accepted because they are both > .05. For question number 2 and number 5, the p-value is ≤ .05 but > .01, therefore indicating a weak rejection. Question number 4 must be rejected strongly because the p-value is ≤ .01.

A possible reason for such a result could be that the companies in question were rather small. Firms of smaller size tend to have a correspondingly low amount of financial resources as compared to larger companies, which to some extent explains the low p-value for question 4. Question number 2 and question number 5 were rejected weakly. Regarding question 2 (firm-specific assets), it is quite difficult for firms to assess their own intangible assets because in a sense, they have become desensitized to them and might take them for granted because the knowledge of these assets is somewhat tacit. Market knowledge (question 5) also scored a relatively low p-value. A possible reason for this could be that the surveyed firms compensated their lack of market knowledge with a higher level of experience. It is especially difficult for smaller, time and money intensive firms to investigate the characteristics of every market.

### 6.8.2 Analysis of Significance for Motivation Questions

When observing the significance for the motivation questions, it became obvious that the significance was higher than the significance of the ability questions. The reason for this was that most firms have high goals and ambitious visions for the future. This results in more homogeneous answers and higher significances.

<table>
<thead>
<tr>
<th>Question</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 6</td>
<td>.234</td>
</tr>
<tr>
<td>Question 7</td>
<td>.035</td>
</tr>
<tr>
<td>Question 8</td>
<td>.022</td>
</tr>
<tr>
<td>Question 9</td>
<td>.138</td>
</tr>
<tr>
<td>Question 10</td>
<td>.181</td>
</tr>
<tr>
<td>Question 11</td>
<td>.731</td>
</tr>
</tbody>
</table>

Question 6, question 9, question 10 and question 11 are accepted with a p-value > .05. Question 7 and question 8 were rejected weakly. Possible explanations for that could be associated with the questions regarding transaction costs and locational incentives. It is feasible that transaction costs and locational incentives
played a minor role in the choice of a particular market for companies that chose a non-equity based entry mode.

**6.8.3 Analysis of Ability According to the Mode of Entry**

Analyzing the mean values of firms choosing export or licensing as mode of entry it shows that international experience (question 1) had the highest mean value. Network (question 3) had the second highest mean value with 3.7. Firm-specific assets (question 2) had a mean value of 3.3 and is ranked third. Both financial resources (question 4) and market knowledge (question 5) have a mean value of 3.0 and are ranked fourth.

<table>
<thead>
<tr>
<th>Question 1 (international experience)</th>
<th>Question 2 (firm-specific assets)</th>
<th>Question 3 (network)</th>
<th>Question 4 (financial resources)</th>
<th>Question 5 (market knowledge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean value</td>
<td>4.0</td>
<td>3.3</td>
<td>3.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Of all the answers regarding ability questions that were given by companies choosing equity based entry modes (joint venture or foreign direct investment), question 2 (firm-specific assets) had the highest mean value, at 5.4. International experience (question 1) was ranked second with a mean value of 5.1. Question 3 (network) and question 5 (market knowledge) were third with a mean value of 4.9 each. Financial resources (question 4) had the lowest mean value of 4.7.

<table>
<thead>
<tr>
<th>Question 1 (international experience)</th>
<th>Question 2 (firm-specific assets)</th>
<th>Question 3 (network)</th>
<th>Question 4 (financial resources)</th>
<th>Question 5 (market knowledge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean value</td>
<td>5.1</td>
<td>5.4</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Comparing the two groups it became obvious that firms that chose an equity based entry mode (joint venture or foreign direct investment) had higher mean values in all factors which were equal to a higher ability. It is interesting that these companies regarded their firm-specific assets (question 2) more positively
than companies that have chosen export or licensing as their mode of entry. The mean value for this factor was 5.4 (which was the highest mean value in this group), whereas companies performing export or licensing to penetrate a new market had a mean value of 3.3, which ranked only in third. The difference of 2.1 is rather big, indicating that companies setting up their own facilities in the new market are aware of their strong firm-specific assets.

Market knowledge (question 5) had a mean value of 4.9 for companies doing joint venture or foreign direct investment, which ranked third (together with network, question 3). Companies entering a new market by export or licensing regarded this factor as second important and have a mean value of 3.0 which leads to a difference between both groups of 1.9. That shows that companies setting up their own facilities regard this factor as more important than companies performing export or licensing. This suggests that as commitment increases, market knowledge becomes a more important factor than for entry modes with lower commitment.

Regarding the financial resources, both groups consider this factor as fourth in importance. Companies entering a new market by export or licensing have a mean value of 3.0 whereas companies entering a new market by joint venture or foreign direct investment have a mean value of 4.7. The difference of 1.7 is rather big, which indicates that financial resources are necessary to perform an equity based entry mode.

Question 3 (network) had a mean value of 4.9 within companies using an equity-based mode, and a ranking in third. Companies entering a new market by export or licensing achieved a mean value of 3.7 and considered network to be second most important in influencing their decision for the market entry mode choice. The difference of 1.2 could indicate that companies entering a new market by joint ventures or foreign direct investments have a more distinctive network than companies entering a new market with a non-equity based entry mode.

The smallest difference of 1.1 appeared regarding question 1 (international experience). Companies using an equity based mode had a mean value of 5.1
(which was the second rank in this group), while firms conducting export or licensing had a mean value of 4.0. For this group international experience had the highest mean value. This shows that both groups had a rather high level international experience. However, companies setting up their own facilities had comparatively higher international experience than those that had not.

6.8.4 Analysis of Motivation According to the Mode of Entry
When analyzing the motivation factors for firms that used a non-equity based entry mode, it showed that risk (question 11) had the highest mean value (4.5). Market potential (question 6) had the second highest mean value with 3.5. Question 10 (psychic distance) was third with a mean value of 3.2, followed by question 9 (psychic distance) with a mean value of 3.0. Next was transaction costs, with a mean value of 2.8. The lowest mean value belonged to locational incentives, with a mean value of 2.2.

<table>
<thead>
<tr>
<th>Question 6 (market potential)</th>
<th>Question 7 (transaction costs)</th>
<th>Question 8 (locational incentives)</th>
<th>Question 9 (geographic distance)</th>
<th>Question 10 (psychic distance)</th>
<th>Question 11 (risk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean value</td>
<td>3.5</td>
<td>2.8</td>
<td>2.2</td>
<td>3.0</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Regarding the mean values of firms that had chosen an equity based mode of entry, market potential (question 6) achieved the highest mean value. The second highest mean values were transaction costs (question 7), geographic distance (question 9) and psychic distance (question 10). Question 11 (risk) had the second lowest mean value with 4.2. The lowest mean value again was associated with locational incentives (3.7).

<table>
<thead>
<tr>
<th>Question 6 (market potential)</th>
<th>Question 7 (transaction costs)</th>
<th>Question 8 (locational incentives)</th>
<th>Question 9 (geographic distance)</th>
<th>Question 10 (psychic distance)</th>
<th>Question 11 (risk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean value</td>
<td>4.7</td>
<td>4.3</td>
<td>3.7</td>
<td>4.3</td>
<td>4.3</td>
</tr>
</tbody>
</table>
After comparing the mean values of both groups, it became apparent that market potential played an important role for the motivation to a particular market. For companies that chose an equity based market entry mode, it had the highest mean value (4.7). For companies entering a new market by export or licensing, market potential was ranked second with a mean value of 3.5. The difference between the two groups was 1.2, indicating that market potential for equity based market entries is more important, as can be seen by the higher commitment.

Risk achieved the highest mean value (4.5) for companies doing export or licensing. Firms that chose joint ventures and foreign direct investments as mode of entry recorded a mean value of 4.2 for this factor. The gap between the two groups is rather small (0.3), showing that they regard this factor with almost the same importance. However, risk was considered more important for firms using export and licensing than for companies using joint ventures and foreign direct investments as mode of entry. This is supported by proposition five, where it states that “firms with a strategy of Cost/Risk Minimization will have a higher propensity of participation in non-equity based modes (Stage 1 or 2)”.

For firms entering a new market by using a Stage 3 or Stage 4 mode, psychic distance (question 10) was regarded as the second most influential factor, together with geographic distance and transaction costs, both of which had equal mean scores. The mean value of these factors was 4.3. For firms that used export and licensing, psychic distance was ranked third with a mean value of 3.2. The difference between the groups was 1.1 which indicates a stronger focus on markets with a bigger psychic distance. Question number 9 (geographic distance) had a mean value of 4.3 for companies chosen an equity based entry mode, whereas non equity based companies scored a mean value of 3.0 for this factor. The difference of 1.3 showed that firms participating in joint ventures or foreign direct investments put more attention on markets that were geographically more distant than the domestic markets.

The most significant difference between the mean values of the two groups was shown in locational incentives (question 8), as well as in transaction costs (question 7), both with a gap of 1.5. Equity based undertakings had a mean value
of 3.7 for locational incentives, whereas firms that used non-equity based entry modes had a mean value of 2.2. It was clear that locational incentives played a more important role for firms setting up facilities in the new market than for companies entering a new market by exporting or licensing. For transaction costs (question 7) it showed a similar picture. Companies entering a new market by joint venture or foreign direct investment had a mean value of 4.3, while companies performing export and licensing had a mean value of 2.8.

6.8.5 Summary

To conclude this section, it can be said that companies entering a new market using a Stage 3 or Stage 4 entry mode had a higher level of ability than companies entering a new market from Stage 1 or Stage 2. Also, the level of motivation was higher in companies entering a market with an equity based entry mode than in companies using a non equity based mode. An exemption was apparent concerning risk, which was higher in companies entering using non equity based modes. In an attempt to generalize, higher levels of ability and motivation factors lead to higher commitment, as can be derived from Proposition 3. Of course it is necessary to consider the strategies, as mentioned in chapter 4.8. Proposition 5 was rejected because only 50 % of the companies that chose this strategy followed in the suggested manner, but the higher mean value of question 11, concerning risk, shows that the companies entering a new market in Stage 1 was in support of this proposition.

6.9 Further Analysis

Although 46 % of the actual entry modes were inconsistent with those suggested by the model, 3 (50 %) of those inconsistent cases are explained within the parameters set by each company’s choice of strategy. The model suggested that company 6 and 10 would use a Stage 2 and 3 entry mode, respectively, according to their degrees of ability and motivation. However, with control maintenance as a strategy, both companies’ choice of a Stage 1 entry mode is in agreement with the model, especially as licensing offers the least amount of control. Also, company 4 chose a Stage 1 entry mode while the suggested mode of entry was a
joint venture (Stage 3). Again, this is within the scope of the model because Risk Minimization was chosen as a strategy, suggesting that regardless of the condition created by the ability and motivation factors of company 4, Stage 1 was the best choice of mode to satisfy that strategy.

Two of the remaining three inconsistent entry modes have been considered as anomalies that resulted from miscommunication between the researchers and the respondents. Company 5 and company 7 both exhibited very high levels of ability, a profit maximization strategy, and a Stage 4 entry mode. As they both had been involved in a Stage 4 mode, this indicates (according to the model) that they must possess the motivation as well, but for some reason they only indicate Stage 3. The most reasonable explanation is that the respondent was unclear about how to answer the questions regarding the degree of motivation of their firm because those factors are admittedly difficult to interpret. The last inconsistent entry mode is actually quite on the border. Company 2 had the ability for a Stage 4 entry, motivation for Stage 2, but entered with a Stage 3 mode. The degree of motivation, however, was only one point below the threshold of Stage 3, which would have made the data from company 2 consistent with the model as well.

Therefore, after proving that 3 (50 %) of the initially inconsistent results were consistent after accounting for the associated strategy, only 23 % can finally be considered actually inconsistent. Computing the sum of the initially consistent modes and the strategically consistent modes leaves a total of 77 % of the sample being in support of the suggestions made by the proposed model.

\[
\begin{align*}
\text{initially inconsistent modes} & \quad \underline{.46} & \quad \text{actually inconsistent modes} & \quad \underline{.46 \times .5} & \quad = & \quad \underline{.23} \\
\text{initially consistent modes} & \quad \underline{.54} & \quad \text{strategically consistent modes} & \quad \underline{.23} & \quad = & \quad \underline{.77}
\end{align*}
\]
6.10 Critique of Analyses

The absence of any Stage 2 commitment activity was troubling during the analysis because it left an unexplained gap in the theory, that is, whenever the model suggested that a company would be in Stage 2 the theory was incorrect. The explanation for this is most likely that the companies that were chosen are not suited for licensing. These moderately sized consumer goods companies manufacture a finished product, and it would not make sense to license these items, such as wine, sporting goods, or hair products. Licensing is more fitting for a company with special technology for producing component parts for machinery, or for a company with a patented formula that an outside manufacturer would like to exploit.

Another thing is that propositions 5, 6 and 7 were particularly difficult to formulate and to analyze because all the strategies are related and every company attempts to incorporate each into their overall strategy. The most prominent example of this is regarding the profit maximization strategy. As a proposition, number 6 was rather weak because it had no clear objective, unlike numbers 5 and 7, which were developed to explain a firm’s apprehension to commitment. Also, while Risk/Cost Minimization and Control maintenance are somewhat more easily associated with certain entry modes, profit maximization was probably a much too ambiguous option in the minds of the survey recipients. In other words, if the recipients felt unsure about the answer to this question, profit maximization had a connotation that was quite agreeable with any entry mode. This was the reason why the majority of respondents claimed it as their firm’s strategy, while the entry mode used was inconsistent.

Finally, the authors refrained from analyzing the data submitted for questions 15 and 16 of the questionnaire (see appendix 1). This decision was made because it was realized that this data was unnecessary for the purpose of this dissertation. Initially, as stated above, this data was to be used to validate or invalidate the assumptions made in the Uppsala Model. Although much of this study involved this model, the purpose was not to prove or disprove it, but rather to account for the discrepancies that have arisen in empirical testing. Therefore, these questions were disregarded.
Chapter 7: Conclusions

This final chapter will begin with a review of the research question, and methods used in the paper. Next, a brief summary of the findings will be presented, after which will be conclusions regarding the results, as well as the procedural problems encountered during the study. Also included will be a few suggestions for future research, some practical implications, and in closing will be some final thoughts from the researchers.

7.1 Review of the Study

In this dissertation an attempt was made to describe how firms internationalize. In other words, the authors investigated factors that could describe the behavior of firms as they choose one market entry mode over another. To do this, the authors described several factors of ability and motivation that were thought to have an influence on this decision. The research began with an examination of relevant literature and established theories. After deriving a model a questionnaire was developed and sent out to small and medium sized companies. The received data was analyzed with statistical methods like mean value and standard deviation in an attempt to provide support for the model.
7.2 Review of the Propositions

7.2.1 List of Propositions

The research aim was to determine the behavior of firms regarding the choice of entry mode. Therefore a model was created, consisting of ability and motivation factors which could explain the behavior of firms. With help of the sent out questionnaires, the authors tried to provide support for seven propositions.

P1: The greater the degree of ability a firm maintains, the greater their degree of commitment *can be* -and-

P2: The greater the degree of motivation a firm maintains for a market dictates how great the degree of ability *needs* to be; -therefore-

P3: The lowest degree between ability and motivation dictates how great the degree of commitment *will be.*

P4a. The influence of each ability factor is as follows:
- **High:** Financial resources, Firm-specific assets
- **Moderate:** Network
- **Low:** Market knowledge, International experience

P4b. The influence of each motivation factor is as follows:
- **High:** Market potential, Transaction costs
- **Moderate:** Risk
- **Low:** Geog./psych. distance, Locational incentives

P5: Firms with a strategy of Cost/Risk Minimization will have a higher propensity of participation in non-equity based modes (Stage 1 or 2).
P6: Firms with a strategy of Profit Maximization will have a higher propensity of participation in equity based modes (Stage 3 or 4).

P7: Firms with a strategy of control maintenance will have a higher propensity of participation in Stage 1 and Stage 4 entry modes.

7.2.2 Agreement with Propositions

Very few of the propositions were rejected, however there were a few companies that were not in agreement with the suggestions of the model due to discrepancies in strategy as well as a possible miscommunication between the researcher and respondent. Propositions 1 through 4, as well as proposition 7 were supported from empirical tests, while propositions 5 and 6 were not supported. For both cases, however, it is difficult to say that the results are conclusive due to the very small sample analyzed. The actual response rate was 16.7 %, which translates to the 13 questionnaires that were received.

7.3 Summary of the Findings

7.3.1 Examination of the Research Aim

The attempt to determine the behavior of international firms as they choose between foreign market entry modes was challenging due to the large amount of conflicting, though sometimes complementary theoretical and empirical data available. Through intensive research, the Kristianstad 3° Model was created, and it proved its worth in its first empirical trial. Although the limited sample size used in the test obligates the researchers to concede that the support may not be precisely reliable, the results were quite encouraging.

From a total of 13 received questionnaires, 7 of those companies participated in an entry mode that was in the stage suggested by the model after evaluating all of the submitted data, and translating it into degrees of ability and motivation. This accounts for 54 % being initially congruent with the model. Of the remaining 6 companies, 3 of them proved to also be congruent after considering the affects of the chosen strategy, as suggested by the model. The final total, then, was 77 % of
the data received was in agreement with the proposed model. More support was also apparent after the authors realized that the 3 companies that did not meet the model’s expectations either supplied data that was almost supportive, or supplied data that implied a communication error rather than a theoretical error.

7.3.2 Examination of Factor Importance

An assumption made by the researchers was that certain ability and motivation factors were more important than others, that is, some had more influence on a firm’s ability or motivation to internationalize. In order to support this assumption, the sample was asked to rank the factors in order of most important for their firm. The relative importance used in the model (shown above in hypothesis 4) turned out to be accurate after the results from the 13 questionnaires displayed mean ranks that were almost identical to the order suggested. 3 of the 5 ability factors were ranked correctly, while the 2 incorrect factors were on adjacent levels of importance. This means that one factor that the model suggested as having low importance actually had moderate importance, and therefore did not make a large difference in analysis. The variance would have been more drastic had a high importance factor been mistaken for a low one because the difference between coefficients is double in size, which would make the total numbers decidedly different.

7.4 Procedural Problems

Although much of this study has been successful in empirically testing the proposed theory, certain problems surfaced as work progressed. Regarding the theory, some details were overlooked, while the importance and depth of other issues were completely underestimated, such as sample selection. As for the empirical method, there were many aspects that provided a real glimpse into what is really necessary to undertake such research and subsequently produce valid and realistic data.
7.4.1 Simple or Complex?

There are two paradoxes existing within theoretical research for internationalization that were particularly frustrating to work around. The first one is that all the major theories that students learn in international business studies seem to have some sort of antithesis. For example, the Heckscher-Ohlin theory has the Leontief paradox, and Vernon’s product life cycle theory was successful only in describing post-war America (Hill, 2003). It appeared as if these theories were taught not because of their practical success but rather only for their influence on the academic community of international business, or the revolutions in thought that they had created. The other paradox is that simple theories are discredited for being too deterministic, i.e. the Uppsala model, while complex theories are criticized for being too complicated for practical use, i.e. the eclectic paradigm (Andersen, 1997). In other words, the simple models provided results that suggested that internationalization behavior was “black or white,” while complex models provided results that were too “gray” and therefore were without clarity.

Naturally, as the model that was theorized within this paper was a modification of the Uppsala model, it aimed to involve a larger number of factors, and therefore became rather complex. Its complexity, however, may have been a bit of a hindrance because of the numerous variations in data that had to be accounted for. It proved to be a great challenge to devise realistic correlations between so many different combinations of factors.

7.4.2 Measurement

One of the main difficulties of this study was the manner in which each factor was measured. This was largely the result of the ambiguous and intangible nature of many of the ability and motivation factors. These characteristics made it difficult to articulate the definitions of these factors to the survey recipients in a way that was completely clear. Also, regardless of a correct articulation of the definitions, the reliability of the data collected was quite questionable for a number of reasons. One reason is that the researchers were unaware of the authority maintained by each of the recipients, that is, whether or not they possessed the knowledge necessary to answer the questions on the survey.
Another reason is that although questionnaires were sent to collect quantitative data, many of the questions asked could almost be considered qualitative because answers were given on a scale rather than according to specific figures. This, in turn, allows the recipient to use subjective reasoning rather than objective reasoning, which results in exaggeration, guessing, or simply inaccurate answers. Analysis of this data also proved to be a difficult task because without numerical figures, the search for meaningful and useful statistics was long and largely unsuccessful.

The authors decided to design the questions in this fashion because it was felt that the return rate would be quite low initially, and that it would be decidedly worse if requests were made for specific figures. It appeared that the recipients would not view the study as important as it would be coming from MBA students without any incentives to offer. This turned out to be an accurate perception because many companies still denied the questionnaire by stating that the questions asked for information that was too confidential to divulge, even though numerical figures were not requested. Many of the companies were privately held, therefore they were not obliged to share any information. When selecting the sample of companies that would receive the questionnaire, the researchers failed to recognize that targeting small and medium sized companies would mean targeting many companies that were not public, and would therefore easily be able to avoid responding.

7.5 Suggestions for Further Research

There are a few suggestions for further research of this paper. The first is that the measurement method for each factor could be more precise and somehow represented in a completely quantitative manner. Also regarding the factors, it is quite possible that there are more factors that should be involved, and this possibility should surely be investigated. It might also be helpful to precisely decipher the size of each stage, or reevaluate the borders that separate one from the other because the manner in which that was decided for this paper was not quite as scientific as could have been possible. More statistical tools could be
used for analyzing data, however it would be necessary to collect a much larger sample than the researchers were able to do. Another suggestion is to adjust the model to accommodate the slight variance that was found in the influence coefficients for the ability and motivation factors. Although the results will not vary greatly from the findings of this paper, the will provide a more accurate picture of the behavior of firms.

7.6 Practical Implications

The results of this study will be most applicable for educational purposes. As the model is not useful in describing why a firm chooses one location over the other, it cannot necessarily be used as a predictive tool, but rather an explanatory tool. Perhaps, as stated above, there is further work to be done after what has been offered within this paper, and in that case the proposed model may act as a benchmark, or a foundation for a more in depth theoretical development in the same direction, and with a similar research aim.

7.7 Final Thoughts

Although many aspects of the findings have been congruent with the model, it must be conceded that the somewhat unreliable data that was collected has subsequently created an unclear depiction of each company’s degrees of ability and motivation. Some companies fitted with the model while other companies’ actual degree of commitment was inconsistent with the commitment suggested by the model after plotting their degrees of ability and motivation on the graph.

Still, it is the authors’ contention that the research methods were inadequate to provide either realistic support for the model, or contradictions against it that were substantial enough to be relied upon. The model itself has its foundations in what the authors still believe to be absolute logic, but the manner in which the research was conducted yielded relatively inconclusive data. It must be said, however, that options were limited as to which methods could be used
considering the major time and financial constraints. For a theory involving so many complicated aspects, three months and no budget provided a difficult platform to empirically test it.

In any case, the dynamic nature of modern international business has required a reevaluation of previous thought, and the model that was proposed in this dissertation was a result of an attempt to accomplish this. As change becomes more rapid, theories must be structured in a flexible fashion to accommodate it, and it was the intention of the authors to take a step in this direction.
Sources


Teece, D. J. (1976). *Vertical Integration and Divestiture in the U.S. Oil Industry*.


Dear Recipient:

We are a team of three students from France, Germany, and the United States, who are writing an MBA thesis for our International Business studies at Kristianstad University in Kristianstad, Sweden. Our research is intended to provide support for a theory we have created to explain why international companies choose one form of foreign mode (exporting, distributorships, joint ventures, etc.) over another. With the help of your data, this theory could be used for educational purposes in predicting and analyzing the internationalization of companies.

We are especially interested in the input of small and medium sized companies because today’s massive corporations are already largely globalized, making their data less relevant. Therefore, data collected from companies like yours will be of great value for our study.

The survey is brief, consisting of only 13 questions listed on one page. All information provided by your company would be kept strictly confidential and discussed in our thesis with complete anonymity.

If you have any questions about the survey or its purposes, you may send an e-mail to: az@ureach.com and a reply will be promptly sent. Upon completion of the survey, please save your changes, and send to the same address: az@ureach.com. You may return it at your convenience, but we would like to collect it no later than December 13, 2003.

Thank you so very much for your time and consideration, and again in advance for your response.

Sincerely yours,

Fabrice Derville, Maik Rieche, Aaron Zieske

International Economy MBA Program
Kristianstad University
Kristianstad, Sweden

P.S. personal touch
Please read each question carefully, then use your mouse to click the desired box, and type an ‘x’.

For items 1-4, determine your answer by comparing your company with other consumer product companies of all sizes.

<table>
<thead>
<tr>
<th>Question</th>
<th>Very Low</th>
<th></th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The level of your international experience is……………………</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. The strength of your firm-specific-assets (strong brand name, valuable know-how, specialized product) is……...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. The number of international relationships/contacts in your company’s network is…………………………</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. The level of your company’s available financial resources is………………………………………………</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For items 5-14, please answer according to the market where your company has most recently had international activity (exporting, distributors, subsidiaries, etc.).

<table>
<thead>
<tr>
<th>Question</th>
<th>Very Low</th>
<th></th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. The level of knowledge specific to this market was…..</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. The amount of market potential (opportunity for profit because of a growing economy or little competition) was</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The costs (transportation, setting up production, etc.) of doing business in this market were………………</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The advantages available in this location (tax breaks, low customs fees, low labor costs, abundant materials for production, etc.) were………………………………</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. The geographic distance to this market was……</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. The psychic distance (cultural difference) from this market was…………</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. The risk (political instability/corruption, currency exchange, etc.) associated with this market was……</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Please rank each group of items from 1 to 5 according to which had the most influence in your firm’s decision to enter a market; use each rank only once in each group, where 1 = highest, 5 = lowest.

| Financial resources…… |  |       | Market potential………… |  |
|------------------------| |       | Transaction costs………… |  |
| International experience |  |       | Locational incentives…… |  |
| Network…………         |  |       | Geographic/psychic distance.. |  |
| Firm-specific assets….. |  |       | Risk…………………… |  |
| Market knowledge………  |  |       |                           |   |
13. What foreign entry mode did your company use in this market? Please mark only one.

Export/Agent    License/Franchise    Joint Venture    Wholly Owned
Subsidiary/Acq.

14. What was your company’s most important underlying strategy for entry into this market?
Please mark only one.

Risk Minimization    Profit Maximization    Control
Maintenance    Other?    Explain

15. What were the first five (5) foreign countries your company did business with? If less than
five, list as many as you can.

1st    2nd    3rd    4th    5th

16. Which foreign entry mode did your company choose for each of the countries that you listed
in question 15? Choose between export, agent, distributor, license, franchise, joint venture,
or subsidiary.

1st    2nd    3rd    4th    5th

17. How many employees are working in your company?

1–25    26–100    101-500    501-2000    2001-5000    +5000

*Thank you very much for completing this questionnaire. Your information will be extremely
helpful for our study. Please save this file to your desktop, and send back as an attachment to
azi@ureach.com. Your prompt reply is greatly appreciated.