



## MARKET ENTRY MODES OF INTERNATIONAL SERVICE FIRMS

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## **Abstract**

Researches showed that the existing theories on entry mode choice into foreign markets are done on manufacturing firms and this is being generalized to the service sector. However, service by its nature has its own unique features that make it different from manufacturing sector. Therefore how international service firms choice their entry mode and how their unique features play role in their entry mode choice deserved this research. Based on this ground, the main purpose of this study is to get deeper understanding about how international service firms make entry mode choice and how unique features of service play role in their entry mode choice. The study used qualitative research design and case study. The study mainly used primary data, which was collected through qualitative interview from case international soft service organizations and then analyzed through qualitative method. The main finding of the study showed that soft service international firm's foreign market expansion is mainly influenced by market knowledge and experience, cost as well as by their size and resources. In addition, the unique features of soft service (i.e. intangibility, inseparability, heterogeneity and perishability) plays role in entry mode choice of international service firms. The study finally indicated that the existing theories of entry mode choice, which is done on manufacturing, do not be appropriate to the service sector as service unique features play their role in entry mode choice.

**Key Words:** Entry Mode Choice, Unique Features of Service, Soft Service, International Service Firms, Foreign Market, Internationalization.

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<b>1. Introduction .....</b>	<b>1</b>
1.1 Entry Mode Choice .....	1
1.2 Entry Modes Choice for Service Firms.....	2
1.3 Problem Discussion .....	4
1.4 Purpose of the Study .....	5
<b>2. Theory .....</b>	<b>6</b>
2.1 Internationalization & Market Entry Modes.....	6
2.1.1. <i>Internationalization Theories</i> .....	6
2.1.2. <i>Entry Mode</i> .....	10
2.2. Market Entry Modes in Service.....	13
2.3. Service and Its Unique Characteristics.....	14
2.3.1. <i>Unique Features of Service</i> .....	15
2.4. Conceptual Framework.....	17
<b>3. Research Methodology .....</b>	<b>21</b>
3.1. Abductive Research Approach.....	21
3.2. Qualitative Research Design .....	21
3.3. Case study .....	22
3.4. Selecting Case Organizations .....	22
3.5. Data Collection Method .....	24
3.6. Method of Data Analysis .....	25
3.7. Validity of the Study.....	25
3.8. Reliability of the Study .....	26
<b>4. Empirical Findings .....</b>	<b>27</b>
4.1 Empirical Findings of the Construction Company.....	27
4.1.1 <i>Entry mode</i> .....	27
4.1.2 <i>Internationalization</i> .....	28
4.1.3 <i>Factors affecting the entry mode</i> .....	29
4.2 Empirical Findings of Bank.....	30
4.2.1 <i>Entry Mode</i> .....	31
4.2.2 <i>Internationalization</i> .....	32
4.2.3 <i>Factors Affecting the Entry Mode</i> .....	33
4.3 Empirical Findings of the Hotel.....	35
4.3.1 <i>Entry mode</i> .....	36
4.3.2 <i>Internationalization</i> .....	37
4.3.3 <i>Factors affecting the entry mode</i> .....	38
<b>5. Analysis.....</b>	<b>40</b>
4.1 How international service firms enter foreign markets .....	40
4.1.1 <i>Market Knowledge and Experience</i> .....	40
4.1.2 <i>Transaction Cost Analysis to Enter Foreign Market</i> .....	43
4.1.3 <i>Ownership, Location and Internationalization Advantages</i> .....	45
4.2. How and why unique features of service play their role in entry mode choice .....	50
4.2.1 <i>Intangibility</i> .....	50
4.2.2 <i>Inseparability</i> .....	51
4.2.3 <i>Heterogeneity</i> .....	53
4.2.4 <i>Perishability</i> .....	55
4.3 Cross Case Analysis.....	57
4.3.1 <i>Market Knowledge and Experience</i> .....	57

4.3.2 Transaction Cost Analysis to Enter Foreign Market.....	57
4.3.3 Ownership, Location and Internationalization Advantages.....	57
4.3.4 Unique service features .....	58
<b>6. Conclusion .....</b>	<b>63</b>
6.1 Implications of the study .....	65
6.2 Limitations.....	65
6.3 Future research .....	66
<b>References.....</b>	<b>67</b>
<b>Appendix .....</b>	<b>73</b>

### **List of Tables and Figures**

#### **List of Tables**

Table 1: Selected organizations for the Study .....	24
Table 2: Names of the interviewed people with their respective position in selected organization.....	25
Table 3: Cross-Case analysis summary on the expansion process of international service firms.....	58
Table 4. Cross-Case analysis summary on the role of unique features of service on entry mode .....	62

#### **List of Figures**

Figure 1: The significance of market knowledge and market commitment in internationalization ....	7
Figure 2: Eclectic Models .....	9
Figure 3: Market entry modes of international service firms (source: own model based on existing theories) .....	18

## 1. Introduction

Many firms go into foreign markets get more sales and growth for the firm (Göcer & Karadeniz, 2007). Export is very often associated and used as a term for internationalization and it is the most used way to enter foreign markets. Larger volumes and more growth is a result of entering new markets and getting more customers (Beamish & Lu, 2001). There are new challenges different from the ones firms are facing in the domestic market that are related to expanding into new foreign markets. Some of the main challenges are foreignness and newness (Beamish & Lu, 2001). The barriers for firms expanding into other markets are constantly fading and the number of firms competing internationally is rising (Matenge, 2011). The conditions and opportunities for firms going international such as communication, Internet and other technologies have increased that makes easier and more attractive to act on the international market. The internationalization creates ways for new value creation, new resources and opportunities for new financial sources (Khojastehpour & Johns, 2014). With more competition from international firms in the domestic market, it is almost a requirement for firms to act on several markets (Matenge, 2011). During the internationalization process, the firm should choose a strategy, entry timing and the way of how the entry will be done (Andersen, Ahmad & Chan, 2014). Thus entry mode choice is one of the important aspects of internalization that international firms deal with.

### 1.1 Entry Mode Choice

The current globalization phenomenon has provided an opportunity for service firms to enter into different foreign market to do their business. Due to this situation, entry mode choice is an important element of international marketing strategy (Terpstra & Sarathy, 1994). Even if there are different ways of explaining entry mode choice, entry mode in this study is to mean as a suitable way for international firms to enter into foreign markets to do their business by taking their advantages (Root, 1994).

The choice of entry mode affects the process of internationalization (Barbosa, Rezende & Versiani 2014). Entry mode decision is an important aspect of marketing strategy of international firms (Terpstra & Sarathy, 1994). This strategy has its own impact on the performance of the firm (Root & Root, 1987). The survival and performance of international firms are influenced by the market entry mode decisions (Sarkar & Cavusgil, 1996). In support of this, Anderson and Coughlam (1987) stated that market entry mode plays an important role in performance of international firms. Furthermore appropriate choice of entry mode results in competitive advantage to the firm (Efrat & Shaham, 2013).

The entry mode should be chosen suitable for the firm and the choice can be very critical for the future success of the firm (Johns & Khojastehpour, 2014). Experience and knowledge of the chosen market are important aspects that are affecting the decision of entry mode. The process of entering a new market is progressively changing since more knowledge and experience is needed and takes time to get them. International firms need to make difficult decisions with regard to choice of market entry modes (Agarwal & Ramaswami, 1992) because it requires considerable time and money (Root and Root, 1987). Making entry mode decision requires considering different factors. Trade-off between risk and benefit analysis associated with each alternative mode serves as a base to make entry mode choice (Agarwal & Ramaswami, 1992). Not only risk-

benefit analysis but also the availability of resources and

the need for control determines the firm's market entry mode choice (Cespedes, 1998; Stopford & Wells, 1972). Thus consideration of risk, benefit, resources and control are the main factors that need to be considered while making entry mode decision.

## 1.2 Entry Modes Choice for Service Firms

Javalgi et al. (2003) stated that most of researches conducted on internalization behaviours of firms are conducted on manufacturing sectors. The existing theories with regard to international firms' entry mode choice are based on manufacturing firms and they are being generalized for the service firms as well (Parola et al, 2013; Blomstermo et al., 2006, Erramilli & Rao, 1993). Erramilli and Rao (1993) indicated that the existing entry mode theories of the manufacturing are applied to the service sector. This generalization is provided based on the study of specific service sector industry (like Advertising Agency, Leasing service, Banking Service, etc.). In addition, most of previous studies (like Weinstein, 1977; Terpstra & Yu, 1988; Agarwal & Ramaswami, 1992) tried to show that there is no difference between international manufacturing and service firms in terms of their market entry behavior. Even though some researchers (like Johanson & Vahlne, 1990; O'Farrel et al., 1998; Erramilli, 1990 etc.) claimed need for separate research on service sector, as they are unique, not much progress is made because of other contenders who claim for the generalizability of the manufacturing to the service sector (Javalgi et al., 2003). However, the applicability of the existing entry mode theories of the manufacturing to the service sector is not proved yet (Parola et al, 2013).

Some studies (like Erramilli & Rao, 1990, 1993; Erramilli, 1991) showed that there is difference between manufacturing and service firms in their market entry decisions. The difference is attributed to the characteristics of service. These studies have provided us initial understanding on the existence of difference between manufacturing and service sector in market entry chooses behavior. In addition, Javalgi et al. (2003) study on business-to-business international service firms' behavior indicated that the generalization of manufacturing firms' behavior to service sector is not compatible to the reality. The unique characteristics of service do not allow service firms to follow the manufacturing firms' mode of market entry (Javalgi et al., 2003). In support of this, Erramilli (1990) indicated that unique features of service differentiate the market entry mode behavior of international service firms from manufacturing.

Erramilli (1990) clearly showed that even there is difference in entry mode behavior between different categories of service (e.g. hard service and soft service). However, Ekeledo and Sivakumar (1998) indicated that there is some similarities between hard service and manufacturing in their market entry mode behavior. Ekeledo and Sivakumar (1998) also found that there is significance difference in market entry mode behavior between soft service and manufacturing and even from hard service.

When looking at some of previous studies, Parola et al. (2013) has recently conducted a study on antecedents of service firms' entry mode strategies. This study considered wholly owned subsidiary and joint venture service firms and focused on the influences of internal, external and cross-cultural factors on the entry mode choices of soft service firms. The study found that cross-cultural factors as determinant factor for international soft service firms to engage on foreign direct investment. Even if the study tried to see multi-factors influence on the control aspects of

the soft service firms on its entry mode decision, it don't show the influence of each unique features of soft service on various aspects of entry mode behaviors of international service firms. Beside this, the study has considered only service firms, which are engaged on the container port industry.

Erramilli and Rao (1990) in their study claimed that the existing theories done on manufacturing context should not be adopted to the service sector and rather modified according to unique features of service firms. Erramilli and Rao (1990) also indicated that the existing studies done on the specific service industry entry mode behaviors are limited in scope to generalize to the whole service sector's behavior in entry mode. Erramilli and Rao (1990) made a study on the role of market knowledge on the service firm's choice of foreign market entry modes. The result of their study showed that more market knowledge is an important factor to move for aggressive entry mode choice.

In addition to this, Erramilli (1991) has investigated the influence of experience and control on the international service firms' market entry mode choice. This study still doesn't show us specifically the influence of service unique characteristics on market entry mode choice. Similar research done by Erramilli and Rao (1993) also considered capital intensity, inseparability, cultural distance, country risk and firm size as determinant factor in their study to explain the difference in entry mode choices of international service from manufacturing firms. Still this research also limited by its scope by considering the influence of only one characteristics of service on market entry mode choice.

Ekeledo and Sivakumar (2004) stated that there is conflicting view on the manufacturing firms' entry mode theories generalization to the service firms. They found in their study that entry mode theories of manufacturing firms depend on the type of service (i.e. hard vs soft service). This study used resource-based theory and considered both hard and soft service firms. The result of the study appreciates the influence of the service characteristics on firm's market entry mode choice but do not clearly show the influence of service features on entry mode choice apart from in case of control issue. In general terms the study indicated that soft services are unique in their nature, which needs the modification of the existing market entry mode theories of manufacturing firms (Ekeledo & Sivakumar, 2004).

All the studies that we have considered above indicates that there is difference between international service firms and manufacturing firms in their choice of entry mode. But none of these studies shows the combined influence of unique service features on the difference in entry mode choice behavior of international service firms from manufacturing. Thus it would be interesting to research out on this regard to fill this knowledge gap. Based on this research gap, the main objective of this study is to explain how unique features of service affect the entry mode behavior of international service firms.

Blomstermo et al. (2006) and Kotler (2012) stated that unique features of service influence the internationalization process of international service firms. For instance, inseparability natures of service indicate that service cannot be exported (Blomstermo et al., 2006; and Root & Root, 1987). This nature of service has its implication on market entry mode decision behavior. Investigating how unique features of service affect the entry mode behavior of international service firms would be important to make appropriate international marketing decisions

specifically with regard to their internationalization process. Appropriate entry mode facilitates the performance of the firm in its international operation (Ekeledo & Sivakumar, 2004). Thus it is necessary to have well studied theories of entry mode for service firm that can guide their international operations effectively.

In general the study is assumed to contribute theoretically in the areas of market entry mode behavior of service firms in its effort to achieve the objective of the study. In addition to this, the study is assumed to show practitioners about the influence of unique features of service on their market entry mode behavior. This would increase effectiveness of international service firms in their effort to reach global market by saving them from potential mistakes that might arise because of application of existing theories, which are built on manufacturing sector. Finally the study may come up with something that can be dealt with policy makers in internalization process of international service firms.

### **1.3 Problem Discussion**

There are a number of different models that has been made to understand the process of internationalization and to make it easier for firms that want to perform in foreign markets (Parola et al, 2013; Blomstermo et al., 2006, Erramilli & Rao, 1993). Most of these studies are done on manufacturing firms but have also been used for the service industry (Javalgi et al. 2003). This is something that has been questioned by other researchers. Various studies have shown that the same procedures as for the manufacturing sector cannot be applied to service sector as well (Blomstermo et al., 2006; Erramilli & Rao, 1990, 1993; Erramilli, 1991; Ekeledo & Sivakumar, 2004). This study therefore looked at how service firms enter foreign markets and tried to see the roles of unique features of service in entry mode choice of international service firms.

Most previous studies (Satta, Persico & Di Bella, 2013; Philippe & Leo, 2010; Erramilli & Rao, 1993) uses quantitative studies to only focus on what kind of entry mode service firms use but not on how the service itself and the service characteristics are contributing to the choice of entry mode. This study is different in the way that it gone deeper and looked at how the choice of entry mode is made and how unique features of service play role in entry mode choice.

The unique characteristics of service make the theories incompatible with the service sector (Javalgi et al., 2003; Erramilli, 1990). The only studies that have been made on the service sector are made on own subsidiaries and new venture service firms, which have been focusing on cultural factors (Parola et al. 2013). There is also study made by Erramilli and Rao (1993) on service firms regarding experience and control, firm size, country risk and capital intensity affecting entry modes. But none of these studies considered the combined influence of the unique features of service on the market entry mode choice of service firms (Ekeledo & Sivakumar, 2004). Generally what has not been studied yet is how the four unique features of service (i.e. intangibility, inseparability, heterogeneity and perishability) together affects the market entry mode choice of international service firms. This study therefore tried to look at the influence of all the four features of service to see how they are affecting the entry mode choice of service firms.

Based on this understanding, the research problem leads us to the following main research Questions:

*How do international service firms choose entry mode?*

*How and why unique features of service play its role in entry mode choice of international service firms?*

#### **1.4 Purpose of the Study**

The main purpose of the study is to deeper understood how international service firms make entry mode choice and how unique features of service play its role in their entry mode choice. To fulfill this purpose, the study specifically looked at the role of four unique features of service in market entry mode choice of international service firms.

## 2. Theory

*The theory chapter starts with explaining internationalization and entry modes of firms. Then the service sector and the unique features of service are presented with a connection to the entry mode theories. The chapter ends with a conceptual framework made by the authors.*

### 2.1 Internationalization & Market Entry Modes

Most firms and ownerships independently from their size are trying to expand and most of them want to do it internationally in order for the business to grow (Plakoyiannaki, Kampouri, Stavradi & Kotzaivazoglou, 2013). When the firm has decided what markets they want to enter it also has to decide what entry mode that will be used (Erramilli & Rao, 1993). An entry mode is the process when the firms market its product and it usually takes three to five years to (Ekeledo & Sivakumar, 2004). The entry mode is one of the most important decisions a firm has to do, and the choice of entry mode decides how active and into what degree the firm will be involved in the foreign market (Ekeledo & Sivakumar, 2004; Erramilli & Rao, 1993).

The entry mode can decide the firms' future performance and survival. Wrong choice of entry mode can inhibit opportunities and limit the firm in the choice of strategic options, which can result in future financial losses and in worst cases exit from the entered market (Ekeledo & Sivakumar, 2004). There are a lot of entry mode models that has been created by authors based on previous findings and researches (Andersen, Ahmad & Chan, 2014). The big improvements of integration in the business environment have set new standards and new ways for firms to enter new markets. The first models of internationalization started to develop in the 1960s and 1970s (Andersen, Ahmad & Chan, 2014). After that this topic has been well studied and many researchers have developed new theories to be able to explain firms different international behavior.

#### 2.1.1. Internationalization Theories

The most dominant theories or models that has been used and studied in the internalization process are: Uppsala Model, Transaction model and Eclectic theory. The way how these models are used by international firms are explained here under.

##### 2.1.1.1. Uppsala Internationalization Model

The Uppsala model means that internationalization of a firm is a result of a chain with cumulative decisions (Johansson & Vahlne, 1977). The Uppsala internationalization model is based on gradual acquisition and integration of new markets (Göcer & Karadeniz, 2007). According to this model knowledge about the new market is a main component of how fast the firm can enter the market without taking high risks. The Uppsala internationalization model assumes that firms start their first step of the internationalization process with export, and this is done only after that the firm has established a strong position in the domestic market. The first market that the firm will enter is a market with a near psychic distance (Matenge, 2011). The Uppsala model assumes that firms should stepwise involve their action in foreign market by starting with export and ending up with own subsidiaries where market commitment and market knowledge plays an important role (Johansson & Vahlne, 1977). Market commitment, market knowledge and physic distances are the main theoretical constructs of Uppsala model and they are discussed in detail here under.

#### 2.1.1.1.1. Market commitment

Market commitment in a specific market can be seen in resources available in that particular market (Johansson & Vahlne, 1977). As the level of commitment tends to be stronger the more the resources are integrated into the firm and they bring more value they bring from different activities. Market commitment also depends on the amount or resources that have been committed to the specific market (Johansson & Vahlne, 1977). This depends on the value of investments in that market such as marketing and organization investments.

Figure 1. The Basic Mechanism of Internationalization—State and Change Aspects.

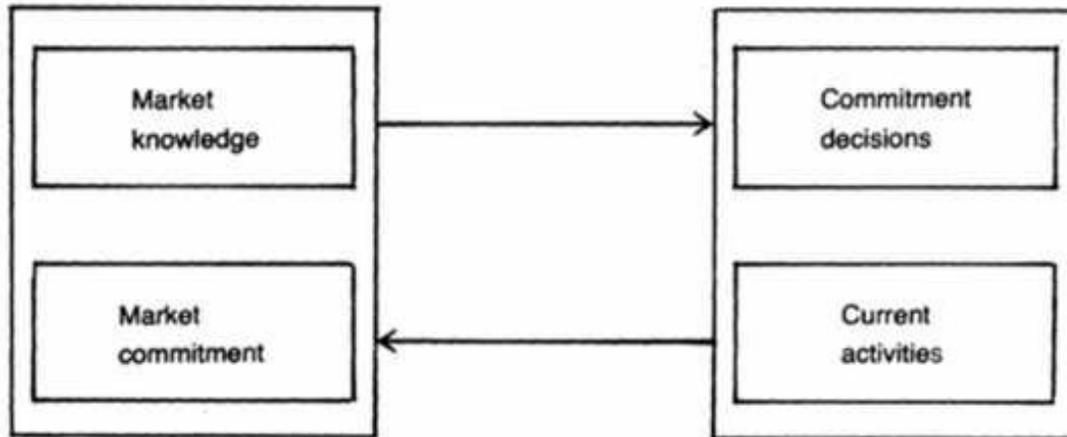


Figure 1: The significance of market knowledge and market commitment in internationalization (Johansson & Vahlne, 1977)

#### 2.1.1.1.2 Market knowledge

Decisions are based on the knowledge of different opportunities and problems (Johansson & Vahlne, 1977). In order to avoid uncertainty firms should explore the market and obtain knowledge about how the market is performing (Andersen, Ahmad & Chan, 2014). Decision of which market should be entered also depends on an evaluation of the options available and makes knowledge a significant factor. Most of the time market knowledge refers to demand and supply but can be a lot of other factors such as competition, distributors and payment, etc. Knowledge can be either objective or experiential, objective knowledge can be taught but experiential knowledge can only be achieved by personal experience. Experiential knowledge is often the important one and is not as easy to get as the objective knowledge (Johansson & Vahlne, 1977).

Knowledge can also be divided into general knowledge and market-specific knowledge (Johansson & Vahlne, 1977). General knowledge is knowledge about common things between different markets such as marketing methods and customers, which is often the same for one industry. Market-specific knowledge is based on knowledge from one specific market and can be knowledge about culture, market system and characteristics of customers. All this knowledge affects the firm's expansion process and entry mode choice.

#### 2.1.1.1.3 Psychic distance

Psychic distance is one aspect firms take into account when deciding the choice of entry into other markets (Andersen, Ahmad & Chan, 2014). Factors included in the psychic could be difference in language, culture and industry structure. These factors can affect the information

stream between the markets and affect the concern for the chosen market (Andersen, Ahmad & Chan, 2014). In order to avoid uncertainty firms should explore the market and obtain knowledge about how the market is performing. The firm will gradually expand to other markets with higher psychic distance when it has established its business at the primary market (Matenge, 2011).

Generally problems and opportunities affect the decision of what foreign market is chosen and how to go into it (Johansson & Vahlne, 1977). Both problems and opportunities are based on previous experiences market knowledge.

#### **2.1.1.2. Transaction Cost Theory (TCA)**

TCA is one of the important internationalization models, which is based on cost of internationalization. The focus of TCA is in whether it is better to do operations wholly independent or if it is better to spread out operations on other parts in terms of costs (Keenan & Vega, 2014). The cost of carrying out internationalization by the firm itself is compared with the cost of using other intermediaries and then the minimum cost way is selected.

Firms' activities in foreign markets can be either distributed by other parties such as agents and suppliers or totally performed by the firm itself (Erramilli & Rao, 1993). The structure of the TCA-theory lies in the comparative transaction costs, which are the costs of operating the business depending on how the firms' activities are distributed by other parties. The costs are divided into ante costs that include the costs of searching for suppliers and setting up contracts, and then the post costs that includes the costs after the contract is set such as monitoring and enforcing costs.

The TCA-modes assumes that markets are characterized with competition between the suppliers, and this makes the control and monitoring costs low because of the market pressure (Erramilli & Rao, 1993). If the chosen market is known for this kind of competition, the firm is recommended to use a low-control mode such as agents and suppliers. When the markets have a lot of competition between the suppliers, the chosen supplier or distributor will operate efficiently on its own independently from the firm that has entered the market. If the supplier acts unacceptable and abuses its responsibility, it is easy for the firm to either stop the contract or change to another supplier to a low cost. When such events occur the firm may choose an approach with higher control.

The firm may produce complex product that require special equipment and easy production and distribution that require own production at that market (Erramilli & Rao, 1993). The customers may also need different services and deliveries that require the firm to be present. The costs of establishing own integrated operations must then be compared with the costs for control under the low-control approach. The process of integration and own establishment contains organizational, investment, administrative and operational costs that have to be compared with the control costs. Failure of the high-control approach will also result in high costs. The firm should therefore compare the benefits of integration with the costs of integration. Firms tend to use low- or high-cost approach considering what different costs each mode will bring.

Vertical integration is an approach when a firm integrates external market operations into their own internal process (Keenan & Vega, 2014). The model is focused on when the firm should integrate the external parts in order to avoid the transaction costs between the markets. When the

costs for setting up contracts and monitoring are higher than operating by itself the firm should use vertical integration and lower the costs for transaction.

### 2.1.1.3. Eclectic Theory

The eclectic theory combines several theories of how firms should operate in foreign markets (Dunning, 2002, p. 408). It is one kind of a transaction cost theory that describes the entry mode by the firms and the countries different advantages (Javalgi et al., 2003). Eclectic theory includes three different variables; ownership advantages, location advantages, and internalization advantages as main components for the choice of entry mode for service firms.

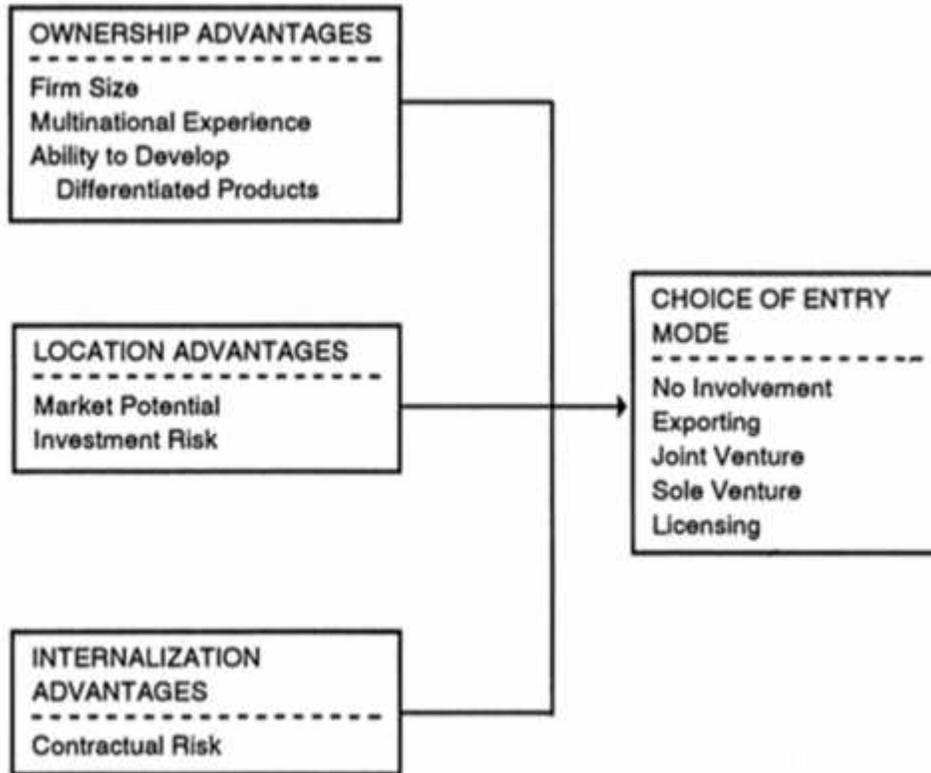


Figure 2: Eclectic Theory (Dunning, 2002)

#### 2.1.1.3.1 Ownership Advantages

The ownership advantages include firm specific benefits as experience and firm size, which are the firms' competitive advantages (Dunning, 2002, p 412). Three kinds of competitive or ownership advantages are explained by Dunning (2002, p 412):

1. The company can have a monopoly position, which stops other firms that do not have a monopoly power to enter a market or create a product.
2. The company can possess resources and competence that makes the company more efficient than the competitors.
3. The company could also have skillful managerial personnel who can use resources in a more effective way than other companies' management does.

The size of the firm is claimed to affect the internationalization of the firm (Javalgi et al., 2003).

The expansion to a foreign market needs a lot of resources and the larger the firm is the more resources can be put into the process. The resources needed are not only financial but also human, and firms with more human capital are more likely to expand into foreign markets. Human capital does also reduce the risk to fail since it is a higher chance that the employee will have the knowledge and skills to internalize (Javalgi et al., 2003). Ownership advantages can be competitive advantage over other firms and this is something that influences the managers to expand internationally (Javalgi et al., 2003). Advantages in production or different skills is also affecting the firms' choice of going into foreign markets and use the advantages the firm has.

#### 2.1.1.3.2 Location Advantages

Locational advantages most often refer to how favorable the location of the country is to enter new foreign markets (Dunning, 2002, p. 418). This is related to how big risks the company has to take depending on what countries border closest and where to locate distributors and other important parts of the company. Factors that can be favorable entering foreign markets are exchange rates, political situation, regulations and cultural differences (Dunning, 2002, p. 219).

Location advantages are the appeal for the firm to other foreign markets (Ekeldo & Sivakumar, 1998). The firm should enter a country where the most benefits can be identified (Argawal & Ramaswami, 1992). The market characteristics are affecting the attitude of the firm to expanding into other markets (Javalgi et al., 2003). Trade barriers are decisive when entering a new market. When trade barriers tend to be low, the firms are more positive to expand into other markets. Other location specific advantages can be different governmental regulation that can constrain or facilitate firms. The regulation can be financial, locational and different ownership regulations. If a firm choses a market with high potential, the profit can be higher and last longer (Argawal & Ramaswami, 1992).

#### 2.1.1.3.3 Internalization Advantages

The internalization advantages refer to how the company can use its ownership advantages together with the location advantages to find ways in which the company can enter foreign markets (Dunning, 2002, p. 409). This explains that firms try to use their own resources and advantages to maintain them within the company instead of letting other parties take over the foreign market activities. The company has to look at both the short and long-term costs and find what strategy is the most effective to make lasting profits (Dunning, 2002, p. 428).

Internalization advantages are the ability to maintain resources and skills within the firm when the market fails (Ekeldo & Sivakumar, 1998). These advantages are needed when entering a foreign market. Internalization factors can also be the managerial attitude for expanding into foreign markets (Javalgi et al., 2003). The attitude of the manager is also strongly connected to the performance that the firm has. This has specially been seen in researches for service firms where the managerial attitude is separating the exporting firms from the non-exporting.

#### 2.1.2. Entry Mode

The entry mode should be chosen suitable for the firm and the choice can be very critical for the future success of the firm (Johns & Khojastehpour, 2014). Experience and knowledge of the chosen market are important aspects that are affecting the decision of entry mode. The process of entering a new market is progressively changing since more knowledge and experience is needed and takes time to get them. International firms need to make difficult decisions with regard to

choice of market entry modes (Agarwal & Ramaswami, 1992) because it requires considerable time and money (Root and Root, 1987).

#### **2.1.2.1 Types of Entry Modes**

Some of commonly used entry mode options by international firms are the following.

##### **2.1.2.1 Franchising**

Franchising is a way of entering another market by combining two companies into a single part (Calegari, 2010). The larger company is the franchisor and the smaller one becomes franchisee, which performs with a license and can use the bigger firms' name and procedures. The franchisee pays a fee and a part of the profit to the franchisor. The franchisor helps the franchisee with training and learning the concepts of the company (Doole & Lowe, 2012).

Advantages with using this sort of cooperation are that the franchisor does not to invest much, can grow much faster than by itself, new knowledge can be obtained and not much effort is needed to control the operation (Calegari, 2010; Doole & Lowe, 2012). Some disadvantages are that the profit is smaller than it would be by own establishment, it is harder to control the quality of the franchisee and other problems can occur with the franchisee.

##### **2.1.2.2 Joint Venture**

Joint venture is cooperation between two companies who creates a contract for future operation and shares both the risks and opportunities (Yadong, 2002). The main objective is to combine existing knowledge and create new opportunities. If both parties are true worthy and have agreed into a good established contract, the parts can perform better than if they acted as two separate parts. Joint ventures can be shorter cooperation's or long-term contracts.

##### **2.1.2.3 Distributor**

Distributors are one kind of intermediaries and means that the manufacturer can forward its products to the distributor to stock the products and sell them (Doole & Lowe, 2012). This is usually an extra cost for the manufacturer since the distributor takes extra percentage to avoid the risks.

##### **2.1.2.4 Own Subsidiary**

Subsidiary is the most expensive way for a company to enter a foreign market (Doole & Lowe, 2012). It takes a lot of time and effort to establish an own subsidiary and the company has to be sure of the demand at the foreign market to avoid big financial losses. When the company has a great commitment and is sure that it will perform at that market for a long time, establishing an own subsidiary is an effective choice of entering a market (Doole & Lowe, 2012). There are also a lot of risks entering a market in this type of way in terms of financial costs, reputation and problems with staff and customers.

##### **2.1.2.5 Acquisition**

Acquisition is a fast way of entering a foreign market (Doole & Lowe, 2012). By this entry, the company also gets access to trained labor, new customers, an established network and also immediate revenues. Firms often use this type of entry to in a fast way get global well-known brand name. This is a expensive choice for the company but the most effective in entering a foreign market (Doole & Lowe, 2012).

### **2.1.2.3. Factors Affecting the Entry Mode Decision**

There are many decisions regarding different risks and obstacles that have to be made before the firm can go abroad (Andersen, Ahmad & Chan, 2014). Experience is a driven factor of how firms choose their process of internationalization (Blomstermo et al., 2006). Opportunities and risks are related to how much experiential knowledge the firm has in the foreign market. This experiential knowledge can be information about intermediaries, technical resources and other kind of resources (Blomstermo et al., 2006). Lack of knowledge is affecting the grade of uncertainty the firm has for a foreign market. Inexperienced firms usually exaggerate the risks and underrate the returns in foreign markets. Majority of studies made show that firms that have earlier experience from a foreign market chose high control entry modes (Blomstermo et al., 2006). According to Argawal and Ramaswami (1992) choosing entry mode is often a compromising decision between the four attributes; control, risk, benefit and resources.

#### **2.1.2.3.1 Control**

Control is decisive for how the firm operates and if it is following the purpose of the organization (Blomstermo & Sharma, 2006). Control is important for firms to be able to affect the system and the decisions that are made in a foreign market (Argawal & Ramaswami, 1992). Control is something that the firm is in need of to be able to improve or change the firms' competitive position and returns. Higher control is therefore associated with entry modes that are based in greater ownership. Exporting is the kind of entry mode that has the lowest market control since the firm is not present at the foreign market but this on the other hand gives the firm a high operational control. Licensing is the type of entry mode that has less control of different entry modes since the firm is not operating it by itself.

Control is strongly connected to risk and returns and also how the investments in the foreign market are processed (Blomstermo & Sharma, 2006). Control of the foreign market and performance on the foreign market allows the firm to deliver a good service and keep a higher brand value.

#### **2.1.2.3.2 Risk**

Risk and return should be a part of the decision when choosing entry mode in a foreign market (Argawal & Ramaswami, 1992). The firm should use a foreign market with the highest return adjusted to the risk that the firm has to take. The risk is higher if the firm chooses to use an entry mode with greater ownership. Risk is also important to think of when expanding internationally because infrastructure of a firm can be poorly structured when operating in different markets (Argawal & Ramaswami, 1992). Exporting is the entry mode that has the lowest risk compare to return. Firms that want to enter markets that are characterized for high risks should either change to an exporting strategy or not enter the market to avoid failure.

The risk depends on how much knowledge and experience the firm has of the foreign market (Benito & Welch, 1994). With more knowledge and experience, the firm is more committed to enter a specific market and has to decide how big the risks are entering that market. This experience is dependent on previous experience and activities abroad. With no experience, the decisions are harder to determine and the risks are greater. Therefore the firms can start with using a low control mode such as, and when the firm has experience and knowledge advance to establish their own subsidiaries (Benito & Welch, 1994). Experience and information about new markets can display all the risks and problems that can come with international expansion and

therefore decrease a firm's involvement in foreign markets.

Firms that have a special knowledge and skills that are requested on a foreign market can avoid different regulation and in that way reduce risk if it is favorable for the foreign market (Argawal & Ramaswami, 1992).

Keith (1995) divides international risk into three different variables; general environmental, industry and firm-specific risks. General environmental risks include factors that are the same for all industries in a specific country. These factors could be political, governmental, economic, social and natural uncertainties.

#### 2.1.2.3.3. Benefit/Return

Firms often choose low control modes since they allow high returns (Argawal & Ramaswami, 1992). The downside for choosing a low control mode is that the costs will be high if the market has been wrongly chosen and the firm could not predict future problems.

#### 2.1.2.3.4. Resources

Firms should also use market seen to the resource available in the chosen market (Argawal & Ramaswami, 1992). The resources can both be financial and managerial. The resources that the firm owns are also crucial when the firm is expanding internationally. The firm will need resources and money to be able to do marketing and make different contracts and patents. The kind of entry mode with least needed resources is exporting. Human resources are very important for the firm in order to obtain skills and knowledge about entry process and foreign markets (Argawal & Ramaswami, 1992). If the firm is in lack of knowledge or if the human capital responsible for the entry process is poorly experienced, this could have big consequences for the end result. Managerial resources are also crucial for taking the right decisions and for establishing the internationalization process.

Firms that are small in size and have fewer resources than larger firms faces the problem that they have a narrower options to expand compare to firms with much resources (Argawal & Ramaswami, 1992).

## 2.2. Market Entry Modes in Service

The unique features of service make service firms different from the manufacturing firms in the choice of entry mode (Javalgi et al., 2003). Blomstermo et al. (2006) describes two kinds of entry modes for service firms; high control modes that refer to ownership where all or majority of the subsidiaries are owned by the firm and low control modes where the firm has some kind of contract or license with other parts. This is similar to León-Darder et al. (2014) result in their study on hotel firms where they divided the entry modes into high and low resource- augmenting modes.

Low control modes are favorable for firms since they have a low cost and allow the firm to take the bigger part of the profit (Argawal & Ramaswami, 1992). Low resource modes are mostly franchising and contracts and have limited learning of the employees because of the weak connection to the local firm. Firms that use low resource modes are mostly looking for exploitation of their knowledge by moving their advantages to other markets (Javalgi et al., 2003). When the demand is uncertain and risks have to be taken, low control entry modes are

mostly used (Blomstermo et al., 2006).

High control modes are harder to operate and needs more resource commitment than low control modes at the same time; the uncertainty is higher for high control modes (Blomstermo et al., 2006). The high control modes are preferred when the firm want to create a stronger relationship with the foreign buyers and foreign market. It is also easier to adapt to the needs of the foreign customers (Blomstermo et al., 2006). High control modes are also good to use when the brand name and value is high. Soft-service firms need to customize their service to customers needs and do mostly use high control entry modes in order to adapt to the customers (Blomstermo et al., 2006). The mode that needs more resources is good for the firm in the way that they give access to resources from other firms (Javalgi et al., 2003). Even firms that have lack of experience and are exposed to a high risk tend to use high control modes (Benito & Welch, 1993). Different learning and experiences from new local employees can also be gained through high control modes (Javalgi et al., 2003). Trademark and values are main characteristics of a service firm and quality of the service is very important (León- Darder et al., 2014). Because of this, service firms needs to invest a lot in human resources in order to maintain the high knowledge, talent and skill and then fulfill the customers' needs.

The modes of entry that needs more resources are often followed by a greater risk, which leads to that firm choose entry modes with a higher control to reduce the high risk (León- Darder, Pla-Barber & Villar, 2014). The difference between manufacturing firms and service firms is that control and ownership is not as strong connected within the service industry. Service is intangibility and inseparability of production and consumption, which makes it hard to transfer to other countries since the service is strongly connected to the firm and the employees.

### **2.3. Service and Its Unique Characteristics**

According to Javalgi & White (2002), service sector is considered as the most dynamic sector of economy. The role of service sector in the current global economy is increasing with help of technological advancement (Austin & Daniels, 1996). In developed countries, the shift in economy from manufacturing to the service sector shows the increasing role of service sector to global economy (Cicic et al., 1999).

As the service sector involvement in international business increases, it is important to understand its internationalization behaviour. More importantly and specifically, explaining the influence of service characteristics on their internationalization behaviour in terms of its influence on their market entry mode choice helps international service firms to make sound decision to enhance their performance.

Based on the extent of services embedded in goods, we have two types of service as hard service and soft service (Cicic et al., 1999). The existence of such classification of service even has its own influence on the market entry mode choice of international service firm (Cicic et al., 1999).

Erramilli (1990) classified service into hard service and soft services. Erramilli (1990) has considered hard service as services that their production can be separated from consumption. This indicates that hard service can be exported as consumption can take place without the presence of the producer. Hard services share common features with physical products (Ekeledo and Sivakumar, 1998). The physical component of the hard service serves as medium of

transportation (Erramilli, 1990). Whereas soft services are services in which production and consumption occurs simultaneously (Erramilli, 1990). In relation to market entry choice, soft services usually use high control entry forms to ensure the local presence (Erramilli, 1990). Ekeledo and Sivakumar (1998) and Erramilli (1990) indicated that market entry mode choice behaviour of hard and soft services are different from each other.

### **2.3.1. Unique Features of Service**

There are generic features of service that differentiate service sector from manufacturing sector. According to Kotler and Keller (2009), the four generic features of service are intangibility, inseparability, heterogeneity (variability) and perishability. The influence of these features of service on their internationalization activity is far reaching than in domestic market (Cicic et al., 1999). In addition to obvious unique features (like intangibility, inseparability, heterogeneity and perishability), service sector is characterized by high customization, high uncertainty and it results in high risk (Czinkota et al., 2009). Unique features of service affect its market entry mode choice behaviour in particular and other international business activities (Cavusgil 1984; Schlegelmilch & Crook 1988; Sharma, 1989). Even if there are some researches that show the influence of one or two characteristics of service on the internationalization behaviour of service firms, the total influence of all the four characteristics of service on the market entry mode choice of international service firms is remained unstudied.

According to service marketing scholars (like Grönroos, 1990; Lovelock & Wright, 2002), soft services are characterized by four features: intangibility, inseparability, heterogeneity, and perishability.

#### **2.3.1.1. Intangibility**

The intangibility nature of service considers service as cannot be sensed by our sense organ like tangible physical products (Erramilli, 1990). Dahringer (1991) pointed that the intangibility nature of service presented difficulty to protect them through patents, to promote and to set price which have their own influence on the market entry mode choice of the firm. According to Arvidsson (1997), intangibility of service pushes international service firms to produce their service by being close to their customer. This helps them to control the quality of their service. This in another term means that intangibility of service enforces service firms to engage on high control market entry mode. Thus intangibility nature of service directly influences the market entry mode behaviour of international service firms.

Because of the intangibility nature of service, some scholars (e.g. Berry, 1995; Becker, 1996) suggest the “tangibles the intangibility” strategy to service firms to position their service in the customers mind. However, this strategy may create the service to be evaluated not based on the actual interaction between the customer and the provider but by the tangibility aspect that has been used in positioning. This situation can enforce the service firm to focus on the tangibility aspect which is not the core area needed to improve its service (Williams & Buswell, 2003).

#### **2.3.1.2. Inseparability**

Services are people intensive due to its inseparability nature which requires great extent of control in its marketing process as the presence of the service firm is required at the time of production and consumption of the service (Bowen and Jones, 1986; Erramilli and Rao, 1993). Based on the inseparability nature of service, service firms require being responsive to its

customers (Campbell & Verbeke, 1994). Close relationships and face-to-face communication with customers to provide the service are the key concepts in inseparability nature of service. This nature of service forces the firm to provide its service by being close to its customers, which implies the need for high control entry mode to do so.

Customers need to be present at the time of service production and even they are required to participate in service production. Simultaneous production and consumption of service require an interaction between the service provider and the customer (Buttle, 1993 and Voss et al., 1985). Customers' integration into the service production is required and this leads to coproduction (Williams & Buswell, 2003). Thus customization leads to high personal contact in the service sector (Arvidsson, 1997). Dahringer (1991) pointed out that the inseparability nature of service requires customers to participate in service production, which makes centralized mass production difficult.

### **2.3.1.3. Heterogeneity**

Because of the need for service to be customized to each customer, service is heterogeneous. Service performances are unique and customized (Zeithaml et al., 1985). This nature of service also created because of difference in service provider that can create difference in service quality. According to Campbell & Verbeke (1994), quality control is difficult in case of human intensive service because of significant difference in the people while they provide the service. This situation can enforce the service provider to consider high control entry mode choice to minimize the quality difference because of individual difference. In support of this, Enderwick (1989) stated that entering international market by itself could be needed to maintain the service quality standard which the company provides. This shows that heterogeneity nature of service influences the market entry mode choice of the service firm.

The situation of both the customer and the service provider determine the quality of service and its delivery process. Even if some organizations try to standardize their service delivery process, still this cannot avoid the existence of heterogeneity from customers' side, because standardization only addresses heterogeneity from employees' side (Zeithaml et al., 1990). Thus making standardization and quality control is difficult in service sector (Dahringer, 1991).

Inconsistency in service production is the typical nature of service especially when it is people dependent (Wright, 1995). Some service firms use standardization strategy to control the heterogeneity element of the service (Williams & Buswell, 2003). Gilpin and Kalafatis (1995) stated standardization helps to maximize customer satisfaction and create external image to the service firm because of tangibles used to make standardization. Most of multinational service organization that have large geographic spread use standardization to keep consistency in their service provision. Furthermore, efficiency and effectiveness are achieved through standardization (Zeithaml and Bitner, 1996).

However, the creation of standardization through installation of technology even cannot solve heterogeneity nature of service as it is hard to pre determine the behaviour of the customers (Grönroos, 1990b). Because of this standardization is criticized as it limits the customers' choices that have different interest than what is provided through standardization. But it is also true that highly customized service delivery process is very expensive due to its need for highly trained and dedicated skilled workers who can understand the complexity of flexible system (Collins and

Payne, 1994). Because of such complexity of service due to its heterogeneity nature, the control of service delivery system is a major issue for service firms (Williams & Buswell, 2003). For international service firms, this issue is even more evident in making entry mode choice decision as entry mode affects the way you control the production and delivery system of the service (Agarwal & Ramaswamy, 1992). The decision to employ customization through standardization or personalization depends on the objective of the organization in relation to the control over its service delivery system (Williams & Buswell, 2003). Thus we can say that in one way or another heterogeneity nature of service influences the entry mode decision of international service firms.

#### **2.3.1.4 Perishability**

According to Hirsch (1993), service is perishable means cannot be inventoried. This nature of service requires service firms to go for international market to use their idle resources. Because Arvidsson (1997) explained that going for international market results in higher capacity utilization. In support of this, Oviatt & McDougall (1995) stated that internationalization results in additional markets and by that help the firm to reduce its idle capacity. The perishability nature of service firms requires firms to produce their service by being near to their customers to avoid idle capacity, which usually require firms to look for high control entry mode.

Services cannot be inventoried due to its nature of perishability, which requires great control to provide the service directly to the user due to difficulty to separate service production and consumption (Erramilli and Rao, 1993). In line with this, Dahringer (1991) linked the difficulty to make inventories with the perishability nature of service. Gronroos (1988) also linked the existence of perishability with lack of transferable ownership in case of service. Service experience cannot be given away once they are performed or delivered.

Due to perishability nature of service, accurate demand assessment before its provision is important to manage service efficiently as we cannot store, save, transport and resale service (Voss et al., 1985; Williams & Buswell, 2003). The inability of transporting service requires close contact between the service provider and the user. This situation enforces international service firms to consider best entry mode to interact with their overseas customers. Thus perishability nature of service influences the entry mode choice decision of international service firms.

Generally Voss et al., (1985) indicated in their goods service continuum that pure service requires high customer-organization interaction. This is due to the effect of all the above listed characteristics service on the way service firms enter foreign market.

#### **2.4. Conceptual Framework**

To operationalize the study, authors developed conceptual framework. Conceptual framework helps the researchers to show how they are making their study (Marshall and Rossman, 1999). In addition, conceptual framework helps to operationalize the study problems and to show possible solutions based on the theory (Zaltman et al., 1982). The study's conceptual framework is developed after review of different internationalization theories (mainly the Uppsala, TCA model and Eclectic theory) in which how unique features of service plays its role in market entry mode choice of international service firms. According to the theory, the basic concepts of Uppsala, TCA model and Eclectic theory are considered in understanding about how international firms go

to foreign markets and how and why the unique features of service plays its role in market entry mode choice of international service firms. The study's framework is depicted as follows:

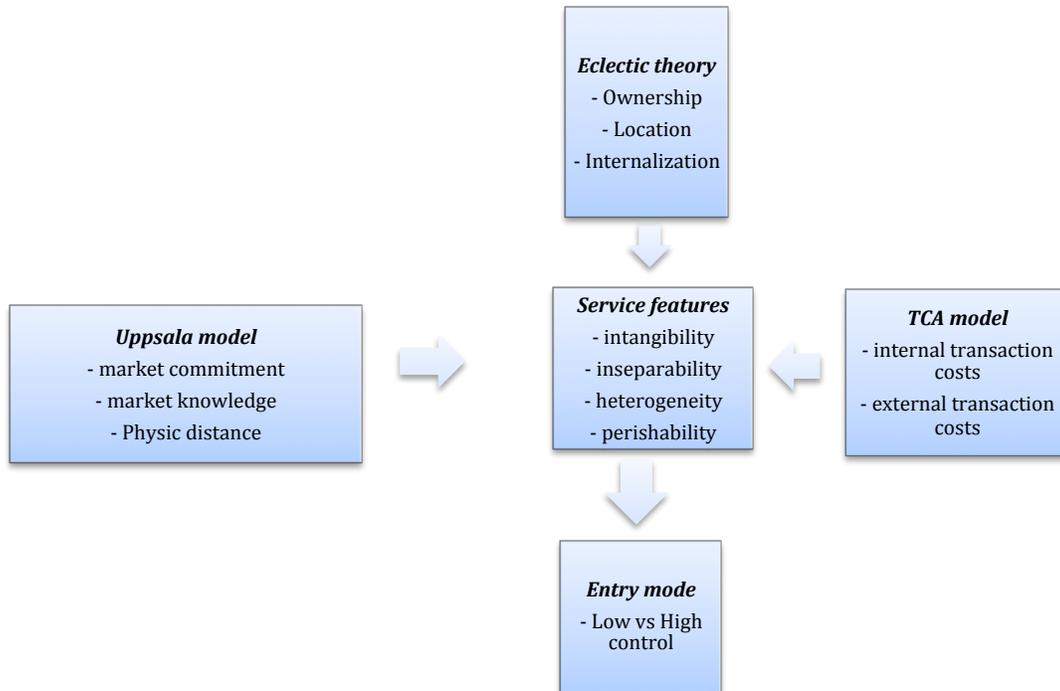


Figure 3: Market entry modes of international service firms (source: own model based on existing theories)

International firms consider Market knowledge and commitment and physic distance, the internal and external transaction costs and different advantages such as ownership, location and internalization when they look at the influence of their service characteristics on market entry mode choice. Thus the key concepts of Uppsala model, TCA model and Eclectic theory are considered in understanding how the unique features of service play their role in market entry mode choice of international service firms.

**Uppsala model:** The factors included in the Uppsala model are market commitment, market knowledge and physic distance.

**Market commitment:** Firms' commitment to a specific market is connected to the firms' resources and how much resources are and can be put to the chosen market (Johansson & Vahlne, 1977).

**Market knowledge:** Previous experience and knowledge about foreign markets makes it easier for the firm to see potential opportunities and problems (Johansson & Vahlne, 1977). When having knowledge about different markets, the firm can choose which market fits the best

(Johansson & Vahlne, 1977). By knowing what opportunities and threats the firm will face, the firm can choose what entry mode it should use.

**Psychic distance:** The entry mode will also depend on differences in language, culture and industry, which will impact how the operation and information stream will perform abroad (Andersen, Ahmad & Chan, 2014). Depending on high- or low physic distance the firm will choose what entry mode is better to use.

**TCA model:** According to this model, internal transaction costs and external transaction costs of a given international firm are considered to determine entry mode.

**Internal transaction costs:** Costs for establishing and integrating such as investment, organizational, administrative and operational costs are called the internal costs and have to be calculated and compared with the costs of having an external source handle the operations in a foreign market (Erramilli & Rao, 1993). The costs will decide which market entry mode is the most effective and cost saving for the firm.

**External transaction costs:** The external can be divided into ante costs and post costs (Erramilli & Rao, 1993). The ante costs are connected to handling and finding distributors in the new market and the post costs are the costs for keeping the process up by controlling and monitoring the chosen distributors. These costs have to be compared to the internal costs and the firm should choose the most cost saving alternative.

**Eclectic Theory:** This model explains how firms' different advantages can explain their way of entering a market (Dunning, 2002).

**Ownership advantages:** Ownership advantages are competitive advantages to other firms such as firm size and resources available (Dunning, 2002).

**Location advantages:** Location advantages refers to how a company's' location can be favorable in terms of entering a foreign market (Dunning, 2002).

**Internalization advantages:** This explains how the company can use its ownership advantages together with the location advantages to find ways in which the company can enter foreign markets and also maintain the resources within the company (Dunning, 2002).

### **Service Characteristics**

Theories under literature review shows that the four basic characteristics of service play their role in market entry mode choice of international service firms. The main concepts that are used in explaining how and why each service characteristics play role in market entry mode choice are explained here based on the above literature review.

**Intangibility:** This feature of service is related with existence of difficulty in patenting service products, promoting and setting price for it (Dahringer, 1991). These difficulties because of intangibility are in return influence the decision of the service firm to look for either low or high control market entry mode.

**Inseparability:** The key concepts which are related with inseparability features of service are: simultaneous production and consumption, need for the firm's contact with customers because of spontaneous production and consumption (Bowen and Jones, 1986; Erramilli and Rao, 1993) and need for customers participation in production process of service (i.e. co- production) (Dahringer, 1991; Williams & Buswell, 2003). These key concepts of inseparability nature of service are considered in the service firm's market entry mode choice.

**Heterogeneity:** In relation to heterogeneity feature of service, difficulty in quality control (Campbell & Verbeke, 1994; Dahringer, 1991) is one thing which is considered in market entry mode choice. In addition, how to deal with various nature of customers need (Dahringer, 1991; Williams & Buswell, 2003) and how to provide services to customers (like through technology or in person) (Williams & Buswell, 2003) are also considered in market entry mode choice.

**Perishability:** In relation to perishability nature of service, difficulty to store and transport service (Dahringer, 1991; Erramilli and Rao, 1993), difficulty to separate production and consumption (Erramilli and Rao, 1993) and lack of ownership in service (Gronroos, 1988) are considered in market entry mode choice of service firms.

### **Market Entry Mode Choice**

In this study we classified entry mode into two as low-control and high-control. According to Blomstermo et al. (2006), the foreign presence of international service firms may take place through either low-control or high-control entry mode. Blomstermo et al. (2006) considered low-control market entry mode includes exporting, franchising, and licensing or different types of contractual relationships. Whereas he considered joint venture and wholly-owned subsidiaries as high-control market entry mode. High control entry mode requires significant investment of resources whereas low control mode requires limited resources to reduce the risk in relation to uncertainty (Blomstermo et al., 2006). International service firms make risk and cost considerations in relation to each entry mode. The firm's decision to choose either high or low market entry mode in case of service firms are subject to unique characteristics of service in light to different internationalization theories.

### 3. Research Methodology

*This chapter states how the study in general is conducted. The chapter specifies in detail about the abductive research approach, qualitative research design, case study, selecting case organizations, data collection method, method of data analysis, validity of the study, and reliability of the study.*

#### 3.1. Abductive Research Approach

In this particular research, abductive research approach is used. This is because of the fact that abductive research enables the authors to theorize the problem and do empirical research in systematic way (Dubois and Gadde, 2002). This approach further enables the authors to construct theoretical framework, do empirical research based on the framework and finally analyze the data by matching the theory with the data to arrive at certain conclusion (Dubois and Gadde, 2002). In this study, authors first identified entry mode choice of international service firms as the research problem and then constructed theoretical framework by theorizing this research problem. Then the authors engaged on collecting empirical data from selected international service organizations based on the study framework to make proper case analysis to understand how unique features of service play their role in entry mode choice of international service firms. Finally the study arrived at some theories about entry mode choices of international service firms. The aim of the study is to contribute more to the existing theories rather than coming up with new theories which Dubois and Gadde (2002) explained this as the basic characteristics of abductive research approach. The understanding of the existing theories needs empirical research support (Dubois and Gadde, 2002).

#### 3.2. Qualitative Research Design

The main aim of the study is to get deeper understanding about how the unique features of service plays its role in the entry mode choices of international service firms. To achieve this objective, qualitative research design was used to understand the role of service characteristics in the entry mode choice of international service firms. Qualitative research design helps the authors to understand and describe social phenomenon that people bring to them (Boeije, 2010) and draw attention to the “processes, meaning the patterns, and structural features” (Flick et al., 2004). In addition, qualitative study helps to get deeper insight of real world conditions with regard to the study subject (Yin, 2011, p.8). Each and every international service firm has its own understanding and subjective meaning of how unique features of service plays its role in their market entry mode choices. By using qualitative research design, the social reality of the study subject was understood and described. Because qualitative research design provides an opportunity to look at rich and detailed data and make description, meaning and understanding of the social reality out of these data (Boeije, 2010). Furthermore qualitative study enables the researchers to conduct in-depth study on research subject (Yin, 2011, p.6).

To achieve the objective the study, authors had formulated two basic research questions which are built with how and why questions. When researchers deal with how and why questions, they need to use qualitative research because this research design helps the authors to answer such questions (Bryman & Bell, 2011). Qualitative research helps the authors to deeper understand how international service firms’ choice their entry mode, and how and why unique features of service play role in their entry mode choice. These questions demand detailed answers and

explanations that can be better dealt with qualitative study. Yin (2011) explained that qualitative study enables the researchers to have in-depth understandings of the research subject. Beside to the suitability of qualitative research to this study, using qualitative study provides a lot of benefits. The first one is it is suitable when there is no adequate comprehensive theory to explain the phenomenon (Merriam, 2009). In this study, authors face problem of finding adequate theory that can show the internationalization theories for international service firms and the role of unique features of service in their entry mode choice together. But the authors tried to compile comprehensive theory from different sets of theories. Commonly internationalization theories used by international service firms and theories on the role of entry mode choice done by well-known scholars (like Erramilli, 1990; Erramilli & Rao, 1993; etc) have been reviewed and compiled in systematic way to develop the theoretical framework for this study. Furthermore using qualitative study limits the generalizability of the study (Bryman & Bell, 2011). But the aim of the study is not to draw generalization about research subject rather similar organizations can learn from the finding of case study. Yin (2011) stated that the finding from good quality qualitative study can be used by similar organizations.

### **3.3. Case study**

According to Yin (2009), a given research strategy is elected based on three conditions: (a) the type of research question, (b) the control an investigator has over actual behavioural events, and (c) the focus on contemporary as opposed to historical phenomena. When the researchers pose how and why questions, have little control over events and focus on current real-life context, case study is used (Yin, 2009). In this particular study, the questions are how and why, the authors have little control over events because the study uses qualitative approach, and focuses on the contemporary real behaviours of the international service firms in their entry mode choice. This is the main reason to consider case study strategy for this study. Case study enables the authors to explain characteristics of real life events of international service forms in their entry mode choice behaviour (Yin, 2009). In addition, case study enables the authors to deeper understand how and why the unique features of service play role in entry mode choice of international service firms.

Apart from its advantages, case study is criticized for not to follow systematic procedures and bias that can influence the quality of the study (Yin, 2009). But cross-checking process with colleagues can help to minimize the errors and bias (Saunders et al., 2009). Since the authors of this study are two, cross-checking was applied in research stage to minimize errors and bias. Moreover the authors have faced inadequate theories on research subject. Due to this, the authors preferred to use multiple case studies. Yin (2009) argued that multiple case study is suitable when researchers study on certain phenomenon that lacks good theories from previous studies. In addition, the use of multiple-case study enhances the quality of the study and better interpretations come out of multiple cases (Merriam, 2009). Moreover the multiple case studies enables the authors to look at the differences and similarities among case organizations on the study subject and then draw concrete conclusion out of that to answer research questions (Yin, 2009).

### **3.4. Selecting Case Organizations**

First the authors tried to make an effort to come up with lists of certain Swedish international service firms. At the beginning authors tried to contact Business Sweden office which is responsible for facilitating and supporting Swedish companies to conduct international business. However, the office does not have lists of international service firms. This situation forced

authors to look for Swedish international firms from websites and through informal discussion with some people who are believed to have this information. Then authors came up with lists of firms. To select three from the list, we applied purposive sampling. Purposive sampling helps the researcher to get more relevant and detailed data about the study topic (Yin, 2011, p.88). The active participation of firms in international business and the nature of the service provided by the organization (i.e. as soft or hard service) are the main criteria to select case organizations. In addition to this, efforts were made at least to select three case organizations from different service sectors to get general and comprehensive understanding about the role of service features in market entry mode choice. Considering different service sectors can help authors to make easy comparison across selected sectors on the study area. The authors assumed that this can strengthen the finding of the study and its contribution to the existing theories.

In general the contacted Swedish international service firms were firms that are participating in international business and supposed to provide relevant information to achieve the objective of the study. Thus the result of the study based on the selected service firms provided authors more understanding about the existing theories of internationalization for service firms.

In this study, only soft service international firms were be considered to get comprehensive understanding of the role of unique features of service on market entry mode choice of international service firms. This is due to the fact that soft services are characterized by above mentioned four unique features (Erramilli, 1990; Ekeledo & Sivakumar, 1998). This would finally enable the study to fill the identified knowledge gap in market entry mode behavior of international service firms.

The authors purposefully selected international service organizations based on the above mentioned three criteria (i.e. the active participation of the firms in international business, the nature of service provided by the firm, and difference in service sector). The three criteria are considered because these criteria contribute to find answers to basic research question. Consideration of active participations of the firms in international business enables the authors to look at the wider entry mode options used by the service firms, why they use those options, and how they use that option. The consideration of the second criteria which is the nature of service provided by the firm is used to select only soft service firms as soft service is characterized by four features (Erramilli, 1990). This enables the authors to look at how and why these features play role in entry mode choice of the firm. The reason for considering the third criteria, which is the difference in service sector, is to select case organizations from three different sectors. This enables the authors to see the differences and similarities across sectors on research subject to draw better conclusion. The selected organizations for the study are shown under in table.

Table 1: Selected organizations for the Study

<b>Selected organizations</b>	<b>International markets of the organization</b>	<b>Nature of the service</b>	<b>Sector</b>
Bank (HQ in Stockholm, Sweden)	Nordic, Europe, Asia, America, Oceania)	Soft	Bank
Construction Company (HQ in Stockholm, Sweden)	Nordic, Europe, North America	Soft	Construction and Development
Hotel (HQ in Stockholm, Sweden)	Nordic, Europe	Soft	Hotel

N.B: H.Q stands for Headquarter

### 3.5. Data Collection Method

The theory of the study shows that there are four main service unique features. These characteristics are theoretically shown that they play significant role in the market entry choice behaviour of international service firms. Thus the roles of unique characteristics of service in market entry mode were understood through qualitative interviewing. Qualitative interviewing helps the researchers to adapt their interview according to the context and setting of the interview (Yin, 2011, p.134). Qualitative interviewing by its nature enables the researchers to figure out understanding from what the respondents say about the research subject. This is because of the reason that qualitative interviewing is more of open-ended questions that make the respondent to respond freely without limit in their own words and this leads the researchers to get deep understanding about the respondents view toward the research subject from what they say (Yin, 2011, p.135). Moreover qualitative interview gives much time to respondents to talk from which the researchers get better understand about their view toward the study subject (Yin, 2011, p.136). The interview took place through skype based on the interest of respondents.

To make the interview more effective, interview guide was used, because interview guide helps us to make the interview relevant to the research subject (Yin, 2011, p.139). In addition, the use of interview guide in qualitative research makes the participants to consider the interview as formal and needs due attention from them (Yin, 2011, p.139). The interview guide was prepared based on the theoretical framework of the study. Because interview guide (study protocol) serves as line of inquiry (Yin, 2009) and it enabled the researchers to collect relevant rich data.

The interview was conducted with senior vice presidents in each selected organizations. This is because of the reason that those people who are at this position have rich answer to the research questions. Dencombe (2000) explained that qualitative interview with key knowledgeable people enable the researchers to obtain valid data. First this people were contacted through call centre of each organization. After authors introduced the research subject and agreed to have an interview, the interview questions were sent to them to give them time to think on the interview subject in detail and well prepared in advance. Finally the interview has been conducted on the agreed date and time. During the interview, the order of questions varied depending on the flow of conversation process. Finally to capture the whole content of the interview, recorder has been used. The names of the interviewed people with their respective potion are shown here under in table.

Table 2: Names of the interviewed people with their respective position in selected organization

Name of interviewed person	Selected organization	Position of the Interviewees in the organization
X	Construction Company	Vice President
X	Bank	Senior Vice President
X	Hotel	Vice President Business Development

In addition to the interview, the study also used some data from secondary sources mainly from website of the selected organizations as support to the interview. Some general information about each organization has been conducted.

### 3.6. Method of Data Analysis

The collected data was analysed through qualitative research analysis method. First the collected data through interview was transcribed. The transcription helps the collected result to be ready for scientific analysis (Flick et al., 2004). Only the verbal transcription of the interview was analysed (Roulston, 2001). Then content analysis of respondents' opinion, view, and perspective in interview made. To make content analysis, the three stages of coding, which is proposed by (Boeije, 2010): Open coding, Axial coding and Selective coding were applied.

After being well familiar with the transcribed data, the authors used inductive coding. This type of coding can make authors to look over transcribed data again and again then have lists of codes that emerge from the transcribed data. Then authors categorize relevant fragments using already selected inductive codes. Authors tried to look over again on these inductively coded fragments of data again and again to adjust or conform in light of the picture of the data. After coding the data in such way, authors tried to look for themes that can create link between them. This process is not one time activity, which requires trial and error effort to figure out the relationship between different concepts that can emerge from the research.

In short, the raw data, which was transcribed, segmented and the fragments dealing with similar theme assigned a code (Open coding). After having list of codes, reassembling of the coded category (Axial coding) made. Then determining and verifying the relationship between these categories (Selective coding) conducted. The specific step that has been stated in Boeije (2010, p.96-118) followed.

In addition to this, key words from the framework of this research used in the analysis. Finally, the result of the study presented in the way that how and why unique characteristics of service plays its role in market entry mode choice of selected international service firms and how they go to international markets.

### 3.7. Validity of the Study

Researchers are required to strengthen the quality of their study by looking at the validity of their study. Yin (2001, 78) considered validity in qualitative research as the study, which is done through proper collection and interpretation of data that leads to proper conclusion about the real social setting. Thus series of activities at different stages of the study are required to enhance the validity of the study.

To ensure proper collection of the relevant data, authors designed interview guide based on the conceptual framework which enabled authors to collect rich data. The designed interview guide is also considered the main research question and the objective of the study as central focus. Linking the case study questions with the study topic is important to enhance the validity of the study (Yin, 2009). In addition, recorder was used to ensure the collection of full data from interviewees. After transcription of the data, authors cross-checked each other's transcription based on the recorded data to ensure the correctness of transcribed data before analysis. Yin (20011) has explained that triangulation at particular event strengthen the validity of the study. To make valid interpretation, the empirical data out of transcription made. In doing so, authors commented each other's part before they make interpretation. This cross-check is assumed to minimize possible errors that can compromise the quality of interpreted result and afterward parts of the study. Then valid interpretation made by comparing the empirical data with the underlying theories and study framework.

The quality of the study is compromised if authors do not make valid conclusion for the study. One way through which authors can arrive at valid conclusion is to have the objective of the study in mind and to find answers to basic research questions out of thier analysis. Moreover authors forwarded their study progress to their supervisor for his expert comment to enhance the validity of the study. Bryman and Bell (2011) stated that validity can be established by asking comments of the expertise in the field. Furthermore, increasing the reliability of the study is one way to enhance the validity of the study (Bryman and Bell, 2011).

### **3.8. Reliability of the Study**

In addition to validity, researchers need to aware of their study's reliability to strengthen the quality of the study. Yin (2011) considered reliability as conducting study in the same way in different organizations. However, qualitative study is known for its subjective nature based on the context. Even then researchers try to follow similar approach to make proper comparison among case organizations. Based on this fact, authors used similar interview questions to collect their data and analysed in similar way to make cross-case analysis. This finally helped the authors to minimize potential errors on their conclusion that might occur because of differently approached case organizations. Moreover certain justifiable patterns can be inferred from the study that might be valid in similar organizations.

Yin (2009) stated that the existence of case study database increases the reliability of the study. Thus authors created case study database by collecting the data not only with the help of recorder but also by taking short note to have rich data and save it for later use by retrieving whenever it is necessary.

## 4. Empirical Findings

*In this chapter the empirical findings from the case companies are presented. Each company is presented with a short background, the findings are then divided into three parts; entry mode, internationalization and factors affecting the entry mode.*

### 4.1 Empirical Findings of the Construction Company

The case company construction and development company with headquarters in Stockholm, Sweden. The markets the construction company is operating in are the Nordic region, other European countries (UK, Poland, Czech Republic, Slovakia, Hungary and Romania), and Northern America. The company was established already in 1887 under the name X and did from the beginning concrete products. The company grew fast and became international just a decade after its establishment. During the 20<sup>th</sup> century the company grew into becoming a global company and has for the moment a strategy and focus on profitability rather than growth. The company has four divisions of operations; construction, residential development, commercial property development and infrastructure development. The construction company's mission is to "Develop, build and maintain the physical environment for living, traveling and working.". The company is the one of the biggest in Sweden and has as goal to be growing in profit and be an industry leader in occupational health and safety, risk management, employee development, green construction and ethics.

#### 4.1.1 Entry mode

When planning in entering a new market the construction company starts with defining around 25 possible markets. The company looks at if there are any markets they can start to operate in and relate it with the competitive strengths of the construction company. What should be investigated is if the market is big enough, how the competition looks like and if business can be done in that market right away. After doing scoring and selections for these markets it ends up with approximately five markets with ideas of how the business could be expanded in these markets. The construction company then form teams for each market to investigate if the company should expand by acquiring other companies or by organically growth. Market studies are done for the specific market and then a number of tollgates are used step-by-step.

In most of the cases the company decides not to expand their business because of the limited opportunities in the market. If the company decides to enter the market it starts with establish a plan both for the short-term and the long-term perspective.

*"This is what we expect to do in 2015 in 2016 and we will also have a target how it would look like 2030."*

The market could be entered by acquiring another company, growing organically or by joint venturing with another company that for example needs help with their project. It may take time to enter a foreign market but it is important to see it in a long-time perspective. When the company has decided to enter a market they do not have intention to leave that market.

The most difficult and the most costly choice of entering a new market for the construction company is to buy a company. The advantages of growing organically are that it is very easy, lower costs and much less risk. The disadvantage on the other hand is that it takes time to grow organically compared to buying a company. A joint venture is for the construction company a way of growing organically since it counts as a project within the company. The choice of entry also depends on how easily the company can move resources to the new market and how much knowledge there is about the chosen market. When the construction company wants to enter a market where they would like to acquire a company they search for people in that market who wants to be bought local. The construction company has used both ways of growing and is growing approximately equal by both ways but prefer the way of growing organically since it is easier and less expensive. The main reason for the construction company to use acquisition instead of organic growths is because the company does not always have the time to establish their own and has to search for companies that can be bought up by the construction company.

It is very important to be accurate when counting on how big the profit will be acquiring a new company. It is quite a low profit which makes it important to do the right decision.

*“You need to be careful when acquiring a company and really do your homework.”*

#### **4.1.2 Internationalization**

The company spends a lot of time and energy in searching and evaluating what option they should use and the conclusion needs to be good and accurate.

When entering a new market the construction company is committed to never leave that market and that is a part of the construction company's home market strategy. The company wants to be a local actor for all markets that it is operating in and at the same time, it is a global company.

Searching for information about foreign markets is a difficult task. The construction company uses several consultancies to complement their own knowledge and intelligence about foreign markets to get different views. It uses consultancies to get a wide range of information but is at the end done by their own assessments and judgments.

*“Our plan is to enter a new market which may take some time, and then from that platform grow slowly but surely.”*

The company thinks that there are always things that could be done better in their ways of expanding internationally. The construction company The culture in an acquired company can take a lot of time and effort to change and the construction company has sometimes underestimated this process.

The construction company has a home market strategy, which means that the company tries to penetrate existing markets rather than searching for new ones. With this strategy it is very important for the company to from the start choose a market with further potential growth. The company is organized in the way that they have different business units serving different markets. This means that Sweden has an own unit serving Sweden, UK has its own business unit and that

is the same think for all markets. Each of these business units has their own responsibility to grow within their geographic area. When the mission is to expand to a foreign market this can be done from Sweden in cooperation with the US business unit for instance and if the company want to expand in US it is fully responsible and operated by the US business unit.

#### 4.1.3 Factors affecting the entry mode

The construction company is operating in several different countries but has no presence in several markets that are known for having growth potential such as Middle East and Africa. One of the reasons for not being there is the construction company's home market strategy that started with just a few markets where these were not a part of them. The company has been operating in several markets that they later decided to leave such as Russia, India, China, Africa and Middle East. The construction company The market has to fit the construction company's code of contacts and is has to be an easy process of operating in other markets.

The cultural differences can be a big problem and ethical issues are factors that the construction company includes in the decision of entering or not. If the market have problems with ethical issues or bad ethical standards, the construction company will not enter that market. The company's value is also very important when planning of entering a new foreign market. Saudi Arabia is a country that have potential of growing and moving in the right direction but at the same time a country that is behind with human rights which makes the company to also look at other aspects.

It is very easy for a construction company to promote itself and especially for a big international company. Since the construction company is a well-known company, it can use its global brand name when doing promotion, and this is because of earlier projects they have been working on with professional clients. The potential customers know about the construction company and what the company is capable of doing. History is most often used for promoting the company, this can be shown with earlier projects that the company has executed and also by showing what earlier clients the construction company has been working with.

*“We show that working with us has been a good process.”*

The construction business does not need any direct involvement of the customers in the process of producing the service but the customer is still an important part of the process. All the projects are made in partnership with the customer and they are often willing to be partners and share the risks and opportunities. Even if the customers direct involvement is not needed, the construction company still work closely with its clients. The customers are willing to take the risks together with the company to get the opportunities that the construction company can create.

Since the customers have there variety of needs the company tries to really in-depth understand how the customers needs looks like. When finding out this a solution that fits the needs of the customer is created. It is not a problem to provide different solutions for different customers, but it is important to know what the customer need in order to make the solution possible.

The way of using indirect operations such as agents is impossible in the construction industry since the company do not provide any goods. In some projects the company uses subcontractors to execute a project. Even when doing this the construction company takes the full responsibility

for the subcontractors' work and the customers also see this as a work done by the construction company. It is also a matter of protecting the company's brand name.

The construction company sees its own quality of service as very good. The quality is a very big factor that the company tries to serve as good as possible. The construction company's customers expect the company to deliver high service and this is something that the company has a big focus on. The company always tries to monitor the quality of the service delivered.

*"It is also important to from day one deliver a quality that clients expect us to give."*

It is big risks connected to entering a new market. There are always different risks in markets where the company has not been operating before. Even if there is information about markets the risks will always be there in for the construction industry.

*"Our industry is risky even if you know it."*

You have to know the clients and different contracts well; otherwise you are taking big risks entering a foreign market. When you do not know all the information the variety of ways that you can fail is huge, and the construction company consider the risk as a very serious factor.

The construction company consider four types of different risks in its operations. First it is the strategic risk that is connected to the development and establishment of the company's operations. Second it is the financial risk that is connected to investments by the firms operations. To minimize the risk the construction company has maximum amount of investments that each division can do. Other financial risks are interest rates, exchange rates, credit exposure and financial position of other involved parts such as in joint venture or subcontractors. Third is operational risk that can be construction or project development. Construction risk is connected to each project and depends on the size of the project and how the project is going to be constructed; technology and methods. Project development is another operational risk and is in line with the constructional risk but does also include all parts of developing, designing, buying and selling. The fourth risk factor is regulatory risk that includes all regulations for different markets such as taxes, agreements, ethics and environment.

The most important factor for the construction company when entering a new market is the long-term benefits. It is hard to get any big returns on investments if you only focus on the short term. When planning before entering a new market the construction company always look at what returns it can get in the future. An investment or a new establishment will always cost money at the start and this is why it is very important to have a long-term perspective and see this as an investment. If the long-term potential is low and the returns will not be beneficial, then it is not an option for the construction company to enter that market.

#### **4.2 Empirical Findings of Bank**

The case company bank is a Swedish bank that provides universal banking service in different countries. Its headquarter is located in Stockholm. The bank provides different services globally including corporate and personal banking, mortgage loans, financing, investment banking, private banking, asset management, cash management, trading, investment and life insurance. The bank was opened in 1871 and has 143 year experience in the sector. However, the global expansion of

the bank started in mid 1990s. First the bank opened its branches by acquiring smaller banks in Nordic countries to support corporate banking activities. Since 1999, the bank has decided to expand organically into other countries (like Europe, Asia, America and Oceania) to hold its strong position in Nordic bank markets. Currently the bank has 836 branches worldwide in 25 countries. Even if the bank operates in 25 countries, it regards branch networks in Sweden, Denmark, Norway, Finland, UK and the Netherlands as its home markets. According to the Bank Annual Report (2014), the Swedish Quality Index (SQI) considered the bank for 26 years as the most customer-satisfying bank from 4 major banks in Sweden.

The business concept of the bank is “a full service bank with a decentralized way of working, a strong local presence due to nationwide branch networks and long-term approach to customer relations”. Working with customers based on the trust and helping them through local presence is the key for the bank to build long-term relationship with its customers. Even the bank has quoted its relationship with customers by saying “we put a great deal of effort into being available for our customers” (Annual Report, 2014). Furthermore the bank considers working closest to the customer as important step to make the most sensible decisions. It expressed the importance of decentralized decisions by saying “the branches` independence gives them a very strong local presence, with long term customer relationships” (Annual Report, 2014). In order to provide the right service and satisfy its customers, the bank also focuses on having skilled staff. The bank believes in the role of employees experience to satisfy its customers and thus focuses on creating conducive environment for its employees. In the Annual Report (2014), the bank quoted the importance of long-term relationship with employees by saying “a vital condition for successful customer meeting is never to lack any product or service that a customer needs”. Moreover the bank do not segment its customers based on its service rather it treats them based on the individual customer`s unique requirements (Annual Report, 2014).

#### **4.2.1 Entry Mode**

Banking industry is one of the service sector and its products are service like lending money and cash management. The home markets of the bank are Nordic, UK and the Netherlands. In all its market, the bank is operating in 25 countries around the world. In all other countries including USA and China, the bank doesn`t have intention to become local bank to serve new clients. The aim is to help the existing clients and predominately corporate clients. The bank don`t do any private business in other countries. It is not really to find new clients in other countries rather serving the existing clients like helping big Swedish corporate clients. Its home market clients have factory or sales office in all over the world so the bank needs to help them. This is why the bank decides to enter new market. If the bank sees that there are enormous Swedish companies entering new market or if the bank sees a market that is a lot of Nordic companies are in it, it decide to find way to help them. There are two reasons to enter foreign markets: first it is off course to increase the service to its client. It is one way to sell the banks product to them and make money out of it. Secondly, if the bank don`t do it then other Nordic competitor banks will do it. Then the bank risk losing its clients to them whom it is serving here in Sweden. So the bank is forced to lock the door to its competitors by helping its clients. That is what the bank do and it do not enter new market to find new client. It follows its existing clients and serves them wherever they are.

The bank enters into foreign market through three options. The first option is to make an agreement with partner bank. For instance if you take Africa, the bank do not have presence at

all. It gets questions from the clients about the need for the bank's service in that particular country. Then the bank tries to have partner bank with other countries banks. The second option is to open up representative office. Usually one-man office with no license to do any sort of business is opened. It is just physical presence of person being there, as solution like in Australia, India, Indonesia, Malaysia, Russia and Brazil. The representative offices cannot book anything, they cannot do anything but they have a person there helping the clients. If the banks clients' needs to borrow money or have guaranties, then the bank can do it from where it has nearest full-scale branch. For instance, the bank does for its clients who are in Malaysia from its Singapore branch. The third option is opening up the full scale branch in a few countries. The bank helps its clients in these branches like in booking, cash management, loans, guaranties, payments, etc.

Currently the bank is operation in 25 countries and it may not have done that within four years. It closed down some offices those which it decided that this is not for us. This may happen because the clients interested in certain markets. For instance, the bank had full-scale branch in Russia and very few of its clients interested to do business in Russia. So it decided to close that down and change it to rep office. That is living material changes.

#### **4.2.2 Internationalization**

The bank has big marketing department in Stockholm. To get marketing intelligence to go to foreign market, the bank like any financial institutions assess the competitors, meet other banks and visit countries all over the world. The bank also uses Business Sweden (Export Office) and work with them to get information. In addition, the bank works with its clients to get additional information. If the bank decides to open up its branch in a given country, it uses these sources to collect marketing information. Then the bank assesses how many Nordic companies are operating in other countries. Thus the bank can Google and get the desired information usually. There are also a lot of businesses chambers of commerce that have relation with Swedish chamber of commerce (like chamber of commerce of Italy, etc.). These are also good source of information about Nordic companies.

The commitment of the bank is not to the new market rather to its existing clients. If the clients tell to the bank for the service, the bank does open up its service in somewhere to help them. That is the commitment of the bank to its clients. If the clients need that country, the bank also goes there to serve them. The commitment of the bank is not to market specific rather it is committed to the existing clients. As long as the bank promised to help its clients, it would be there to help them as they want it to be.

The language difference does not restrict the bank to reach its clients in different countries. As long as a lot of Nordic companies are there in different countries, the bank needs to be there and help them by adapting to different languages. Thus this factor is not that much problem for the bank. But in some countries like china, it is tricky, all the regulations and language barriers for the bank. Things have to be translated into Chinese. The bank has no choice but need to be in first line to help its clients. If it don't do it, the competitors do it. For instance, if there is risk in china and because of that not do it for clients, then the bank may end up with losing its clients here in Sweden. Sometimes the bank don't have any options. The existence of competition and recognition of this competition is very important for the bank to aware of their activities.

As it is said if the clients of the bank are anywhere, they need its services, and the bank can then open up there. There are differences in cultures in different countries like in Brazil and China. But that does not matter, as the bank is not aimed at entering to the local markets. It is simply helping Nordic corporate clients. These days, the countries' regulations are difficult thing in all markets. Even if you open up in Germany, it is very difficult. That may be will in some places to prevent from opening up full-scale branch. Then the bank considers opening up rep offices if the regulation is heavy on it.

Cost aspect is very important thing that the bank considers to open up what type of office in different countries. The big cost of the bank is staff or employees. The bank don't have any production or factory or machine like manufacturing companies. For the bank the cost is the number of employees. To open up a full branch, some countries may require minimum 25 people. That might probably stop the bank from opening up full scale branch. It is hard to justify this cost for the bank. In this case, the bank may open up one or two man rep office instead. So the cost of the bank is the number of its employees. Anything else does not cost the bank that much in these days. But if the cost is too high, the bank doesn't want to enter into a market with full-scale branch. Beside to this, the external costs like filling up the contract are not that much cost for the bank. The main cost is employees' cost.

#### **4.2.3 Factors Affecting the Entry Mode**

The bank gives service to its existing clients. It is not trying to enter a new market. The bank is just following its clients and giving its services to them, which are the same product like here in Sweden.

The bank don't have any production like manufacturing. Bank products are extremely simple commodities. It is making payment or lending money or taking deposit. These products are very easy products. It is more about knowing your clients and taking risk to lend money to Nordic countries companies who are working in different countries like in china.

The unique feature of the products of the bank in USA is the same as here in Sweden. If the bank helps its Swedish clients here, then they may have subsidiaries in USA that needs its banking services. The bank is willing to take risk and it knows well to act quickly. Then its branch in USA knows that this is one of the most important clients of our bank in Sweden. The bank needs to get full and better attention of its clients who are in USA than other local banks in USA.

Usually the bank wants to give its services to clients by being local. Specifically if it is subsidiaries, Swedish company may have subsidiaries in USA market. They off course need local cash management. They need to pay their invoice, salary and so on. That may come for them from Sweden. Sometimes it is more convenient for them may be because of tax reasons. They may want their subsidiary in USA to borrow the money and borrow at locally. It might be hard for them to borrow that kind of money in Sweden. In this case, they need local service. They might be needed to pay in US dollar and the like so it is practical to do it for them locally by being there.

The bank is in different countries because of its clients. Off course the presence of its clients in foreign market is the main reason for the bank to follow them and give its banking service to them. If clients are not in USA, they don't need the banks service from USA.

Even in paper service, the bank may have gentlemen sort of agreement with British banks. The bank may refer its clients to them. They may then refer the clients to the bank here in Sweden. When the bank makes an agreement with other partner banks, it is important for it to check whether they are good serving bank. If the bank trusts them, hopefully they give good service to its clients. The bank may close down its agreements with partner banks may be because the bank is not happy with their service to its clients or their service quality may deteriorate for some reasons. If they have some problems, then the bank don't refer its clients to them. When the bank comes to the service quality, it really gives much emphasis. This factor is very important to its business. The quality of the service is very important thing the bank considers when it cooperates with other banks. The bank believes that once it decided to open up in a given country, it should give good service to satisfy its clients locally. This is why in continuous basis there is guide from Stockholm.

The need of its clients is very big factor. If the bank sees that its clients really don't have local production or may be very small sales office or sales through agents, then its clients need of banking service in that country may be very limited. This might be reason for the bank not to open up at all. If we see countries in Europe like in Italy, the clients have European way of cash management or account. May be Nordic clients do get similar banking service from their own treasury. In this case the service the clients need from the bank is very limited and the bank can do it from here in Sweden or from Norway.

If the bank decides to open in Germany, it does like other Germany banks. Even the bank can provide better service to its client because it knows its clients better and serve them quickly. The clients who are in china don't compare the bank based on what it does here in Sweden rather what it does in china with other banks which are found in china.

Deciding on opening up its own branch or rep office or working with partner banks depends on the demand level of its clients. If it is tough call, it is difficult to work with rep office or partner banks. When it works with other banks, the bank don't control the level of service. This can be a factor for the bank to have its own personnel to serve its clients. It might be expensive but the bank really need to able to guarantee its clients to provide the right service. This is very important thing to satisfy the clients.

The latest office the bank opened its office was in Jakarta, capital of Indonesia in November 2014. Indonesia is a big country with around 200 million people and it had very stable growth for the last 20 years. For that reason, a lot of Nordic companies entered Indonesian market and has offices and local production there. Indonesia has some subsidized tax areas and all this led to a lot of Nordic companies entering and going into Indonesia. For that reason, the bank decided to open up office there. Previously the bank covered that market from its office in Singapore. But the bank felt that it needs someone to enter into Indonesian market. The bank did very simple market start to go. Let say from 500 hundred companies, 100 may have local production there which means they need some sort of financing service which is good for the bank. Another factor is that the market is much regulated and it is not like in Sweden easily to transfer money. It is currency regulated by the government. In this case, Nordic companies are very reluctant to transfer too much into the country. They don't want to borrow money in Sweden and transfer it to Indonesia. They need to borrow money locally because it is easily regulated. They want to use USA dollar,

which is good for the bank to help them by being in Singapore. It is tricky market for its clients as it is much regulated. That means they need more help from the bank to serve them. All that put together and off course the bank checks whether the country is politically stable or not. For instance, at this moment Russia is not stable and dangerous country. This is risk for the bank to go there. There might be revolution or dictatorship. The bank also not wants to open up in countries like North Korea. Opening up in such markets is also not good for it as there is negative publicity to be there. All that is factor for the bank to go foreign markets. The second step is the bank may decide to open up branch or one man rep office. Then the CEO of the bank needs to approve the decision to open up. Finally the bank finds the correct staffs and office.

Since the bank is dealing with its well-known home clients, it do not have commercial risk. For instance, if the bank lends its money to Eriksson in Indonesia, it do not have any commercial risk. The commercial risk is decided by whomever here in Sweden. The other risk it has off course is reputational risk. May be it is negative publicity on Swedish newspaper if the bank enters a given problematic market. This is bad for the bank that can happen when it enters in certain markets. But in Indonesia the bank decided that this risk is low. When the bank decided to open up in Sao Paulo in Brazil few years ago, there was a risk for its staffs. The hardship of working there is high. Which off course Sao Paulo is very dangerous country. The bank has bulletproof special car that the staffs use. This is a risk for the bank to be therein. For instance, in Venezuela even if the clients need the bank`s help there, the bank never go there, because that country may collapse in two years` time. It may confiscate foreign asset tomorrow. The bank never opens up in Venezuela. In Indonesia, this risk is low. In Europe like Germany and Italy, this risk is almost zero. In Russia, before that was low risk until few years ago. But now the bank realized that this risk is high. It may collapse or confiscate foreign assets. So the bank needs to consider what happens in the countries in 10 years` time.

The return of the bank`s investment is also important factor. The goal of the bank is to have high return for shareholders. The bank considers is it good investment for its shareholder. But in some countries, the bank may still operate with loss like in Indonesia. Here the important thing is if the bank don`t open up, then may lose its 20 very important clients in Sweden from whom it makes very good profit. The bank don`t that much calculate profit on office itself means how much profit it makes from specific office.

#### **4.3 Empirical Findings of the Hotel**

The hotel is a Swedish hotel chain with headquarters in Stockholm, Sweden. The markets where The hotel is operating in are the Nordic region, Germany, Belgium and Poland. The company was established in the early 60s in Sweden and was at that time called Esso motorby hotel. The first hotel was opened in Laxå in 1963. This was the start for future The hotel and the idea was to have hotels along the highway between Gothenburg and Stockholm. In the 60s and early 70s a few more hotels and motels was established along the E4 motorway. The hotel chain did later also expand in the neighbor countries Norway and Denmark. The hotel chain is one of the biggest in the Nordic region and has the values of being a Caring, Casual and Creative company to serve the customers in the best way and has been awarded for the “Most sustainable hotel chain” in Sweden five years in a row.

#### 4.3.1 Entry mode

Through the 2000<sup>th</sup> century the company expanded and in the early 90s the company started to do portfolio deals. During that period the hotel acquired other chains in Sweden and neighboring countries. One of the chains that was acquired in the mid 90s IS Reso and had at that time around 50 hotels. The hotel acquired the chain in 1995 and got roughly 20 new hotels, and a couple of years later the company acquired another chain in Finland and a few more in Sweden. In the early 2000 The hotel had roughly 150 hotels in the countries Sweden, Finland Denmark and Norway

In 2001 the international company Hilton with headquarters in London acquired the hotel because they were missing market coverage in the Nordic region. There was only one Hilton hotel in the Nordic region at that time and this was a good move for Hilton. The company wanted presence in the Nordic countries with that acquisition. The first idea for Hilton was to rename few of the hotels to Hilton. Since the hotel was a good brand that worked out very good and was well known in that market, Hilton did just rename a couple of hotels to Hilton but remained with the same brand for the others. Hilton owned the portfolio until 2006 when Hilton thought it about time to sell. Hilton were interested in other parts of the world and made other financial models for other markets. The company then looked for if there were potential buyers for the hotel portfolio. In the spring of 2007 the hotel was bought by a investment company within the Wallenberg family called EQT. The aim of the company and according to their business was to buy good companies in growing markets. EQT thought this was a good market and the hotel was a good brand with which they could do even better. At that time the hotel roughly had around 135 hotels in the portfolio. EQT then started to look at what should be done to the company regarding the growth and expansion strategy. Since the hotel had presence in the Nordic countries, were big in Sweden, Finland and Denmark and also one of the biggest in Norway, the hotel started to look for new business opportunities. the hotel acquired a few hotels operated by other operators and did also enter new building projects where they built their own new hotels, especially in Norway, but the company did also build new hotels in Germany.

The hotel is the leader in the Nordic region. It is a large company with hotels in many cities of Sweden, but it is not operating in the all cities since they do not want to operate in the smaller cities. The hotels objective is instead to cover the main cities of Sweden. Sometimes the company finds some white spots in Sweden or in Norway where they think that their customers and guests would like to have the hotel and see opportunities to expand. The hotel has a great loyalty program with loyal guest and that is important for both the hotel and the customers to have this kind of hotel when the customers are traveling. They may be in one city one day and then in another city the other day and it is good for the company and for the customers if there are hotels from this chain in those cities.

Tracking the loyalty cards the hotel can look at the map and see where there is a demand for new hotels. The company tries to cover all spaces and when cities with demand are found the company can either acquire new hotel or construct a new hotel in the city.

“We sort of follow the guests to these cities.”

The cities are different and you cannot always compare the cities, but it might be easier if it is a Swedish city since it is the same country and this hotel is good on its home market. There are

different demand generators between for instance Karlskrona, Stockholm and Jönköping and the company need to track all this different data to know what to do.

The hotel does sometimes use franchise agreements but not as much as its competitors. The company has a few franchise hotels and these are mostly in markets in the Nordics, that the company wouldn't enter themselves with their own operations because of the risk of leasing a property. It is mostly smaller hotels in smaller cities, which the hotel thinks are good hotels and have good owners with a hotel that would be beneficial for the hotel. It does not give big revenues but makes it easier for the hotel's loyal customers.

When the hotel needs information about foreign markets, they do mostly buy the information. The company works with consultancies and statistical agencies for the foreign countries. The hotel does also work with specific hotel consultancies. The hotel gathers a lot of information when planning of expanding their business in a foreign market, but when planning of open another hotel in a well-known Swedish city, the company does already know most of the information and have the data.

*“It is more crucial with information when operating in other markets.”*

The hotel has done 120 new hotel deals the last 7-8 years and there are always things found that could be done differently. There are always cases where the results have not been as good as expected but in general, the hotel thinks that they are doing things in the right way.

#### **4.3.2 Internationalization**

The process of internationalization starts with doing a business case. Starting with acquiring data and market statistics about the market. The hotel makes conversations with consultancies about how they look at the future and if there is more hotel capacity on the market. A forecast for the hotel is then done to see what kind of hotel the company should have in the specific market. The hotel has to decide whether it is going to be a new construction, is it going to be a bed and breakfast hotel or if it should be located as a business meeting hotel. These kinds of assessments, like what kind of hotel and where to place it has to be done from the start. Then a forecast for the hotel is done with assumption on revenue and occupancy to also see what market chance has to take. The next step is to calculate all different costs connected to the expansion, for instance the costs of purchasing or renting the hotel, the costs for staff, how much investment should be done at the same time and other financial aspects to get a full cost analysis. At the end a net present evaluation for the business model and the hotel is done.

In order to do all these calculations, the hotel needs to know the market and the country, the company needs to be in the country and familiarize with the country and the culture, which takes a lot of time. The hotel needs to get to know different people in that market and employ new people. Wherever the hotel would like to go it has to familiarize itself with the market. Once the company has done that, partners, investors and constructors has to be found, and a network has to be built. The hardest part is therefore not opening the hotel but getting all information needed before the start, and all cities and markets have different business cases and you can always learn something from a new business case.

The hotel has presence in the Nordic countries, Germany Poland and Belgium. The company has been in Germany for about 20 years but has done a sort of restart in Germany for the last five years. The hotel did first enter Germany in the early 90s and later on expanded to smaller cities and secondary locations, which they now have left. When the hotel entered Germany latest, there was one hotel in Berlin and one in Hamburg. The company thought that Germany was a good market, which is one of the largest hotel markets in the world and especially in Europe. There is a lot of demand a lot of domestic demand, it is a similar market to the Nordic market. There is also a trade between Germany, Sweden and Denmark as well. There is therefore demand from the Nordic countries going to Germany and also domestic demand from the German population, because there are not just the Scandinavian customers visiting the hotel, but also a lot of domestic customers. The business models and the service demands are similar between Germany and the Nordic countries and it is therefore a good option for the company to do business in Germany. This are the main reasons why the hotel have chosen German market to expand in.

The last hotel that the hotel opened was in Norway. When planning on opening a new hotel in for instance Norway, the company has too look at the demand for the city and this might be a city where the hotel already is operating in but the demand asks for more. The company looks at different demand generators, and what investments must be done for establishment in these cities. In this case all operations starts with investigating the market no matter which city it is. The same thing was done in Poland in 2008 when the hotel took over a hotel. When the company sees that there is a market for Scandinavian customers and new business opportunities they do market research to see what should be done.

Future plans for the hotel is at the time to grow and expand in the markets where the company is already operating. There are still spots in the Nordic countries where the hotel can expand but also more business opportunities in Germany. There is specially room for expanding the business in Germany where the company only has a few hotels in a few cities.

*“There are still things to do in our home markets.”*

The reasons the hotel for now has not to expand their operations to other countries such as China, where there are potential Scandinavian customers is that there are still a lot of things to do in the existing home markets. The customers still have a lot of demand in the home markets the hotel still sees a lot of opportunities. There might be new expansions in the future where the hotel follow the customers to other parts of the world.

#### **4.3.3 Factors affecting the entry mode**

The hotel believes that they are good operators, they are efficient and think that they are in the top when operating a hotel. This is one reason of why the hotel wants to operate on its own instead of franchising. The other thing is that even if it less risk to franchise and you do not invest any money, the return or the income is much smaller than it would be if you own your own hotel. The hotel would have to do many franchise deals just to keep up with one new hotel of its own.

When the hotel choses to franchise it does consider the service quality as a main aspect. The franchise has to fulfill all concepts of the hotel and there is a manual of the hotel concepts, including different service levels and quality of the hotel. The guests should not feel the service difference between a franchised hotel and an own hotel of the hotel. The company does survey

checks to control the service, the franchise hotel has to always fulfill the concepts and the service levels. Some hotels can vary if they are new or old or if there are two restaurants at one hotel and only one small in another, the menu can also be slightly different. Some hotels have bigger meeting rooms depending on their location.

*“There are still standards but of course you should also adapt locally.”*

The company thinks that it is crucial to have a friendly staff, which is a very important aspect for the guests. The cultural difference and language difference between the countries are not a problem for the hotel and they have local management in all countries. The company overcomes this cultural differences and this has not been an issue for the hotel.

Risk assessments are important things to do when entering a new market. In the business case for each new hotel, a risk assessment is done to see what could happen if there would be a downfall in the market, which is done with calculations and simulations. There can be issues with the prices that the hotel want to have and calculations are done of how as an example a lower price will affect the returns of the investments. There could be a risk of variations in rent and there are calculations done in order to see how this will affect the company. The local actions around the hotels location can also affect the business and all these risk assessments has to be done and calculated. Still these calculations are not always accurate and risks have to be taken.

*“Even though it doesn't go as planned.”*

The political situation is an important factor when choosing a new country to operate in. The situation of the country has an impact on the hotel's choice and the company looks at this when investigating a potential new market to expand in.

The hotel has a large network and you can find the hotel at many places, which is very important for the company. Another important factor is the loyalty card that the customers have and all the benefits it gives is good for the customers in order to only stay at one hotel chain. The loyalty card that the customers have and they get benefits and only have to stay at the hotel. These are some of the keys of the company in order to be able to expand and retain the customers.

## 5. Analysis

*The analysis is divided into four main parts; market knowledge and experience, transaction cost analysis to enter a foreign market, The role of ownership-, location- & internalization advantages and how and why unique features of service play their role in entry mode choice. These parts are analyzed company by company and are at the end of this chapter brought together to a cross case analysis with a summarizing table that shows each factors importance in the entry mode of the companies.*

### 4.1 How international service firms enter foreign markets

#### 4.1.1 Market Knowledge and Experience

Johansson & Vahlne (1977) has explained internationalization behavior of international firms using Uppsala model. According to Uppsala model, international firms enter into foreign markets step by step based on the market knowledge and experience. The personal experience of international firms is the way through which they develop experience and knowledge, which is required for successful foreign market entry (Johansson & Vahlne, 1977). In addition, Uppsala model affirms that the foreign market commitment and involvement of the firm increases step by step based on the knowledge of different opportunities and problems about specific market (Johansson & Vahlne, 1977). The desired knowledge and experiences with regard to characteristics of customers, market system, demand and supply, competition, distribution, culture, and so on are important to the success internationalization operation of the firm. Moreover psychic distance is also one of the theoretical construct of Uppsala model which states firms tend to enter markets with successively greater psychic distance after it has established its business at the primary market (Matenge, 2011). Psychic distance factors (like difference in language, education, business practice, industry structure and other components of culture) affects the flow information from and to the market and thus needs firm's familiarity with these factors. The extent of firm's familiarity with psychic distance factors influence which foreign market to enter and how to enter that market (Andersen, Ahmad & Chan, 2014). Generally the theory of Uppsala model states that market knowledge and experience determines how to enter foreign market and the form of entry mode. The increase in amount of resources committed and firm's involvement into foreign market depends on the firm's built up knowledge and experience about the existing opportunities and problems in the market.

#### **The construction company**

The construction company is one of the biggest Construction and Development Company in the world. Currently the company is operating in the Nordics, other European countries and North America. Expansion to other countries took the construction company more than decades. This is because the company needs to grow step by step after thorough market studies. This shows that the company follows factors from Uppsala model of internationalization.

Moreover the company expands into foreign market through organic growth, acquisition and joint venture. But the company considers joint venture as part of organic growth because joint venture for the company is counted as a project within the company. The company prefers to grow organically because it is less expensive, easier and much less risky. At the same time, the company's organic growth takes more time than acquisition. This situation shows that the company is growing step by step by developing the desired knowledge and experience about the

available foreign market opportunities and problems. This is helping the company to minimize the risks and maximize its ability to take advantages of available opportunities. Before entering into a given foreign market, the company puts a lot of time and energy in studying foreign markets to make careful decisions. “Our plan is to enter new market which may take some time and then from that platform grow slowly but surely”.

When evaluating potential foreign markets, the construction company gives emphasis to its corporate values to check ethical way of doing business. “The market has to fit the construction company’s code of conduct and it has to be an easy process of operating in other markets. For instance, the company did not enter into Middle East and African countries because of ethical issues in the markets. Thus the company’s search for similarity with its corporate values shows that the company primarily enters into foreign markets, which are similar in ways of doing business. This characteristics of the company shows that the company’s internationalization process is dictated by psychic distance factors which is typical features of Uppsala model.

The construction company’s entry into foreign markets through organic growth and acquisition shows that the company is fully committed to its foreign markets. When entering a new market, the construction company is committed to never leave that market and that is part of the construction company’s home market strategy. This shows that the company’s amount of resources committed and the degree of commitment is high. The company’s market strategy of not leaving the market once entered influenced its entry mode into foreign markets. The company enters foreign market by its own investment to take more advantages of the opportunities. This is one of the typical features of Uppsala model of internationalization.

In general the company is growing step by step through careful study of foreign markets. This indicates that market knowledge and experience plays great role in the identification of opportunities and problems for the internationalization process of the company. Moreover the company primarily enters those foreign markets, which have similar values with the corporate company. The company also puts full commitment to foreign markets by entering by itself through organic growth and acquisition. All these behaviors of the company in its internationalization process show that the company is practicing aspects included in the Uppsala model.

### ***Bank***

Even if the bank has 143 years of banking experience, its global market expansion experience started in mid 1990s. Now the bank step by step expanded to 25 countries with 836 worldwide branches. In start of its global expansion, the bank first entered into other Nordic countries (I.e. Denmark, Norway and Finland) through acquisition of smaller banks in these countries. After experience with other Nordic countries markets, the bank decided to expand to other countries in Europe, America, Oceania and Asia. This trend of the bank expansion shows that the psychic distance dictated the international expansion of the bank. The bank started to expand into other Nordic countries markets, which have more similar way of doing business with Sweden. After certain period of time, it expanded to other European countries, North America, Oceania and Asian countries, which seems based on the psychic distance principle.

The bank usually uses different sources of information to understand the existing opportunities and problems. This helped the bank to build up its international market knowledge and

experience to decide entry into foreign markets. To capitalize on its experience, the bank assesses its competitors and meets other potential partner banks. In addition, the bank uses business Sweden and its clients as the source of further information to assess its business environments. All these sources of information help the bank to decide whether to enter into foreign market and then form of entry mode.

Furthermore the bank assesses different psychic distance factors and adapt with them to serve its existing clients in foreign markets. “As long as a lot of Nordic companies are there in different countries, we need to be there and help them by adapting to different languages”. As the aim of the bank is to serve Nordic corporate clients in foreign countries, the adaptation to local cultures is not so deep. This is due to the reason that the bank is not aimed at local markets.

In addition to the existence of the bank’s client in a given country, the level of the risks decides whether to enter into foreign market to help its clients and forms of entry into that foreign market. If the bank finds that it is too risky to enter fully into a given foreign market, the bank tries to serve its clients through partner bank or rep office. Beside to this as the clients of the bank are Nordic corporate clients, the bank and its clients usually view the macro environment risks similarly and that decides their form of entry mode. “We had full-scale branch in Russia and very few of our clients interested to do business in Russia. So we decided to close that down and change it to rep office”.

Moreover the existent of barriers to do business also decides the entry mode form. “The regulations in some countries prevent from opening up full-scale branches. In this case we consider opening up rep offices”.

However, the close similarity of doing business in different countries in some cases can decrease the market commitment of the bank. “If we see some countries in Europe, our clients have European way of cash management or account. In this case the service the clients need from us is very limited and the bank can do it from here Sweden or from Norway”. In other words if the market is much regulated, then the clients need local service to reduce the burden of the regulation. In this case, the bank needs to serve its clients by being local. This sometimes requires the bank to increase its foreign market commitment by opening up full-scale branches.

The bank also has red line for not entering to certain foreign markets. This is due to the reason that the risk of entering certain foreign market have wider negative impacts on the bank’s business activity. “We do not want to open up in countries like North Korea. Opening up in such market is not good for us as there is negative publicity. May be there is negative publicity on Swedish newspapers”. Even if the bank tries to follow and serve its existing clients wherever they are, it does not do that in some redlined countries (like North Korea).

Furthermore the bank underlined the importance of its 25 years global market experience for its 836 worldwide branches in 25 countries. “Currently we are in operation in 25 countries and we may not have done that within four years”. Except in other Nordic countries, the bank expanded organically into global markets. This shows that the successful expansion of the bank is assisted through well-accumulated knowledge and experience.

Generally the global expansion trend of the bank indicated that psychic distance principle played great role. Many years' accumulated knowledge and experience of the bank helped it to better understand the existing opportunities and problems in global markets. This opportunities and problems affected the entry mode of the bank. The other important finding here is increment in foreign market commitment depends on the situation. In some cases high barrier forces the bank to look for entry mode that requires less market commitment and the same case may require the bank to employ entry mode that requires high market commitment. Thus the level of entry mode market commitment depends on the specific country's nature of the barriers. Overall the bank followed factors included in the Uppsala model of internationalization.

### **The hotel**

Since the 1960s when the hotel opened the first hotels, the company quickly expanded to the neighboring countries of Sweden, through both acquisitions and own operations. Forty years later, the hotel already had about 150 hotels in Sweden, Finland, Denmark and Norway. According to (Andersen, Ahmad & Chan, 2014) this is a signal, which shows that the psychic distance between these countries is small and that the company had no problems expanding and operating to these countries because of the similar characteristics in the different components of the culture.

Another evidence that points on the importance of cultural similarities is the hotel chains operation in Germany. The reasons why the company has chosen to operate in Germany are the similarities of the business models and the service demand between Germany and the Nordic countries, which makes it easier for the company to do business.

Knowledge and experience of a foreign market is very important when planning in opening a new hotel. The company buys information and works together with consultancies and agencies to gather as much information as possible to be sure of that the market is good and that the best entry mode is chosen. When the company does not have a lot of information it can buy a hotel and let them have a franchise agreement as it did with a hotel in Poland. Since this is a long process it can be connected to Johansson and Vahlnes (1977) theory of stepwise entry into a foreign market. It is harder for a service company to do a step-by-step entry into a foreign market but there are signs of doing the operation in different ways depending on the knowledge about a market. When establishing a new hotel in a bigger city in Sweden as an example, the company already has a lot of information and knows that building a new hotel will not be a problem and big risk for the company.

Wherever the hotel wants to operate it needs familiarize itself with the country, the culture and to get to know new people, which is a long process. This process is very important to be able to employ people, find partners, investors and constructors to establish the projects.

#### **4.1.2 Transaction Cost Analysis to Enter Foreign Market**

Erramilli & Rao (1993) has stated the presence of two options for international firms to expand into foreign markets based on cost of operation. International firms' entry into foreign markets and operating there can be either through other parties (like agent and other parties) or by itself. The decision to choice either of the options to enter into foreign markets depends on minimum transaction cost. The cost of establishing own integrated operations compared with the costs of using other parties (Erramilli & Rao, 1993).

### **The construction company**

The global expansion of the company focuses on long-term profitability. To ensure the company's long-term profitability, the company considers the cost-benefit aspects of its foreign market entry mode decisions. For instance, the company usually prefers to enter foreign market through organic growth by itself because this entry mode requires low cost than acquisition. The construction company considers acquisition as the most costly entry mode. But the company's decision to enter foreign market through acquisition depends on the long-term profitability of the company. "You need to be careful when acquiring a company and really do your homework".

Furthermore the company does not calculate external costs in its entry mode. This is due to the fact that the company as construction service company do not use third party to deliver its service. It always delivers its service to customers by itself. But there are some exceptions in which the company uses subcontractors to execute certain projects. The decision to use subcontractors is not based on the cost factor rather to reduce the workload of the company and speed up its operations in some circumstances.

From the case of the company, we see that the transaction cost analysis principle is not applied to select its entry mode, as the company almost do not use third party. But transaction cost analysis principle is applied in deciding whether to grow organically or acquire to enter into foreign markets. Even in this decision, the cost is not the only factor but also the long-term benefit of the entry modes as well as on how easily the company can move resources to the new market and how much knowledge there is about the chosen market.

### ***Bank***

In case of the Bank, the cost of foreign market operation is considered as one of the important factor in deciding which entry mode to use to go into foreign countries. The cost level of the bank depends on the number of its employees. "The big cost of the bank is its staff". The bank believes that the cost of operation should be justifiable. To decide whether to open up full-scale branch, rep office or work with partner banks, the bank relates the cost of overseas operation with the number of clients in a given country. If the bank thinks that the cost of opening full-scale is too high, then it may open representative office or work with partner banks, which are found in that country. Moreover the bank considers working with partner banks as the least cost of entry mode. "Filling up the contracts is not that much cost for the bank". In other saying the bank assumes that internal transaction costs are higher than external transaction costs. In some countries, the internal cost of the bank is influenced by their rule and regulations that specifies the minimum number of employees and their salaries to open up full-scale branches.

In general the cost of entry mode needs to be justifiable in relation to the number of its clients and their need for the bank services. As the main objective of entering into foreign market is to follow the existing customers and serving them wherever they are, long-term cost-benefit analysis is taken into account in entry mode decision. Cost is one of the factors considered but alone is not enough to make entry mode decision. This is to mean that whether the bank do its international activities by itself or use other partner banks is not only decided based on least cost but also other factors (like market potential and their need) taken into account.

## **The hotel**

For the hotel industry, it is a big risk going into new markets and the company does a lot of deep forecasts and calculation when planning in expanding in foreign markets. Already from the start, assessments about what kind of hotel will be established and how it is going to be operated are done. The costs involved in the calculation are for instance costs for establishing or renting the hotel, costs for staff and other costs connected to the project. Decisions are then made of what actions should be taken and how foreign operations should be done. Different alternatives are evaluated to make the optimal choice of operation, which is in line with theory of Erramilli & Rao (1993) that assumes that the company should compare the different operational cost.

### **4.1.3 Ownership, Location and Internationalization Advantages**

According to Dunning (2002), international firms' entry into foreign markets and forms of entry are affected by advantages attached to ownership, location and internationalization. Advantages in relation to size of the firm, foreign market experience (multinational experiences) and ability to develop differentiated products are derived from owning the marketing operations in the foreign markets (Dunning, 2002). The expansion to a foreign market needs a lot of resources and the larger the firm is the more resources can be put into the process (Javalgi et al., 2003). The firm should enter a country where the most benefits can be identified (Argawal & Ramaswami, 1992). Beside to this, Dunning (2002) stated that international firms consider the market potential and investment risks, which are attached to location of a given foreign market. Moreover the firm can also look at how to use both the ownership and location advantages together to make long-term profit (Dunning, 2002). Firms also try to use their own resources and advantages to maintain them within the company instead of letting other parties take over the foreign market activities.

### ***Ownership advantage***

The construction company

The company is one of the biggest construction companies in Nordic region. It has a goal to grow in profit and become a leader in construction industry. To fulfill this objective, the company is expanding into global markets with full commitment to foreign markets. When the company enters into foreign markets, it always tries to relate the market with the competitive advantage of the company. The company is big in size and has different business units in different countries. These different business units have the responsibility to grow in their respective geographic region. For instance, the business unit in USA is responsible for the growth of the company in USA. The company has capable and knowledgeable employees in its business units that can manage the growth of the organization in their respective geographic region. Since the company is big in size and has the necessary resources, it enters into foreign markets not only through organic growth but also acquire other companies. Here we see that its size helped the company to involve in foreign markets with high amount of resources. Thus the company has resource advantage to expand into foreign markets. This situation shows that the company is using its size and resources as an advantage to grow in global markets.

In addition, the construction company is a big international company and well known in the world. Because of this, the company is using its well-known global brand name to expand easily into foreign markets. The company developed its brand after a long time multinational experience in its field. the construction company is well known because of earlier projects it has been

working with its own professional clients. The potential customers in different foreign markets know about the construction company and what the company is capable of doing. This situation also shows that the company is using its multinational experience for further growth and entry into foreign markets.

Generally the company is using its size, resources, well-known brand name and multinational experience to enter into foreign markets to grow further. The size and resources of the company is making the company to enter foreign markets not only through organic growth but also acquire other companies. Moreover the company's many year multinational experience is helping it to enter foreign markets easily especially through organic growth. All this practice of the company in its entry into foreign markets shows that ownership advantages of the organization (i.e. size, resources, multinational experiences, etc.) are influencing its entry mode choice.

### ***Bank***

The bank is expanding into foreign market not because it is resourceful but to increase its service to the existing clients of the bank who are in foreign markets. Otherwise the bank can be bitten up by other Nordic competing banks that can serve the home market clients of the bank in foreign markets. This for the bank results in risk of losing its home market clients to the competitors. Thus going to foreign market is a means of getting competitive advantage for home market. "If there is risk in China and because of that do not do it for our clients, then we end up with losing our clients here in Sweden". In doing so the choice of entry mode of the bank is affected by the level of service, which is needed by the clients and their number. Furthermore since foreign clients of the bank are existing ones, the bank easily understand their need and by that it has competitive advantage over other competitors on how to satisfy them. "We are willing to take risk and we know well to act quickly". In addition, most of the clients of the bank are corporate clients that are working in different countries market. This gives a chance to the bank to serve them in these different foreign markets and accumulate multinational experience, which is a key to successfully enter into foreign markets.

The bank gives emphasis on having skillful employees to provide the right service to clients and by that to satisfy them. "A vital condition for successful customer meeting is never to lack any products or services that a customer needs".

Generally, the ownership advantage of the bank is derived from its ability to serve its existing clients in foreign market because of many years' experience with them at home market and global markets. This advantage is meant to keep the long-term relationship between the bank and the clients at home as well as global market. The entry mode to do this is influenced by the level of service required by the clients and assessments of different risks associated with foreign countries.

### **The hotel**

The company's size and reputation are very important for a hotel chain. The company is a big and well-known hotel chain in the Nordic region and Germany, which gives the company advantage to other firms. According to Javalgi et al. (2003) the bigger the company is the more resources can be used in the process of expanding and investing in other markets. The size of the company and the popularity that the hotel chain has makes it profitable and able to grow further in the existing markets. The ownership advantages and the reputation did also affect the

acquisition of the company Hilton made the hotel chain. The ownership advantage was so big that Hilton decided not to change the name of the hotels because of the reputation and good service the hotel chain had. The size of the company does also make it easier to acquire other hotels because the hotels know who is buying and what business model and quality the company is known for.

### ***Location Advantage***

#### **The construction company**

The construction company enters those foreign markets, which have further potential growth. This is because the company wants to penetrate the existing markets rather than searching for new ones. The company has strategy and focus on profitability rather than geographic coverage. The firm enters a country where the most benefits can be identified (Argawal & Ramaswami, 1992).

The company assesses different risks and barriers before it enters into foreign markets. The market potential of foreign markets is not enough for the company to enter into a given foreign market. The market has to be in line with the values of the company. For instance, the company did not enter into Saudi Arabia because of its human right record even if the market potential is attractive. Beside to this, the company carefully assesses the business environments of the targeted foreign markets to determine the investment risks and opportunities to decide on its entry mode. To determine its entry mode, the company looks at the financial risks like interest rate, exchange rate, credit exposure and so on of the foreign countries. This helps the company to decide whether to enter into the foreign market. In addition, the company looks at the financial position of the other involved parties such as in joint venture or subcontractors. Here we also see that the foreign market entry mode of the company is affected by the financial positions of the involved parties. But the company usually needs to expand into foreign markets by itself. The company's perspective for long-term profit made it to enter foreign markets by itself through organic growth or acquisition.

Generally the company has market penetration strategy. The company from the beginning enters into foreign markets, which have market potential to be expanded and provide long-term profits. Moreover the company enters into markets that have conducive environments. Once the company enters into foreign market, it don't have an intention to leave out that market. The company is also organized in the way each of its business units takes responsibility to further expand in their regions either through organic growth or acquisition. Each business units of the company have maximum amount of investment to expand. The maximum amount of the investment also influences the entry mode of the company into foreign markets.

#### ***Bank***

The market potential of the bank in foreign market is the number of existing clients of the bank in the foreign markets. Then the bank assesses its market potential in light of different risks to decide on how to enter the foreign market and serve them. Thus deciding on opening up its branch or rep office or working with partner banks depends on the demand levels of its clients and risks present in the market.

As it has been before, most of the time the risk assessments of the bank overlaps with its clients view toward the risks of doing business in a given foreign markets. This is well shown in the case of Russia. As political risk increases in Russia, the number of Nordic corporate clients of the bank in Russia decreased and this makes the bank to change its full-scale branches to rep office. The bank had actually similar feeling before change in its entry mode.

If the bank feels that full-scale branch office is needed in a given foreign market after assessment of market potential, it requires entering into that market with full-scale branch. This is related with giving full attention to its clients' tough call. For instance, a lot of Nordic companies entered into Indonesian market because of its stable growth and investment incentives. This forced the bank to change its entry mode from partner to opening up office in Indonesia.

Generally the market potential of the bank in foreign market determined directly or indirectly by the investment incentives given by different countries to corporate clients of the bank. This situation determines the entry mode forms of the bank and its level of market commencement to serve its clients.

### **The hotel**

The location of the company is favorable for the company expanding to the neighboring countries. Just a short time after the company was established, it already had hotels in the neighboring countries Norway and Denmark. A few decades after the start-up the hotels were expanded also to Finland and Germany. According to Argawal & Ramaswami (1992) the company should enter markets that are the most favorable and where benefits can be identified. By tracking the loyalty card customers the company know where the customers are demanding new hotels. The demand can also be identified by different market researches and by help from consultancies. In this way the hotel chain know what countries are beneficial and where it has its locational advantages.

### ***Internalization advantage***

The construction company

The construction company is one of the big global companies in its field of operation. The company has expanded into core potential markets in the world. These markets have good market potential for further expansion of the company. The company also has separate business units in each part of foreign markets in which it operates to facilitate its growth goal. This situation gave the company not only to get good return but also the capacity for the company to cope up with different risks. The company is always aware of different risks (i.e. strategic, financial, operational and regulatory risks) ahead of its entry into foreign markets. "Our industry is risky even if you know it". If the company assumes the market gives long-term return, it enters into that market by itself by assuming the existing risks. The management of the company is open to the risks if the markets are assumed to have good returns in future, because the company has set a goal of growth in long-term profit and industry leader. The company also sets plan for both short term and long term perspectives to deal with the risks. When the company decides to expand either through organic growth or acquisition, it looks at the long-term profitability of its investment.

Furthermore the company is big in size and it has resources to enter into foreign markets by itself. It is also well known global company and this paved an opportunity for the company to enter foreign markets easily based on its reputation. This situation strengthen the company`s capacity to assume risks for long-term profitability of the organization. The company considers its organic growth and acquisition as an investment for future long-term return.

Generally the company`s ability to cope up with the risks is derived from its international presence in well-known profitable markets and its own resources to expand into foreign markets by itself. Beside to this, the attitude of the management of the company is shaped by the goal of profitability and leader in its industry through global expansion into its existing markets. To do this, the entry mode choice of the company depends on the simplicity to move resources to the new market and the availability of the knowledge in the company. But it enters into foreign markets by itself through organic growth and acquisition by thinking of long term profitability of foreign markets. Here we see that the company`s international advantage is derived from its ownership advantages (like size, resources, etc) and location advantages (like market potential, the company`s careful assessments of the risks, etc).

### ***Bank***

The bank has the basic concept of building strong-term relationship with its clients. One way to apply this concept is to serve its clients wherever they are found in global markets. One of the advantages of the bank is its clients in foreign market are the existing corporate clients which are doing business in foreign markets. This situation provided the bank the chance to have multinational experience by serving its corporate clients in different countries. This experience made the bank to serve its clients in best way and have trust from them. “We provide better service to our clients because we know our clients better and serve them quickly”. This shows that the bank has competitive advantage in serving its existing clients by providing them the right services. The aim of the bank is not to attract but to maintain the existing corporate clients of the bank.

In addition, investment incentives and risks that are present in foreign markets determine the market potential of the bank directly or indirectly. Indirectly foreign countries investment incentives and risks determine the number of corporate clients of the bank who want to invest in that country. All these factors (like multinational experience, better position to know clients need, dealing with existing clients, etc) together gave an international advantage to the bank. Furthermore the entry mode choice of the bank and its market commitment depends on the resulting opportunities and problems, which are associated with each foreign market.

Generally, working with customers based on the trust and helping them through local presence is the key for the bank to build long-term relationship with its customers. But the way through which the bank enters into foreign banks to serve its clients depends on the different factors (i.e. risks, market potential, etc).

### **The hotel**

The hotel chain is a leader among the other chains in the Nordic region. Because of this the hotels are well known for a lot of people and potential customers. The customers know that the company is a good operator and this makes it easier for the company to expand in the neighboring countries. This is an advantage the company has to other hotel chains that are not as

big and well known. The company thinks that it is one of the best in operating a hotel and this is also a reason why it chooses not to franchise as much and less than the other hotels. This is in line with Dunnings (2002) theories, which say that firms try to maintain the resources inside the company.

## 4.2. How and why unique features of service play their role in entry mode choice

### 4.2.1 Intangibility

Intangibility feature of service is related with existence of difficulty in patenting service products, promoting and setting price for it (Dahringer, 1991). These difficulties because of intangibility are in return influence the decision of the service firm to look for either low or high control market entry mode. The intangibility nature of the service pushes international service firms to produce their service by being close to their customer to control the quality of their service (Arvidsson, 1997).

#### **The construction company**

As Service Company, the construction company faces difficulty to promote its exact service. This is due to the fact that service by its nature is intangible and this creates difficulty to promote service (Dahringer, 1991). But the company uses its history to promote the company's service. The company shows its earlier projects that the company has executed. In addition, the company also shows its earlier customers as promotion with whom the construction company has been working with. "We show that working with us has been a good process". This situation shows that the intangibility nature of the company's service forced the construction company to promote its service by using other means (like people, history, physical evidence, etc.).

To promote its service by using tangibility evidences (like people, history, its well-known brand name, etc), the company needs to keep the quality of its service provision. This situation forced the company to enter foreign markets by itself to ensure its service quality. Here we can see that the company's service intangibility influences the company's entry mode choice into foreign markets. Intangibility nature of services pushes international service firms to produce their service by being close to their customers to control the quality of their service (Arvidsson, 1997).

#### ***Bank***

The bank strives to serve its clients wherever they are to provide quality services to them. As long as the bank is aimed at serving its existing corporate clients in foreign markets, the promotion issue is not difficult activity unlike attracting new clients. In addition, the patenting problem, which we usually see in service sector, does not influence the entry mode choice of the bank, because the bank enters into foreign markets only in three ways (i.e. full-scale branch, rep office and working with partner banks). In case of working with partner banks, the partner bank serves the clients of the bank in the way it does its own normal business. Here the bank does not lose its special know-how to the partner banks, as the partner banks do not receive any special help from the bank. But there is simple guidance from the bank to its partner banks to ensure the quality of the service to its clients. This does not make the bank to lose its patents if it does not enter foreign market by itself.

In general the influence of intangibility on entry mode choice of the bank in terms of its implication on difficulty to patent and promote is not that much unlike other service firms. Rather the number of its clients in foreign markets influences the entry mode choice of the bank and their level of service needs, the quality of service provided and other environmental factors (like rule and regulations, political situation of the country, etc.).

### **The hotel**

Intangibility feature of service is related with existence of difficulty in patenting service products, promoting and setting price for it (Dahringer, 1991). These difficulties because of intangibility are in return influence the decision of the service firm to look for either low or high control market entry mode. The intangibility nature of the service pushes international service firms to produce their service by being close to their customer to control the quality of their service (Arvidsson, 1997). This calls for international service firms to engage on high control entry mode.

It is impossible for a hotel chain to separate the service and the customer from company's operations. Because the same people cannot produce the service at all places the customers cannot be served exactly in the same way. The hotel uses survey checks in order to ensure that the quality provided is good and is a way of controlling the quality even if the company itself does not establish the hotel.

The service provided in different hotels can be different and does sometimes also need to be different in different market, and this is the nature of service industry. The hotel cannot have exactly identical hotels and they also have to be adapted in different ways. At some hotels the restaurants are bigger or more and also the menus have to adapt. Depending on if the hotel is newer or older, the standard can also vary and this is something that is hard to make the same for all hotels. The way of setting up standards for franchise hotels and doing the survey checks is a sign of high control modes used by the company, which is in line with Arvidssons (1997) theory assuming that service firms are using high control modes.

The hotel chain believes that they are good and efficient operators and among the best in operating hotels. When providing similar service in a good way across different markets the company has got this position. In this way, even if it is hard to keep the service similar and at the same quality (Dahringer, 1991; Arvidsson, 1997), the company can handle this in a good way.

### **4.2.2 Inseparability**

The inseparability between production and consumption requires close relationship and interaction between the firm and its customers (Erramilli and Rao, 1993; Bowen and Jones, 1986). This nature of service usually forces the firm to be more close to its customers through high control entry mode. This is due to the fact that centralized mass production of service is difficult because of inseparability nature of service (Dahringer, 1991). In addition, some services even require customers' participation in production process of service (Dahringer, 1991; Williams & Buswell, 2003) and this might force the firm to look for high control entry mode. All this shows that the influence of inseparability feature of service in making entry mode choice.

### **The construction company**

The construction company produce and provide its service to foreign markets by itself. It enters into foreign market through organic growth and acquisition. By its nature, the service of construction industry does not use indirect operations like agents to provide their service. This nature of the service forced the company to enter foreign markets by itself. In addition, the company considers its customers as an important part of the service production process. When the customers' involve in the service production process of the company, it is easy for the company to meet its customer's expectation. Thus it is must for the company to interact personally with its customers to provide the right level of the service.

Furthermore there are some cases when the company works with subcontractors to produce and provide its service to customers. Subcontractors do not produce full service rather work as parts of company's project. Even in this case, the company and its customers closely involve in and monitor the service production of subcontracts. Customers also consider the work done by subcontractors as done by the construction company.

Generally the company's service nature of inseparability has influence on the company's entry mode into foreign markets. Because of the need for the close interaction between the company and its customers in the production and provision of the service, the company enters into foreign markets by itself. Even the involvement of subcontractors in the production of the service is in joint with the company in its small parts of the project. Because of this the customers still have close interaction with the company in the production process and see the work done by the subcontractors as work done by the company.

### ***Bank***

After going to foreign markets, the corporate clients of the bank need the service of the bank in those foreign markets. They need the service of the bank, which is compatible with the conditions of the local markets. This forces the bank to give its services to clients by being local in the foreign markets. "If the clients need that country, we also go there to serve them". From here we see that even the home market clients do not need centralized service from Sweden when they are in foreign markets rather local service, which is customized according to the circumstances. This shows that the service of the bank cannot be exported rather produced and consumed in each foreign market. Even when the bank serves its clients in foreign markets through partner banks, there is still someone on behalf of the bank who can serve the clients of the bank in foreign markets.

In addition, the bank entered foreign markets because of its clients. The presence of its clients in foreign markets is the main reason for the bank to follow them and provide its banking services (like local cash management, payments of their invoice and salaries to their employees according to the rules and regulations, etc.) by being in foreign markets. To do this, the entry mode form depends on the numbers of clients and their level of service demand. If it is tough call from the clients in a given foreign markets, the bank may open up full-scale branches by assessing the circumstances. Otherwise the bank serves its clients by opening rep office or working with partner banks depending on the situations.

Furthermore the bank has an objective of building long-term relationship with its existing clients by locally present and serve them in any foreign markets. The bank considers working closest to its clients as an important step to make the most sensible decisions. Doing this in service sector

especially in banking industry requires the organization to be closely available to its clients as their service is produced and consumed in the place where the customer needs the service. This is because serving the clients in right way requires the bank to adapt to the local circumstances in order to produce the right service to its clients.

Generally the nature of the banking service forced the bank to enter into foreign markets to serve its clients by being closest and local, because the right level of banking service, which the clients need, requires the bank to be there to provide its service. The entry mode is here also a choice of the bank and influenced by the number of clients, the clients' level of service demand and local circumstances. Overall the inseparability nature of the bank service forced the bank to follow its existing corporate clients and serve them locally when they go to foreign markets. But there is no specific influence of inseparability nature of the bank service on its entry mode.

### **The hotel**

The inseparability between production and consumption requires close relationship and interaction between the firm and its customers (Erramilli and Rao, 1993; Bowen and Jones, 1986). This nature of service usually forces the firm to be more close to its customers through high control entry mode. This is due to the fact that centralized mass production of service is difficult because of inseparability nature of service (Dahringer, 1991). In addition, some services even require customers' participation in production process of service (Dahringer, 1991; Williams & Buswell, 2003) and this might force the firm to look for high control entry mode. All this shows that the influence of inseparability feature of service in making entry mode choice.

It is impossible for a hotel chain to separate the service and the customer from company's operations and the company cannot mass-produce the service at the same place as Dahringer (1991) also explains. It company needs to be present at the place where the customer is served. The company can expand to foreign markets without doing it on their own by franchise agreements with other hotels abroad or by buying another hotel. When the hotel chain does either of this it has the full responsibility for the hotel and it then counts as the chains own operation.

### **4.2.3 Heterogeneity**

Service is heterogeneous by its nature because of the need for the service to be customized to customers and their performances are unique (Zeithaml et al., 1985). In relation to heterogeneity nature of the service, quality control is big issue to be considered by international service firms in their entry mode choice (Campbell & Verbeke, 1994). The international service firm may enter foreign market by itself to maintain the service quality (Enderwick, 1989). Standardization of service through technology even cannot solve heterogeneity element of the service (Grönroos, 1990). Thus service firms' entry mode choice is influenced by their concern for service quality because of heterogeneity nature of service (Agarwal & Ramaswamy, 1992).

### **The construction company**

The construction company tries to in-depth understand the various needs of its customers to provide the service that meets its customers' needs. It is important for the company to know what its different customers need in order to make the solution possible. In doing this, the company closely work with its customers and view them as partners who can share the risks and opportunities. Individual based treatments of the company to consider variety of customers'

needs indicate the existence of levels of service quality difference based on the context of interaction between the company and its customers to create the service. The variety of company's service quality to across customers is the typical features of service in general, because services are customized to each customer and their performances are unique (Zeithaml et al., 1985).

Moreover the construction company give high credit to its service quality. Quality is a very big factor that the company tries to serve as good as possible. The company's customers expect the company to deliver high service and this is something that the company has a big focus on. "It is important to from day one deliver a quality that clients expect us to give". Even when the company sometimes works with subcontractors, it takes the full responsibility for the subcontractors service quality to protect the company's good brand name. But most of the time the company provides its service by itself which gives the company full control over the service provided to customers. Here we see that the company's need for service quality control is influencing the company's foreign market entry mode choice. In addition, the company views that decrease in service quality leads the company into failure and thus want to provide the service by itself to minimize this risk. International service firms enter foreign markets by themselves to maintain the service quality (Enderwick, 1989).

Generally the company's service heterogeneity features influenced its entry mode choice into foreign markets. The company enters into foreign markets by itself to control the quality of its service as well. The company always tries to understand the variety nature of its customers' needs to provide the service accordingly. To appeal more to its customers various need, the company even work with customers as partners in the production process of the service. This in other hand helps the company to share the opportunities and risks in its operation with its customers.

### ***Bank***

The bank serves its clients based on individual clients' requirements. It do not segment the clients based on the bank's service. This is because of the simple reason that each and every clients of the bank have unique needs and requirements. To satisfy its clients, the bank believes in approaching its clients in an individual basis in foreign markets to fulfil their unique needs satisfy them. "It is more about knowing your clients and providing your service accordingly". This is related with heterogeneity service as they are unique and need to be customized to each customer requirements (Zeithaml et al., 1985).

In addition, the bank always values the quality of its service to the clients to the clients to keep them satisfied and happy. Because the bank always works for long term relationship with its existing clients. Based on this normal practice of the bank, the bank puts service quality at central point when it decides its entry mode into foreign markets. At the time when the bank makes an agreement with other partner banks, it is important for the bank to check whether partner banks are good serving banks. The bank constantly checks the service quality given by partner banks to its clients. The bank closes down its agreement with partner banks if it finds some problems with the quality of their services and looks for other option. The bank believes that each client should be happy about the service. The bank is also aware of that control of service quality difficult when it works with partner banks. In this case, the bank look for other entry mode options to keep the quality of the service and by that ensures the satisfaction of its clients. "When we work with

other banks, we cannot control the level of service. This can be a factor for us to have our own personnel to serve our clients”. Even if the bank knows that it is more expensive to serve its clients by itself than through partner banks, the bank really need to guarantee its clients to provide the right services. This situation shows that service quality matters in deciding an entry mode of the bank. This is prove for what Agarwal & Ramaswamy (1992) claimed by saying service firm`s entry mode choice is influenced by their concern for service quality because of heterogeneity nature of service.

Generally the bank treats its clients in an individual basis to provide them the right service. This is because of heterogeneity nature of the bank service that requires customization to meet each and every need of the bank clients and by that satisfies them for long-term relationship. To keep the satisfaction levels of the clients, the bank takes service quality issue as the key factor in deciding its entry mode into foreign market.

### **The hotel**

Service is heterogeneous by its nature because of the need for the service to be customized to each customer and his or her performances are unique (Zeithaml et al., 1985). In relation to heterogeneity nature of the service, quality control is big issue to be considered by international service firms in their entry mode choice (Campbell & Verbeke, 1994). The international service firm may enter foreign market by itself to maintain the service quality (Enderwick, 1989). Standardization of service through technology even cannot solve heterogeneity element of the service (Grönroos, 1990). Thus service firms` entry mode choice is influenced by their concern for service quality because of heterogeneity nature of service (Agarwal & Ramaswamy, 1992).

The service provided in different hotels can be different and does sometimes also need to be different in different market, and this is the nature of service industry. The hotel cannot have exactly identical hotels and they also have to be adapted in different ways.

*“There are still standards but of course you should also adapt locally.”*

At some hotels the restaurants are bigger or more and also the menus have to adapt. Depending on if the hotel is newer or older the standard can also vary and this is something that is hard make the same for all hotels. The way of setting up standards for franchise hotels and doing the survey checks is a sign of high control modes used by the company, which is in line with Arvidssons (1997) theory assuming that service firms are using high control modes.

Since the company is operating in different countries the provider of the service needs to be local in order to communicate to the customers in an easy way. The company solves this in an easy way by having local management in each market. This is done in all entry modes of the company, even when establishing its own hotel, the company finds local people who are employed for the different markets. The difference in understanding different customers in different markets has therefore not been a problem for the hotel chain.

### **4.2.4 Perishability**

Perishability nature of service calls for service firms to go for international markets to utilize their idle resources (Arvidsson, 1997). To do so, market entry mode of service firms takes into account

the influence by difficulty to store and transport service (Dahringer, 1991; Erramilli and Rao, 1993), difficulty to separate production and consumption (Erramilli and Rao, 1993) and lack of ownership in service (Gronroos, 1988). For instance, the inability of transporting service requires close contact between the service provider and the user. This situation enforces the bank to consider entry mode that can enable it to interact with its overseas customers.

#### The construction company

The company's service production and provision needs the close interaction between the company and its customers. The company considers the involvement of its customers in the production process of the service as important and necessary to provide the right level of service to customers. In addition, the service of the company cannot be produced in Sweden and distributed to different foreign markets because service is difficult to store and transport (Dahringer, 1991; Erramilli and Rao, 1993). Due to perishability characteristics of the company's service, the company enters into foreign markets through organic growth and acquisition which enables the company to interact with its foreign customers in the production and provision of the service with full market commitment.

#### **Bank**

The main reason for the bank to enter into foreign markets is because of the existence of its existing clients in foreign markets. The bank always follows its existing clients wherever they are found in foreign markets. This is because the bank needs to provide the needed service to its clients. The clients of the bank need locally produced convenient service that matches with the environments of foreign markets. Due to this reason, the bank cannot produce and provide such service from one central point, because service cannot be stored and transported from one place to another (Dahringer, 1991; Erramilli and Rao, 1993).

Furthermore the bank always aimed at serving its clients by being local to create long-term relationship with them. Moreover any form of entry mode, there is always interaction between the bank (partner banks on behalf of the bank) and the clients in the production and consumption process of the service. Here we see it is must for an interaction between the service provider (i.e. the bank and its partners) and clients to produce and provide the desired service to clients. But decision on whether the bank (through full-scale or rep office) or its partners interacts with the clients depends on the factors mentioned above.

Generally the perishability nature of the bank service is the main reason for the bank to provide its service by making close contact with clients in foreign markets either through by itself or partner banks.

#### The hotel

The reason for the company to go to specific markets and cities is because of the demand from their customers and especially from the loyal customers who only live in at the chains hotels as long as it is possible. By tracking the loyal customers using the loyalty cards the company sees and knows where they need to expand and where the customers are. Because of this there is always a close contact between the customer and provider as mentioned by Grönroos (1988). The entry mode may still vary but the company knows where they need or can expand their operations.

### **4.3 Cross Case Analysis**

*In this section, factors that influence internationalization processes of the firm and the role of unique features of service on entry mode choice of service firms is compared among the case organizations and the pattern is shown as follow.*

#### **4.3.1 Market Knowledge and Experience**

All three companies used both own establishment and acquisitions to expand into foreign markets. Joint venture was also used by the hotel chain and the construction company to expand their operations into new markets. This shows that different entry modes can be used but they do not follow Johanssons and Vahlnes (1977) theory that assumes that companies should expand by cumulative decisions as in Uppsala model.

All three companies have a great focus on searching for information and collecting knowledge about the foreign markets. They do all collect information from different sources and also by themselves to evaluate the decision and make the right choice for the way of entering a foreign market. Andersen, Ahman and Chan (2014) tells that companies should explore the market and obtain knowledge in order to avoid uncertainty and this is exactly what the companies are doing and is connected to the part of Uppsala model where companies should gain knowledge about foreign markets.

Psychic distance includes factors such as difference in culture, language and industry structure (Andersen, Ahmad & Chan, 2014). These factors should be taken into account when deciding an entry into foreign markets. When looking at all companies, the countries that were entered first were the Nordic countries. The hotel chain explains that these countries have the same culture and the same business models, which makes it easier to operate.

#### **4.3.2 Transaction Cost Analysis to Enter Foreign Market**

All three companies are doing different cost assessments and cost analyses to decide in what way they should expand their foreign operations. This is also what Erramilli and Rao (1993) assumes, they do also say that depending on the cost, a low- or high-control mode is chosen. The hotel chain makes the option of either establishing an own hotel, acquiring another one or by franchising another hotel by different cost calculations. The construction company has the options of buying another company, growing organically or joint venture, which is also seen as growing organically. The bank on the other hand has all the options of establishing on their own but has do calculations in order to decide whether it is going to be full scale office, a representative office or if it should cooperate with other banks. The transaction cost theory assumes that the firm should calculate whether the firm should enter a market on its own or by letting other firms take part of the operation (Erramilli & Rao, 1993). The bank is the only company that has the option of letting other parts take over their foreign activities.

#### **4.3.3 Ownership, Location and Internationalization Advantages**

All three companies are among the biggest in the Nordic region in their respective field and have an advantage among other firms going into neighboring and foreign markets. The size of the company has according to Javalgi et al. (2003) an affect on the firms international operations. If the company is big it is easier to acquire other companies because of the resources available. All the companies have good reputations and a lot of customer that let the companies move to other

markets. Because of this demand and company size that the companies have, it is easier to establish new hotels and acquire new ones.

All three companies are following the demands of their services. Since their customers act on neighboring markets it is very easy for them to enter these new markets. The big exception is the construction company that has operations in other parts of the world and is not really following the customers, but rather finding new ones. According to Argawal and Ramaswami (1992) companies should enter markets where the most benefits can be identified and this is exactly what these companies follow.

The internalization advantages that are all similar within these companies are their reputation of a good service. According to Ekeldo and Sivakumar (1998), the resources should be maintained within the company and that the managers play an important role in this part. All the companies try to maintain their services within the company and prefer to enter markets with own operations in order to control the quality of the service. The firms are also very cautious when choosing what entry mode they should choose and how to expand the business to minimize the risk of failure.

**Table 3: Cross-Case analysis summary on the expansion process of international service firms**

Factors that influence service firms' entry mode		Construction	Bank	Hotel
<b>Uppsala Model</b>				
	Knowledge & Experience	High	High	High
	Psychic distance	Medium	Medium	High
	Market Commitment	High	Medium	Medium
<b>Transaction Cost Analysis</b>				
	Internal cost consideration	High	High	High
	External cost consideration	High	High	High
<b>Eclectic theory</b>				
	Ownership advantages	High	Medium	Medium
	Location advantages	Medium	Medium	High
	Internalization advantages	Medium	Medium	Medium

N.B: The Low, Medium and High scale are subjective judgments made by the authors based on analysis.

#### 4.3.4 Unique service features

##### *Intangibility*

The implications of intangibility features of service on entry mode choice of the case organizations shows that all the three international service organizations need to control the quality of their service by being close to their customers (Arvidsson, 1997). However, the way to close to their customers is different from organization to organization.

In case of the the construction company, the company wants to produce and provide its service by itself to ensure its service quality. The company enters into foreign markets either through organic growth or acquisition, which are both, considered as high control entry mode. In addition

to this, the intangibility nature of the company's service forced the company to promote its service by using tangible evidences (like people, history, its well-known brand name, etc.).

In case of the bank, the influence of intangibility on its entry mode is not that much like in the construction company. This is because the bank enters into foreign markets in three ways (i.e. full-scale branch, rep office and work with partner banks) and none of these entry modes affects the patenting situation of the bank. The bank also not finds difficulty to promote its service as it is working with its existing corporate clients. But the only problem for the bank is quality of service given by the partner banks to its clients sometimes may not be good and at this time other entry mode options are considered based on the circumstances.

In case of the hotel chain, the implication of service intangibility is shown on its service quality element. The hotel most of the time operates by itself to control the quality of its service. This entry mode helped the hotel to keep their service quality the same all over the world. However, the hotel chain also enters into foreign markets through franchising. In case of franchising agreement, still the hotel strictly control the quality of the service given by franchisee through strict specification of standard to protect the good will of the hotel chain. But the hotel still prefers to enter foreign markets by itself to take full advantages of the opportunities. Since the hotel usually focuses on loyal customers, the difficulty of promotion is not that much apparent.

In general the implication of intangibility of service feature on the entry mode of case international service firms shows that service organizations need to control the quality of their service by engaging in high control entry mode, which is in line with the theory of Arvidsson (1997). However, the implication of intangibility on entry mode because of patenting and promotion difficulty is not the same for different international service organizations. This is because of the nature of targeted customers. For instance, promotion is not difficult issue for the bank unlike for the construction company because the bank follows its existing home market corporate clients all over the world.

### ***Inseparability***

The implication of inseparability natures of service on the entry mode of the case organizations shows that service organization must be at the place where the customers are located to produce and let their customers to consume their service. This is in line with the theory of (Erramilli and Rao, 1993) and (Bowen and Jones, 1986) who stated that inseparability between production and consumption requires close relationship and interaction between the firm and its customers. This nature of service in most of the cases forces service firms to consider high market involvement entry mode that enable the firms to directly interact with their customers to produce and provide the right level of the service.

In case of the construction company, the company enters into foreign markets through organic growth and acquisition to produce and provide the service. Even the company needs the participation of customers in its service production. The nature of company's service need the physical presence of the company in foreign markets to produce and provide the desired service in collaboration with its customers.

The bank also enters into foreign markets through full-scale branch, rep office and work with partner banks to produce and provide the service to customers. Even if the bank sometimes uses

partner banks, the production and consumption takes place at foreign markets (i.e. customer location) with close interaction between the partner banks and the customers.

In case of the hotel chain, the production and consumption of its service takes place in foreign markets with close interaction with its customers. This situation forced the hotel to enter into foreign markets usually through by itself (i.e. establishment and acquisition) and sometimes franchising.

From the three case international service organizations, we see that the inseparability nature of the service forces most of them to enter into foreign markets usually by themselves through high control entry mode. This is because of the reason that high control entry mode enables the service firms to directly interact with their customers to produce and provide their service (Erramilli and Rao, 1993).

### ***Heterogeneity***

The implication of heterogeneity nature of service on the entry mode of international service organization is linked with need for the control of service quality (Campbell & Verbeke, 1994).

When we look at the construction company, the company wants to protect its good will by providing quality service. To do this, the company enters foreign markets by itself to fully control over the service quality, which is produced and provided to customers. Even when it sometimes works with subcontractors, the company takes full responsibility for what is done by subcontractors to protect the good brand name of the company. The company always tries to understand the various natures of its customers' need to provide its service accordingly. This is due to the fact that service provision requires customization to each customer and the performances are unique (Zeithaml et al., 1985). The company believes that each customer has different set of service requirements and thus it works with them. The company views its customers as partners who can also share the risks and opportunities.

In case of the bank, the implication of the heterogeneity nature of the service on its entry mode is related with the quality of the service. At the time when the bank feels that the partner banks are not providing quality service to its clients, the bank close down the agreement and look for other options (like providing the service itself). Usually the bank approaches its clients by itself in an individual basis in foreign markets to fulfill their unique needs.

The hotel chain also gives big emphasis to its service quality to maintain the good will of the hotel brand. This influenced the hotel to consider entry modes that guarantees its service quality to clients. When the hotel enters foreign market through franchising, it sets up strict standards of the service provision and checks the franchisees regularly according to the standard. But most of the time, the hotel enters into foreign markets by itself (i.e. establishment and acquisition). However, the level of the service all over the world is not fully the same due to differences in local cultures from place to place. The hotel tries to customize some parts of its service (like menu) according to the tests of its customers, because the service by its nature has to be customized (Zeithaml et al., 1985).

In all the three case organizations, we see that international service organizations customize their service to customers. In doing that, they focus on the quality of the service. To control over the quality issues, the service firms usually prefer to enter into foreign markets through high control

entry mode (Campbell & Verbeke, 1994). Thus the entry mode of international service organizations is influenced by the heterogeneity nature of the service (Agarwal & Ramaswamy, 1992).

### ***Perishability***

Most of services cannot be stored and transported (Dahringer, 1991; Erramilli and Rao, 1993) because it is inseparable (Erramilli and Rao, 1993). This nature of service has its own implication on the entry mode of international service firms.

When we look at the construction company, the company's service cannot be produced in Sweden and transported to foreign markets. The company produces its service by being in the customers place through organic growth and acquisition. The company also participates the customers in its service production to provide the right level of the service.

The bank also follows its corporate clients wherever they go to provide the desired service. The bank cannot produce the desired service in Sweden and let its clients go with it to foreign countries, because the bank service cannot be owned (Gronroos, 1988) and it cannot be transported to foreign countries (Dahringer, 1991; Erramilli and Rao, 1993). This made the bank to enter foreign markets by itself and use partners banks (who can do on behalf of the bank). Thus the perishability nature of the bank service influenced the entry mode choice of the bank.

The hotel chain enters into foreign markets through by itself and franchising. This is because of the fact that the hotel service has to be produced and provided at the place where the customers are located. This is in other hand because of the inseparability nature of the hotel service (Erramilli and Rao, 1993). The hotel service cannot be produced in particular place and transported to foreign markets. At least the service has to be produced at customers' location and the hotel service production usually cannot be separated from the consumption process. Thus the perishability nature of the hotel service forced the hotel chain to enter foreign markets either by itself or franchising.

In general we see that perishability nature of the service of the three international service organizations forced them to enter foreign markets in the way that they can produce and provide their service in the given foreign markets where customers are located. This is because of inability to store and transport service (Dahringer, 1991; Erramilli and Rao, 1993) and inseparability between the production and consumption. Most of the time, these three international service organizations involved in high market involvement entry modes to better satisfy their customers.

**Table 4: Cross-Case analysis summary on the role of unique features of service on entry mode**

<b>Unique Features of service influence on service firms' entry mode</b>		<b>Construction</b>	<b>Bank</b>	<b>Hotel</b>
<b>Intangibility</b>				
	Difficulty to patent influence on entry mode	Low	Low	Medium
	Difficulty to promote influence on entry mode	High	Low	Low
	Need to provide desired level of service influence on entry mode	High	High	High
<b>Inseparability</b>				
	Simultaneous production and consumption influence on entry mode	Medium	High	High
	Need for customers participation in service production influence on entry mode	Medium	High	High
<b>Heterogeneity</b>				
	Need for control of service quality influence on entry mode	High	High	High
	Variety of customers need influence on entry mode	High	High	Medium
<b>Perishability</b>				
	Difficulty to store and transport the service influence on entry mode	High	High	High
	Lack of ownership in service influence on entry mode	Medium	High	High
	Difficulty to separate production and consumption influence on entry mode	Medium	High	High

N.B: The Low, Medium and High scale are subjective judgments made by the authors based analysis.

## 6. Conclusion

*The main aim of the study is to deeper understand how international service firms make entry mode choice and how unique features of service play role in their entry mode choice. In order to achieve this objective, two basic research questions were formulated. The first question is related with how service firms go to international markets: "How do international service firms choose entry mode?". The second basic research question is about the role of unique features of service on entry mode choice of international service firms: "How and why unique features of the service play their role in entry mode choice of international service firms?". The answers to these two basic research questions are discussed here under.*

### ***How do international service firms choose entry mode?***

The first question can be answered with help from the three theoretical models and factors included in each model (Uppsala mode, TCA model and Eclectic theory).

When the firm has found a foreign market with the right amount of customers and demand, many factors have to be considered before deciding if the market should be entered at all and in that case also the right way of entry mode. We found that our case firms do not follow a specific theoretical model but do rather use several factors from different models to decide how to enter a foreign market.

The main findings of this study were that the service firms choose to enter a foreign market mainly by acquisitions and own establishments. This is because of the inability to let other parts provide the service for them. The exception is the bank that can use partner banks to serve their customers. When establishing on their own, only the bank have the option to decide to what grade they want to be involved in the foreign market.

We wound that service firms chose the entry mode into a foreign market with help from a few different factors. The conclusion is that service firms chose entry mode by considering these four different aspects:

- *Market knowledge and experience:* This is very decisive when the firm plans of entering a foreign market. Knowledge and experience will give the company information about the market, which is the foundation for planning the process of expanding into foreign markets.
- *Psychic distance (culture, language & industry structure):* This is a very important aspect for the service firms that want to enter foreign markets. Because service is strongly connected to the customer and does for the most time involve the customer, similarities between markets make it easier for service firms to operate.
- *Internal- and external costs:* The costs of expanding and operating in foreign market are also decisive for what entry mode the firm chose.
- *Ownership advantages:* The firm size and the resources the firm posses are also important in the decision of entry mode. The amount of resources that can be put

into the internationalization process can decide what options the firm has in entering a foreign market.

We also found that the Uppsala model is hard to apply on the service sector since it is hard for service companies to let other parties provide their service. The TCA-model is also hard to use for service firms because it is focused on comparing the costs of letting other parties operate parts of the company and doing it by itself. Since service firms do not always have the option of letting other parties operate their business, the TCA-model is hard to use by service firms. The eclectic theory on the other hand has factors that can all be used by service firms in their process of planning and expanding the business.

### ***How and why unique features of the service play their role in entry mode choice of international service firms?***

Some studies (like Erramilli, 1990) indicated that unique features of service differentiated the market entry mode behaviour of international service firms. Based on such theoretical foundations, our study considered three international service firms as a case study and found how and why unique features of service affects entry mode choice of international firms. The main conclusion based on the case study is explained as follow.

The implication of intangibility of service feature on the entry mode of case international service firms shows that service organizations need to control the quality of their service by engaging in high control entry mode, which is in line with the theory of Arvidsson (1997). However, the implication of intangibility on entry mode because of patenting and promotion difficulty is not the same for different international service organizations. This is because of the nature of targeted customers. For instance, promotion is not difficult issue for the bank unlike for the construction company because the bank follows its existing home market corporate clients all over the world.

From the three case international service organizations, it is shown that the inseparability nature of the service forces most of them to enter into foreign markets usually by themselves through high control entry mode. This is because of the reason that high control entry mode enables the service firms to directly interact with their customers to produce and provide their service (Erramilli and Rao, 1993).

In all the three case organizations, it is shown that international service organizations customize their service to customers. In doing that, they focus on the quality of their service. To control over the quality issues, the service firms usually prefer to enter into foreign markets through high control entry mode (Campbell & Verbeke, 1994). Thus the entry mode of international service organizations is influenced by the heterogeneity nature of the service (Agarwal & Ramaswamy, 1992).

It has also been shown that perishability nature of the service of the three international service organizations forced them to enter foreign markets in the way that they can produce and provide their service in the given foreign markets where customers are located. This is because of inability to store and transport service (Dahringer, 1991; Erramilli and Rao, 1993) and inseparability between the production and consumption (Erramilli and Rao, 1993). Most of the

time, these three international service organizations involved in high market involvement entry modes to better satisfy their customers.

Generally the finding of the study showed that all the unique features of service played their role in forcing the three international service firms to choose high control entry modes into foreign markets. This situation can be related with the types of service as hard vs soft services case (Erramilli, 1990). Erramilli (1990) has indicated that soft service cannot be exported and this situation limits international service firms to contractual, franchising and foreign direct investment entry modes. In addition, soft services are usually characterized by the four unique features of service (Erramilli, 1990) and the existence of these features has played their role in determining the entry mode choice of international service firms.

### **6.1 Implications of the study**

The finding of the study showed market knowledge and experiences, psychic distance, cost and the firm size and resources influences the process of international service firms' global expansion. In addition, the study also showed that all the four unique features of the service play great role in entry mode choice of international firms of soft service. Based on this finding, the study theoretically contributed by confirming the influence of market knowledge (Erramilli & Rao, 1990), experience (Erramilli, 1990), inseparability, psychic distance, firm size and resources (Erramilli & Rao, 1993) on entry mode choice. In addition to these existing theories, the study showed the influence of cost and other unique features of service on in entry mode choice of international firms of soft service.

The study also can contribute to practitioners of international service firms by showing them how Uppsala, TCA and Eclectic theory influence their expansion process. In addition, the study also showed the practitioners how the four unique features of soft service influences their entry mode to foreign markets. All this will increase the effectiveness of international firms in their effort to reach global market by saving them from potential mistakes that might arise because of application of the existing theories, which are built on manufacturing sector.

Finally the study can help policy makers by indicating them what kind of things international service firms consider to enter a given country. This can be great input for policy makers to create conducive environment to attract foreign direct investment in service sector.

### **6.2 Limitations**

The number of companies used in this research is limited and makes it hard to generalize the findings across all service companies. The findings of in these case companies may be unique for these companies and does not show that other companies are using the same strategies. More firms would have resulted in more reliable findings but there is still chance for unique firms doing things differently.

The size of the companies does also make it hard to generalize the finding on other service companies different in size. The case companies used in this study are similar in size are all among of the biggest in Sweden. Using smaller firms in this study may have given different results.

All the companies used in this study are based in Sweden and are originally founded in this country. This makes the findings more similar, which cannot be applied on companies operating in other parts of the world. Cultural, language and industrial differences are different depending on where in the world the company is operating.

### **6.3 Future research**

To take this study further, the authors suggest making this study in other parts of the world to see if the findings may be different. The regional characteristics of the Nordic countries are favorable for companies based in that region and this might not be the same in other parts of the world.

Future research can also focus on smaller companies to see if the strategies used are similar with bigger companies. Smaller companies may not have the same experience and resources to make the options found in this study. Born international companies may have other ways to expand that can be compared to this study.

Studies can also be done with focusing only at one service feature to get a deeper understanding of how this feature affects the entry mode choice. There are a lot of factors affecting a service company's entry mode and each feature can be deeply studied to get a better understanding.

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## Appendix

### Interview Questions

#### I. General Questions:

- When entering the X market, how did you decide on entry mode?
- What alternatives did you consider? Why?
- In retrospect, would you have done differently?

#### II. Uppsala model (market knowledge, market commitment, psychic distance)

- How do you gain market knowledge from your foreign markets?
  - How do you use this knowledge for your entry mode choice?
- How much market commitment do you put when you enter a foreign market?
  - How do you consider your resource investments when entering a foreign market?
- Do you choose a foreign market regarding the psychic distance?
  - How do you consider language difference in choosing a market?
  - How do you consider culture when choosing a market?
  - How do you consider industrial characteristics when choosing a market?
  - Which factor do you think is the most important when choosing a market?

#### III. TCA model (internal and external cost aspects)

- How do you consider cost aspects in your entry mode decision?
- Do you value your (internal costs) of establishing your own operations abroad?
  - How do you consider these costs in your entry mode decision?
- Do you value your (external costs) when choosing a market?
  - How do you consider these costs in your entry mode decision?
  - Do the costs differ between markets or are they pretty much the same between the markets? Why?

#### IV. The Influence of Service Characteristics in Entry Mode Choice

##### 1. Intangibility:

- How do you consider service nature of difficulty to patent in your entry mode choice? Why?
- How do you consider difficulty to promote service in your entry mode choice? Why?
- How do you consider difficulty to price service nature in your entry mode choice? Why?
- How do you consider service nature of inability to sense by our sense organs in your entry mode choice? Why?

##### 2. Inseparability:

- How and why simultaneous production and consumption nature of your service plays its role in entry mode choice?

- How do you consider need for customers' presence and participation in service production case in your entry mode choice? Why?

### **3. Heterogeneity:**

- How do you consider the control of your service quality in entry mode choice? Why?
- How do you consider variety of customers need in your entry mode choice? Why?
- How your way of service provision is considered in entry mode choice? Why? (Technology based, Personal based)

### **4. Perishability:**

- How do you consider service nature of difficulty to store and transport in your entry mode choice? Why?
- How do you consider lack of ownership in service in your entry mode choice? Why?

## **V. Entry Mode:**

- How do you make entry mode choice?
- How do you make entry mode choice for different countries?
- What factors do you consider to make entry mode choice? Why do you consider these factors?

## **VI. Other factors affecting the entry mode:**

- How does your will of control affect your entry mode choice?
- How does the risk affect your entry mode choice?
  - o How big risks are you taking when entering a new market?
- How much do your expectations of the return/benefits affect your entry mode choice?
- How do the resources available at the foreign market affect your entry mode choice?

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