Hans Christian Mickelson
Kristoffer Evenstad

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Dynamics in Foreign Operation Modes

- A case study of Jotun and Marine Harvest

Name of Supervisor:
Sverre Tomassen

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Kristoffer Evenstad

Summary

In this study, the objective is to explore which factors that influence the dynamics in foreign operation modes. Previous research has mainly focused on a static approach to foreign operations, and there is a demand for more qualitative studies looking at a dynamic picture. Thus, the current study addresses both the static approach, and the more recent theories concerning a continuous development of the foreign operation modes. The literature review forms the basis for a set of propositions that are being applied in the data analysis and discussion.

The research design is an explorative case study of Marine Harvest and Jotun. These companies vary in their international strategies, and provide the research with interesting polarity. Since the topic studied requires highly specific knowledge, the number of qualified informants is naturally limited. As the study is qualitative, the authors have performed four in-depth interviews as well as collected data from annual reports and other documents.

The findings in the study are both consistent with previous research on the field, and addresses new interesting topics. The most predominant factor was managers' experience. The managers seem to choose options that have been successful in the past, thus experience influences the decisions being made through limiting the different mode options and creating a bias towards certain operation modes. In addition, external conditions tend to cause companies to either increase or decrease their presence in the market. As such, when conditions change, the company's presence is also likely to change. These findings are in accordance with earlier research. Another interesting finding is that managers show a tendency to perform rules-based decision making in order to simplify the decision making process. It was also uncovered that the companies' foreign operation mode does not tend to be influenced by competitor's moves. In addition, the findings suggest that switching costs are closely related to ownership stake, such that equity modes have higher switching costs than non-equity modes, which may imply that companies continue with suboptimal operation modes instead of performing a switch. For future research, quantitative studies using a multivariate approach could be useful in order to uncover relationships and patterns. Also, qualitative research looking at other factors and contexts would enhance the theory of the field and make it more applicable for managers in a practical setting.

1. Introduction

1.1 Research Background

The issue of how firms internationalize has been studied and published in many renowned international business journals throughout the past 40 years (Welch, Benito and Petersen 2007). The growing interest of this field in academia has caused a development of new, and an expansion of existing theories (Shenkar 2004). This research has developed the field of international business simultaneously with an overall increase in international operations of multinational corporations (MNCs) worldwide. Hence, the field is becoming more and more important as firms, more than ever, seek to learn how to operate successfully in an international competitive environment (Welch, Benito and Petersen 2007). Much of the attention has been focused on the way firms establish their organizational boundaries in foreign locations based on different theoretical perspectives such as; product life cycle (Vernon 1966), internationalization theory (Johanson and Vahlne 1977), transaction cost economics (Hennart 1982), knowledge based theory (Kogut and Zander 1993), resource based view (Mutinelli and Piscitello 1998), and institutional theory (Brouthers, Brouthers, and Werner 2002). A tendency in much of international business research has been to view the entry mode decision as a sticky strategic choice that is enduring and costly to change.

Some scholars has recognized the importance of not merely focusing on the single entry mode decision during establishment, but rather the ongoing development of foreign activities including mode changes and perhaps the use of several modes in one location (Benito and Welch 1994). Thus, the use of the term 'operation mode' is more appropriate than entry mode. Although there are costs and uncertainties to consider when changing or combining operation modes, newer research has also found several advantages that firms may achieve by having a thorough international business strategy (Welch, Benito and Petersen 2007). Much research on operation mode decisions have tried to fit data with existing theory, rather than applying an explorative design and critically look at to what extent theory actually is in line with what the firms are doing. As Benito, Petersen and Welch (2009, p. 455) state: *"Theory typically treats foreign operation modes as choices between well-specified, discrete alternatives. Observation of business practice reveals a*

'messier' reality". Thus, the choice of how to operate in a foreign market is very complex, being influenced by firm factors and market factors. As these change over time, a change in operation mode may be required (Welch, Benito and Petersen 2007). This allows for use of different modes in different locations, but also the possibility of multiple modes in a single location. As such, the research in this field builds on a combination of theories, perhaps with the aim of developing a new, more relevant, international business theory.

Norwegian firms may be limited to certain alternatives with regards to placing boundaries on their foreign operations, for instance due to lack of international experience or financial resources. At the same time, due to the limited size of the Norwegian market, these firms may be inclined to focus on foreign markets as they often, over time, will produce the majority of company earnings. As such, it may be that Norwegian firms will have a tendency to choose specific markets, and specific strategies when internationalizing. Welch, Benito and Petersen (2007) present that firms from several countries, including Norway, leaned towards choosing acquisitions rather than greenfields when internationalizing during the 1980s to increase the speed of their internationalization process. As such, there may be factors linked to specific industries, time periods, and home- or host countries, making certain strategies business practice. Thus, research on this topic looking at the rationale behind firms' international strategy over time, and how they potentially benefit from a certain strategy of modes, is both important and interesting.

1.2 Research Issues

Theory on mode switching, mode combination and mode packages is arguably still in the development phase, suggesting that there is a need for more research on this matter. Both a need for more longitudinal research and in-depth qualitative research is proposed (Benito, Petersen and Welch 2009). From a managerial perspective, *"little is known about how managers actually choose combinations of modes and evaluate the applicability of different mode packages"* (Benito, Petersen and Welch 2009, p.1467). This suggests a need for more in-depth studies of the decision making factors of foreign operation modes. Also, it indicates the

appropriateness of a qualitative design where the researchers get a good look at the managerial perspective on these issues.

1.3 Research Question

Based on the gaps in literature regarding rationale and complexity of foreign operation mode decisions in a dynamic perspective, we seek to explore:

Which factors influence the dynamics in foreign operation mode decisions? What are the implications?

The purpose of the thesis is to provide more insight into the decision making process of foreign operation modes by presenting and discussing the relevant factors. The scope of the paper will be on Norwegian firms operating abroad with a fairly recent time focus to ensure good data collection. The unit of analysis is the operation mode, and the aim is to look at how internal and external variables affect the dynamics of operation modes in organizations. The theoretical foundation will be a combination of several theories focusing on how they affect operation mode decisions over time. Thus, the literature review seeks to investigate the different theoretical approaches to managing foreign operation modes over time, in order to lay a foundation for the qualitative data collection. The contribution of the paper is an analysis of propositions regarding foreign operation modes in a dynamic perspective, linked to two large Norwegian companies with a high level of international activities and experience, namely Jotun and Marine Harvest. Although the findings are non-generalizable, we hope they can have some implications for the theoretical development, as well as decision making processes, concerning foreign operation modes.

2. Literature Review

The traditional theory on firms' internationalization is mainly divided between internalization theory (Hennart 1982; Williamson 1979; Buckley and Casson 1976), and theory on learning and belonging (Johanson and Vahlne 1977; 2009). Firms may internationalize due to market imperfections, creating opportunity for profits (Buckley and Casson 2002), but the reasoning behind the choice of extending operations to new locations are either market-, resource-, efficiency-, or strategic asset seeking (Dunning 2000). Market seeking investments imply extending operations to reach a larger demand, for instance due to a limited size of home market. Resource seeking investments are made to gain control over input factors and lower resource dependency to suppliers (Pfeffer and Salancik 1978). Efficiency seeking investments considers how to create an optimal worldwide supply chain by, for instance, reaching scale economies. Strategic asset seeking investments are proactive decisions made to counter global competitors, such as investing in a competitor's home market to slow down their internationalization process. These investments are often made to protect existing ownership advantages and reduce those of its competitors (Dunning 2000).

2.1 Internalization Theory

Internalization theory is highly influenced by transaction cost economics (TCE). The core concepts and assumptions of TCE are to maximize efficiency of a transaction by minimizing the cost, given the liability of bounded rationality and opportunistic behavior (Williamson 1985). The unit of analysis, the transaction, consists of certain characteristics that influence the most efficient choice of governance. The transaction frequency, transaction uncertainty, and asset specificity, will determine which organizational structure (market or hierarchy) that maximizes the efficiency of these transactions by minimizing the transaction costs (Williamson 1985). Still, opportunistic behavior and hazards, partly due to bounded rationality, may create information asymmetry and lower the efficiency of the transactions by creating transaction costs, which leads to bounded efficiency (Williamson 1979; 1985; 1988). Transaction costs are classified as ex ante and ex post (Williamson 1985). Ex ante can appear as cost of searching, drafting, negotiating, and safeguarding an agreement, whereas ex post represents the costs of monitoring, bargaining, information, and bonding once a relation has

been entered into (Dunning 2010). Positive transaction costs in the market create incentives for performing activities in a hierarchical structure, given that governing costs are lower than the transaction costs of market (Buckley and Casson 1976; Welch, Benito and Petersen 2007). However, the application of transaction cost in parts of internationalization theory may differ from the Williamsonian approach in that some authors find asset specificity, which is arguably a core part of TCE, not to play as large a role (Hennart 2001). Then again, other researchers have found asset specificity to be an important variable for determining operation mode choices (Anderson and Gatignon 1986; Yiu and Makino 2002). As such, there is a somewhat controversy on how to apply parts of TCE in international business research.

2.1.1 Eclectic Theories

Some research has found that TCE by itself does not reveal all relevant questions regarding how to extend business internationally (Dunning 1980; Yiu and Makino 2002). As such, the eclectic paradigm (OLI framework) building on several theoretical foundations has been developed (Dunning 1980; 2000). The OLI framework, which is primarily based on the resource based view, institutional theory and TCE/internalization theory is used as a decision-making tool for managers in deciding how to govern international activities (Dunning 2000). The framework seeks to unveil ownership- locational- and internalization advantages of the firm, which again propose the type of foreign investment the firm should make.

Ownership advantages are firm specific advantages such as valuable resources or dynamic capabilities that make the firm competitive. From a resource based view's perspective, ownership advantage is present when the firm has resources that provide a foundation for sustained competitive advantages (Barney 1991). Internationalization of these specific assets may only be beneficial if the firm has an advantage over international competitors. As such, if a firm only has ownership advantages, the OLI framework proposes that the firm exports to markets in which they have such advantages. Localization advantages are present if the firm can find a host market to which they can extend their competitive advantage physically, e.g. gain an advantage from having production take place in a foreign

location. This may imply performing a market analysis looking at external factors such as political-, legal- and other market conditions to identify promising alternatives. Countries may use pull factors such as tax schemes, access to valuable resources, learning opportunities or other cluster benefits to attract firms and increase inward foreign direct investment (FDI) from multinational enterprises (MNEs) (Dunning 2010; Porter 1990). As such, if a firm has ownership- and location advantages, they should franchise or license their production to the market in which they have these advantages. However, if transaction costs are high in the new location, firms may seek advantages by internalizing their foreign operations. These advantages appear due to market imperfections such as for instance time lags, discriminatory pricing, or information asymmetry regarding the value of the product (Buckley and Casson 2002). If all these advantages are present, the framework proposes that the firm makes a FDI (Dunning 2000). A FDI implies an investment with ownership such as a greenfield, merger, acquisition or a joint venture.

Another eclectic approach presented by Hill, Hwang and Kim (1990) looks at how control (linked to strategic variables), resource commitment (linked to environmental variables) and dissemination risk (linked to transaction variables) affect choice of entry mode. They argue that firms should choose an operation mode that suits the needs of the firm based on these three types of variables. For instance, a company seeking high control, high resource commitment and high dissemination risk will choose internalization of international operations in order to safeguard firm-specific know-how against country risk and reach scale economies (Hill, Hwang and Kim 1990). As such, this framework can also be used as a decision-making tool for foreign investments.

2.2 The Uppsala Framework

The Uppsala framework, which is the basis of 'internationalization as learning and belonging', is mostly based on organizational learning (Cyert and March 1963) and network theory (Håkansson and Snehota 1989). The main arguments of this view are that the natural establishment of the firm is decided by the liability of foreignness and liability of outsidership that the firm perceives in the foreign location (Johanson and Vahlne, 1977; 2009). This 'cost', often referred to as

psychic distance, can be lowered by gaining international experience and knowledge, or by achieving a good position in a valuable network (Johanson and Vahlne 1977; 2009). Lower psychic distance will cause firms to perform larger investments in more distant locations as their overall perceived risk is reduced (Johanson and Vahlne 1977). This phenomenon is often referred to as the establishment chain, in which firms will tend to start their internationalization process in locations with low perceived risk, and move outward as they enhance experience, market-specific knowledge, and network relationships (Johanson and Vahlne 2009). The issue of trust has very different applicability to the Uppsala framework than it has in TCE. Trust is essential for successful network establishments and an important part of gaining international knowledge and experience (Johanson and Vahlne 2009). Although bounded rationality and opportunism exists, organizations arguably need to operate in interorganizational collaborations to extract the experience and knowledge needed to perform successfully on an international competitive arena. As such, know-who is becoming more important, not just the know-how. For instance, Tomassen, Welch and Benito (1998) argue that an important part of entering into the Indian market for Norwegian firms has been to establish contact with local partners to lower the perceived cultural risks of entering. The original Uppsala framework (Johanson and Vahlne 1977) has received some critique for its narrow application of organizational learning (Forsgren 2002). However, the framework has generally received much empirical support (see Johanson and Vahlne 2009 for overview).

2.3 Foreign Operation Modes

Foreign operation modes have several definitions in international business research, and the authors will use the definition of Welch, Benito and Petersen (2007, p. 18), who define it as:

> *... the institutional/organizational arrangements that are used in order to conduct an international business activity, such as the manufacturing of goods, servicing customers, sourcing various inputs – in fact, undertaking any business function.*

Root (1994, p.24) defines an international market entry mode as "*an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country.*" FDI decisions are often divided into the choice of ownership mode and the choice of establishment mode (Brouthers and Hennart 2007). First, the choice of ownership mode implies the extent of ownership the firm seeks in their foreign operations. This is either perceived on a scale from 0% ownership (contracts) to 100% ownerships (wholly owned subsidiary), where joint ventures (JVs) are considered as a separate mode (Hill, Hwang and Kim 1990), or as a division of contracts (non-equity) and equity modes (Hennart 1988; 1989). Second, the firm needs to decide their establishment mode within the chosen ownership mode. This implies that within an extent of internalization lie several alternatives with regards to mode of operation. For a 0% ownership mode (contracts), the firm may choose between several establishment modes such as exporting, contracts, franchising or licensing. However, it may be argued that both franchising and licensing includes a degree of ownership, in that the brand franchised is owned by the firm, and the process and patent licensed is property of the firm. For an equity mode, equity-JVs, greenfields or mergers and acquisitions (M&As) are possible alternatives. Generally, the categorization of modes is based on the way of compensating the input providers (Brouthers and Hennart 2007).

Foreign investment decisions, even in an isolated view is quite complex and require much strategic planning. Much attention has been given to choice of ownership mode (Hennart and Reddy 1997; Yiu and Makino 2002), and to some extent establishment mode (Harzing 2002), both from an entry mode point of view (Hill, Hwang and Kim 1990), and to some extent a dynamic approach (Harzing 2002). The following section gives an introduction to the different types of establishment modes, and also a discussion around how firms choose between these.

2.3.1 Exporting

Exporting implies selling a product across a boarder without physical presence in the host country. Companies in an early phase of internationalization often use exporting in order to increase their profits and revenue base (Welch, Benito and Petersen 2007; Hill 2009). This mode is often perceived as the easiest way of operating in a foreign market with regards to establishment costs and control. Johanson and Vahlne (1990) argue that small companies often use exporting when entering foreign markets.

According to Johanson and Vahlne (1990) the relevance of cultural distance has received empirical support when explaining international business behavior. Thus, firms may enter foreign markets that are culturally and geographically close to the company's home country to reduce the liability of foreignness. Exporting is often the first step of the establishment chain, and is followed by increased investments if the market is found to be attractive (Johanson and Vahlne 1977). As Hill (2009, p.547) argues: *"Exporting is often not an end in itself, but merely a step on the road toward establishment of foreign production*." Exporting can also help the firm by lowering the risk of being dependent on the domestic market. In this way foreign sales might even out a domestic drop in sales resulting from for instance troublesome economic periods (Peng and Meyer 2011). On the other hand, host-country governmental regulations, high transportation costs, and potential high production costs in the home country relative to countries abroad, are all disadvantages that should be considered when exporting (Hill 2009). The issue of trust is arguably also important when exporting. The transactions with potentially unknown foreign customers might be complicated, and the transaction costs may be high. Thus, many deals are made through banks with the issue of a letter of credit (Peng and Meyer 2011).

2.3.2 Licensing

When licensing, a licensor grants the rights to intangible property through the use of a contractual agreement with a licensee in a specified period of time, and the licensor get compensated through a royalty fee paid by the licensee (Hill 2009). The use of a licensing agreement can be a first step to attain knowledge about a

market or local partner, thus help the entrant in preparation for future development in the market (Jiang, Aulakh and Pan 2009). When using a licensing agreement, the risks associated with performing activities abroad are reduced (Hill 2009). In addition, the capital needed is lower than with equity modes. The use of a licensing agreement can be described as a 'touch and feel' of a foreign market for the entrant. However, a potential drawback of licensing is that you have less control, and may risk that the licensee acquires your technical know-how and becomes a future competitor (McMillan 1965; Hill and Kim 1988). In addition to the dissemination risk, you have lower control over strategic decisions when licensing (Arora and Fosfuri 2000). Licensing is often used in alliances where technology is involved, but the licensee can only use the technology according to standards specified by the licensor (Lunnan and Nygaard 2011).

2.3.3 Franchising

In franchising, the franchisees seek to create wealth, and risk their own capital to get there (Sorenson and Sørensen 2001). In order to do so, the franchisee buys strategic and operational support from the franchisor, which reduces the risk for the franchisee (Sorenson and Sørensen 2001). A franchise agreement is defined by Caves and Murphy (1976, p. 572) as an agreement:

> *...lasting for a definite or indefinite period of time in which the owner of a protected trademark grants to another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service.*

Franchising consists of many of the same elements as licensing, but is often used for longer term agreements (Hill 2009). In franchising, the franchisor receives royalties from the franchisee in addition to supply-chain markups (Eramilli, Agarwal and Dev 2002). This fee grants the right to use the franchisors business concept. One can also separate franchising into 'business format franchising' and 'product and trade name franchising' (Welch, Benito and Petersen 2007; Gripsrud and Nygaard 2005). 'Business format franchising' uses a full business system where the franchisee is thoroughly trained and receives more support from the franchisor than would be the case in 'product and trade name franchising'

(Gripsrud and Nygaard 2005). The compensation system also varies between the different types. In 'product and trade name franchising' the franchisor is compensated mainly through the wholesale margin, whereas in 'business format franchising', the franchisor is compensated through an entry- and royalty fee (Gripsrud and Nygaard 2005).

With franchising, the benefits will be similar to those of licensing; namely reduced costs and risks of operating in a foreign market (Hill 2009). International expansion with the use of franchise agreements demands little capital from the franchisors, since the franchisee have to pay up front (Peng and Meyer 2011). The performance of a franchise is highly dependent on the franchisor and the franchisee to work jointly in order to reap the potential benefits (Grewal et. al 2011). The advantage for the franchisee is to get help with the concept and operations management, while the franchisor can get valuable feedback from the franchisee in addition to the payment fees. Since the franchisee uses the brand name of the franchisor, a potential disadvantage is loss of quality control which can affect the brand name (Hill 2009).

2.3.4 Joint Ventures

The international joint venture (IJV) literature defines IJVs in a variety of ways, but we aim to use the definition by Chen, Park and Newburry (2009) that entails the main issues concerning IJVs. They define IJVs as; *"…legally independent entities formed by two or more parent firms from different countries that share equity investments and consequent returns*" (Chen, Park and Newburry 2009, p. 1133). The share of investments and returns are often reflected in the share profile of the venture. A 50/50 joint venture (JV) is most common, but other share profiles such as 25/75 ventures is also frequently used because it provides the majority owner with tighter control (Hill 2009). Some JVs may be established for a specific purpose, and when that purpose has been reached, the JV will be terminated (Peng and Meyer 2011). Others will continue over an extended period of time, but eventually, most alliances are being terminated (Bleeke and Ernst 1991). Termination of the JV may be grounded in change of the strategic needs of the involved partners, or when partners in the JV acquire the skills or knowledge enabling them to remove their partner dependency (Inkpen and Beamish 1997). A

termination may lead to one of the parties involved acquiring the venture and continue or shut down the operations.

Advantages with entering into IJVs are that the firm can get knowledge about local conditions, overcome local restrictions regarding foreign companies, and share risks and development costs through their local partner (Hill 2009; Welch, Benito and Petersen 2007). The issue of control is a major topic when looking at disadvantages for entering into IJVs, and research on IJVs shows that there is a relationship between management control and performance (Choi and Beamish 2004). Research suggest that split control should be established between the local partner and the MNE, which means that parties should control the activities that match their respective firm-specific advantages (Choi and Beamish 2004).

Yiu and Makino (2002) use a transaction cost perspective to explain that the choice of JVs over other operation modes will be preferred if the two conditions of Buckley and Casson (1988) and Hennart (1988) are met. The first condition is that both parties need one or more of the complementary assets the other party controls, which they cannot copy or acquire through standard market transactions. The second condition is that it is difficult to acquire the wanted complementary assets if it is tacit or that it will be costly and problematic to integrate them.

JVs may be highly beneficial for companies, but they are also a source of risk and are unstable (Blodgett 1992). Research shows that JVs are more unstable when the parties involved start with an uneven equity share, and when the contracts have previously been targets for renegotiation (Blodgett 1992). It should be noted that the instability in the JVs researched say nothing about its performance.

2.3.5 Wholly Owned Subsidiaries

When establishing a wholly owned subsidiary (WOS) in a foreign market, the company has 100 percent ownership, which is attained either through a greenfield venture or an acquisition (Hill 2009). When a WOS is chosen, the ultimate control of the foreign operation lies at the corporate headquarter, but some strategic decisions and the daily operations may be decided locally at the foreign subsidiary depending on firm strategy (Hill, Hwang and Kim 1990). It is the degree of equity

control which is essential when deciding to establish a WOS, and the needed resources may be developed internally through a greenfield or externally through an acquisition (Peng and Meyer 2011). A greenfield venture builds a business up from scratch in a foreign location, and such investments create new productive capacity and increases the employment (Sauvant 2011). When performing an acquisition, the firm buys local resources through the acquisition of local companies (Peng and Meyer 2011). The acquisition, in contradiction to organic growth, is faster because the company often buys an already established firm with its assets (Lunnan and Nygaard 2011). When companies have little experience with foreign operations, acquisitions rather than greenfields are more likely to take place (Casson 1993). An acquisition is highly capital-intensive, thus the entry mode represents around 70 % of the global FDI flow (Peng and Meyer 2011).

WOSs are often a preferred choice when the firm has strong competitive capabilities they need to protect (Chen and Hennart 2002; Anderson and Gatignon 1986; Hill, Hwang and Kim 1990; Welch, Benito and Petersen 2007). Harzing (2002) argues that corporate strategy influence the choice between greenfield and acquisition. She concludes that 'global firms' (Bartlett and Ghoshal 1989) will tend to focus on internal isomorphisms, implying high subsidiary control, more expatriates, and lower local responsiveness, preferably using a greenfield operation mode. On the other hand, 'multi-domestic firms' (Bartlett and Ghoshal 1989) will prefer an acquisition and their focus will be opposite of the 'global firm' in managing the foreign subsidiary (Harzing 2002). Morschett, Scramm-Klein and Swoboda (2010) study antecedents of the entry mode choice by meta-analyzing data from 72 previous studies on the topic, and found that power distance in the company's home country had a positive influence on the probability of establishing a WOS. WOSs are often used when the company wants to realize location and experience curve economies (Hill 2009). Organic growth (greenfield) is often considered as a preferred choice of operation mode if the firm has a strong organizational culture and use this as an important advantage in their business (Lunnan and Nygaard 2011).

Yiu and Makino (2002) point to the uncertainty in transactions when describing choice of entry mode. They argue that in a recurrent transaction where the asset specificity is high, firms should favor a WOS instead of a joint venture. This is also supported by Anderson and Gatignon (1986) who argue that high-control entry modes such as WOSs are most likely to be used by companies when there is behavioral uncertainty and a high degree of asset specificity.

The negative sides of establishing a WOS is that it is costly and firms experience risks related to operating in a foreign country. The cultural risks can be reduced through acquiring an already established company in the host country. However, the company may then face challenges in congregating all the corporate cultures into one (Hill 2009).

A merger is another type of operation mode that may be considered when expanding. This mode cause an organization to expand faster than it would have with organic growth. Mergers are often categorized together with acquisitions, but differ in ownership percentage in the way that mergers combine the management and the operations of several firms into a new combined entity (Peng and Meyer 2011). Research shows that a vast majority of all cross-border mergers and acquisitions (M&As) are acquisitions, while only a few percent are real mergers (United Nations 2000). Potential difficulties with mergers is combining several cultures into one, and most mergers tend to have a dominating part, which often influence the choices of the new firm and the employee satisfaction.

The reason for using M&As is according to Porter (1985) that you want to increase your competitive advantage through synergies. It may be difficult to integrate the target that is acquired or being merged with, which is reflected through the severe failure rate of M&As. Cartwright and Cooper (1993) note that around half of all M&As fail to reach its intended target, suggesting that firms overemphasize potential synergies ex ante.

2.4 Beyond Entry Modes – Theory and Propositions

The main focus of research on internationalization has previously been dominated by the entry decision rather than looking at a longitudinal development of international operations (Welch, Benito and Petersen 2007). In some recent studies, a more dynamic focus on operation modes looking at the development, change, and management of international operations has broadened the scope of this research field to include mode change, mode combinations and mode packages (Benito, Petersen and Welch 2009; Petersen and Welch 2002). The following part will present and discuss theory on different types of dynamic operation mode actions, and factors influencing these decisions. The discussion will result in propositions which will form the basis for the data collection.

2.4.1 Key actors

Sachse (2012) describes how key actors influence decisions regarding the dynamic development of foreign operations. He argues that the decisions they make are influenced by internal- (e.g. employees) and external (e.g. suppliers and customers) stakeholders. Stakeholders are groups and individuals who can influence the organization, and the stakeholder approach considers how the management needs to respond to these organizations or individuals (Freeman 1984). Thus, the stakeholders may have certain demands that can influence the decision makers to undertake certain adjustments to their foreign operation modes. Sachse (2012) argues that resistance from stakeholders to changes caused by management decisions may increase the costs of a planned project, or move it in a different direction.

Sachse (2012) further discusses the importance of a global mindset for the key decision makers. He argues that when companies consider how their foreign operations are to be developed in the future, this type of mindset is of critical importance. As opposed to an ethnocentric or polycentric mindset, which mainly focuses on home- or host country criteria, a global- or geocentric mindset manages to look at the entire picture, which perhaps lower chances of suboptimal decision making (Perlmutter 1969). There may be both external and internal conditions that cause executives to consider changes in their foreign operations,

and the decision makers tend to be motivated to make investments or divestments if conditions are favorable (Boddewyn 1985). Calof and Beamish (1995) view the attitudes of executives as one of the driving forces behind internationalization. This implies that not only objective criteria influence the decisions that are being made, but also the cognition of the decision makers.

2.4.2 Mode Switching

"*Firms switch foreign operation modes for two reasons: either as a correction of managerial misjudgments or as an adaptation to new circumstances as foreign operations evolves*" (Welch, Benito and Petersen 2007, p. 363). Local market growth is seen as one of the main reasons for international relocation (Dunning 2000), and can be a typical reason for changing foreign operation mode as this causes the foreign operation to evolve (Benito, Petersen and Welch 2009). One example is the development from export to local production, which often happen as the demand reaches a crucial point, making the cost of transportation higher than that of local production (Horst 1974 in Welch, Benito and Petersen 2007). This operation mode change follows a TCE thought process where a switch will occur when a different mode generates lower variable costs and switching costs than the current mode (Buckley and Casson 1981; Welch, Benito and Petersen 2007). Sachse (2012) presents that the most important reason for a switch of operation modes for his respondents was 'customer orientation and growth'. Other important reasons that were listed by the respondents were; unhappy with partner, external factors, control and improvement (Sachse 2012).

The concept of de-internationalization, as a reducing mode change, constitutes the opposite side of the coin as a decision made to compensate managerial misjudgment or negative changes in the foreign business environment (Benito and Welch 1997). A partial de-internationalization implies a "*voluntary or forced action that reduce a company's engagement in or exposure to current cross-border activities*" (Benito and Welch 1997, p. 9). This type of mode switch has received very little attention in research, partly due to challenges in collecting valid data. Generally, it may be argued that managers are reluctant to share information about bad decisions, making studies of de-internationalization difficult.

2.4.2.1 Internal conditions

Internal conditions may influence the operation modes of companies over time, and as internal resources and capabilities change, a company might have to adjust its operation modes to be in accordance with these conditions (Fryges 2007). Changes within a firm's internal environment have been found to make a significant explanatory contribution to why firms change their operation modes (Calof and Beamish 1995). Especially a change in firm strategy and firm resources influence the dynamics of the foreign operation modes, and a mode change may be initiated if these factors change (Calof and Beamish 1995). Corporate strategies and its development over time have been found to influence the initial entry mode and the change of how the operations abroad were managed (Harzing 2002). Since this approach found tendencies of a change in management of the operations based on the corporate strategy, it may be transferred to a more dynamic perspective of operation modes. Accordingly, Welch, Benito and Petersen (2007) present the expected paths towards a global value chain configuration for firms. Their conclusion is that based on the company being global or multi-domestic, there will be a tendency towards choosing a specific mode and make specific mode changes as part of their establishment chain (Welch, Benito and Petersen 2007). This suggests that the internal strategy may cause path dependency by creating a natural path of internationalization. From an Uppsala framework point of view, changes in internal resources such as market-specific knowledge and general international knowledge and experience will prompt an increase in foreign investments, often in the form of a mode change (Johanson and Vahlne 1977). Management resources and capital may restrict many companies from choosing certain modes of operation, thus when companies accumulate capital and gain excess management resources, companies might find that an operation mode with a higher degree of ownership is suitable (Welch, Benito and Petersen 2007).

Mode shifts tend to be used as a correctional problem-solving device instead of being a part of a company's organizational structure (Welch, Benito and Petersen 2007). However, Benito, Petersen and Welch (2012), argue that mode role changes happen because of modifications in company strategy. Based on this reasoning, one might say that mode switches seldom are used in a company's intended strategy, but is rather used as a response to problematic foreign

operations as an emerging strategy. Welch, Benito and Petersen (2007) argue that in addition to the factors mentioned above, new owners or the integration of new management can prompt change. This may be linked to a perceptual criteria were new equals change, prompting action from new decision makers. Also, it suggests that previous managers and owners may have continued with a suboptimal solution, rather than admit to failure in choosing previous mode.

Internal factors influencing mode strategy and mode change decisions can be divided into two categories (Welch, Benito and Petersen 2007). First, company background which means: resources, size, experience, global strategy etc. will influence the way of operating. These factors often limit small and medium enterprises in early stages of internationalization, and causes changes to more resource demanding modes as the companies develop over time (Welch, Benito and Petersen 2007). Also, the choice will be influenced by specific company mode concerns such as control, risk, partner, flexibility and speed of foreign market (Welch, Benito and Petersen 2007). Thus, the internal conditions that may influence a mode change are numerous, and may both influence the timing of the mode change, and the specific choice of new mode.

Proposition 1: Firms tend to make changes to their operation mode when the company faces a substantial shift in the internal conditions.

2.4.2.2 External Conditions

The local conditions, such as legal-, economical- and political risks, under which firms operate, may change, thus creating another business environment which companies need to adapt to. There may be restrictions that hinder companies from certain operation modes, where a relief of these restrictions may cause companies to shift operation modes (Welch, Benito and Petersen 2007). The initial chosen operation mode may not be the best to face the new external conditions and a mode change may be beneficial. Welch, Benito and Petersen (2007) argue that in addition to the factors mentioned above, sales growth in the local market is of great importance, and may impose a change of ownership in the operation mode. Environmental factors will, according to Sachse (2012), have an impact on the timeframe for the foreign operations, and whether or not the company successfully reaches its intended target.

According to the Uppsala framework (Johanson and Vahlne 1977; 2009), a change in external conditions will change the perceived country risk and consequently the liability of foreignness and outsidership the company is exposed to. This may cause an alteration in the establishment chain and lead to a mode change. From a TCE point of view, a change in external conditions may affect the transaction costs of doing business and may make a different organizational structure more beneficial (Williamson 1985).

The change of operation mode can to a high degree be determined by external uncertainty, which is the unpredictability of a firm's business environment (Deng 2001). Research show that perception of external uncertainty influence which operation modes companies choose. If firms perceive a low degree of external uncertainty, a change to a larger degree of ownership, such as a WOS, may be preferred (Puck, Holtbrügge and Mohr 2009). The effects of changes in the external environment have been found to influence changes in foreign operation modes (Benito, Petersen and Welch 2012). The external environment's effect is more associated with mode reductions rather than mode increases, and can cause radical mode changes (Swoboda, Olejnik and Morschett 2011). In contradiction to the above study, Calof and Beamish (1995) find that changes in the external environment are related to mode increases. As such, the contradicting results in studies focusing on external environmentally effects does not explain the direction of mode change, only that an alternative mode can be chosen.

Interrelationships between the external- and internal environment-based stimuli may exist, such that even though a manager states that a mode change have been made due to an internal environment-based stimuli, it may in reality come from a response to an externally changing business environment (Calof and Beamish 1995).

Proposition 2a: A positive change in the external environment tends to cause firms to increase their presence/investments in the market.

Proposition 2b: A negative change in the external environment tends to cause firms to decrease their presence/investments in the market.

2.4.2.3 Experience-Based Mode Switch

As firms make foreign operation mode decisions, these tend to be influenced by previous choices, hence creating path dependency (Asmussen, Benito and Petersen 2009). This suggests that each decision made should be analyzed deeply, considering their impact on future decisions. Araujo and Rezende (2003) propose that path dependence can be used to explain the internationalization process of internationally experienced firms. Thus, some of the dynamics of the companies' foreign operation modes may be analyzed through the application of this theory. Sachse (2012) explains some of the logic behind path dependency and switching lock-ins, arguing that when the organization solidifies ex post their initial entry, switching to other operation modes will be tied to much higher effort than if the other operation mode had been chosen from the beginning. These lock-in effects may lead to path dependency, even though the managers realize that other modes would be more efficient than the initially chosen one (Hutzschenreuter, Pedersen and Volberda 2007). Firms may have path-dependent behavior because they apply learning from their earlier experiences, thus reducing the risk the company faces (Chang and Rosenzweig 2001).

Companies will gain knowledge through their interaction with the external- and internal environment and learn by applying experiences from past decisions, causing failures and success, to future decisions (Blomstermo et al. 2004). However, considering the myopia of learning, firms tend to oversample success and undersample failure (Levinthal and March 1993), which may cause suboptimal experience-based decisions. Repetitive momentum, an organization's repetition of previous strategic actions, have been found to occur when companies considers mergers (Amburgey and Miner 1992). This can arguably be transferred to strategic situations considering other mode decisions as well. Sachse (2012) lists the most important factors that explain the path dependency in internationalization and mode switching, and argue that amongst other factors, the mode experience is highly relevant. Yiu and Makino (2002) conclude that past foreign entry patterns within a firm influenced all future entry mode decisions.

Benito, Petersen and Welch (2009) construct a framework for mode choice and mode change and illustrate that path dependency will bias the manager for their initial mode decision. Also, the experience managers possess may influence

possible mode change decisions after their initial mode choice. From TCE, information asymmetry and bounded rationality may cause decision makers to choose a suboptimal foreign operation mode due to positive experiences with this specific mode in the past. Also, the Uppsala framework presents issues which may cause path dependency in that the establishment chain suggests a natural path for internationalizing firms (Johanson and Vahlne 1977). However, the framework suggests that experience will lead to firms being able to choose from a wider range of foreign operation modes, rather than choosing only modes they have experience with (Johanson and Vahlne 2009). As such, it could be argued that experience is part of the solution rather than the problem linked to path dependency in foreign operation mode decisions. Firms with low experience will be forced to make specific mode decisions due to lack of experience, and will endure path dependency early in their internationalization process.

Proposition 3a: Firms tend to make operation mode decisions in accordance with earlier experience from other markets.

Proposition 3b: As firms gain experience, they have more operation mode options and the challenge of path dependency is lowered.

2.4.2.4 Rules-based Mode Switch and Switching cost

From a strictly economics perspective, the optimal timing of operation mode changes occurs when the cost of having a different operation mode is lower than the cost of continuing with the existing mode (Buckley and Casson 1981). Welch, Benito and Petersen (2007) argue that also switching costs, the cost of setting up the new mode and the cost of taking down the old, must be included in the equation. Switching costs can be divided into measurable and perceived switching costs, where the measurable costs are for instance hiring of new personnel, severance payments to fired personnel, and reputation in the market among customers and suppliers (Benito, Pedersen and Petersen 1999). Perceived costs can be risk associated with the use of a new mode or a personal loss for the manager who admits the failure of the previous mode used (Benito, Pedersen and Petersen 1999). These switch factors suggest that the decision of mode change is highly complex, and that an optimal timing of the decision based on purely economic premises may not be sufficient. Thus, the behavioral approach to

internationalization suggests that bounded rationality of the decision maker, and lack of information and understanding of the complexity in foreign operation mode decisions, creates difficulties in making optimal decisions.

Operation mode decisions are influenced by organizational learning in terms of how firms over time gain knowledge and experience with the use of different modes (Johanson and Vahlne 1977; March 1991). As such, rules-based mode switches are linked to having an exploitative approach to organizational learning by using a preferred mode to perfection, rather than an explorative approach with the use of different types of modes (March 1991). The type of knowledge and experience the firm gains will differ, but it is hard to indicate a dominant approach.

Path dependency based on previous decisions, or rules-based configurations based on previous success in a firm may cause suboptimal operation mode decisions as this eliminates some of the alternatives presented to the firm (Asmussen, Benito and Petersen 2009). Often referred to as the paradox of success, firm will tend to exploit strategies that have worked in the past to the extent that they cause future decline (Audia, Locke and Smith 2000). However, having rules-based configurations will dramatically lower the amount of alternatives the firm is faced with. Each value chain activity should from a theoretical perspective be analyzed with regards to all potential foreign operation modes, to find an optimal configuration for each country. This is identified in the 'entry mode diversity matrix', where an analysis considering all possible alternatives would give the following formula: $\textit{Mode diversity} = (\textit{number of governance forms})^{\textit{number of discernable value added activities}}$, which would give a very high amount of options for a decent sized MNC (Hashai et al. 2010). This large amount of information may, due to limited absorptive capacity (Cohen and Levinthal 1990), suggest that a rules-based configuration, which eliminates some options, will make thorough analysis more feasible (Benito, Petersen and Welch 2012). One alternative way to do this could be to isolate a single geographical region or a country. However, such an analysis would not take into account all relevant factors that influence choice of operation methods in the specific area, such as benefits or costs of for instance combining operations with neighboring countries into regional hubs.

Thus, to what extent rules and limitations should narrow down the alternatives available for the firm is a difficult dilemma.

Proposition 4: Firms make rules-based operation mode decisions to simplify the decision-making process.

2.4.2.5 Imitation of Competitors

Knickerbocker (1973) argues that firms, in an oligopolistic market, make entry mode decisions highly influenced by its competitors to the extent that a move would create a chain of subsequent countermoves from competitors. Yiu and Makino (2002) argue that the cognitive mindset of the decision maker is bounded by competitors' entry patterns and, as such, eliminate many operation mode alternatives. This argument is also supported by Lu (2002), who finds that entry modes pattern that were established by early entrants tend to be followed by other entrants. The imitation of competitors' strategic behavior may create norms which many of the actors within an industry follow. Neo-institutional theory will, according to Guillén (2003, p. 189), indicate that

"*…following the norm in the industry not only reduces the uncertainty about what might be the best entry mode, but also enhances its legitimacy because a practice that is taken for granted is seen as appropriate by the firm's stakeholders"*.

It is reasonable to assume that the arguments above also hold in a dynamic context. Haunschild and Miner (1997) argue that earlier research has highlighted efficient outcome imitation, which is the assumption of organizations imitating the practices that have proven to create economic value for other firms. As such, strategic practices that create value for the competitors tend to be imitated by the focal firm. Given the knowledge of mode switch as a result of changes in external conditions, a competitor's switch of foreign operation mode constitutes a reasonable argument to switch operation mode, also for the focal firm.

Proposition 5: Firms tend to make operation mode decisions influenced by their competitors.

2.4.2.6 Within-Mode Switch

Petersen and Welch (2002) argue that switching to an entirely new mode can be less effective than performing an intra-mode switch or mode addition. Sachse (2012 p. 185) looks at a within-mode switch as: "*a change of mode within the same level or configuration"*. Mode switches that are more incremental and happen within a given mode are also referred to as mode stretching (Welch, Benito and Petersen 2007). This implies that the firm may increase or lower their commitment to a market significantly without changing the foreign operation mode. More specifically, a within-mode switch may imply changing to a different agent, upgrading a wholly owned production facility, or changing ownership percentage or partner in a joint venture. A within-mode switch may, considering the company's commitment to its foreign intermediaries, take place along three main scales: activities, organizational changes and resources (Welch, Benito and Petersen 2007). The first two better explain whether there has been a change in the foreign operation mode over time, and the latter explains the extent of involvement (Welch, Benito and Petersen 2007). If a change in staffing, training and communication has been made over a period of time, this may be part of a process of mode stretching, which again may lead to a higher degree of equity mode (Welch, Benito and Petersen 2007).

The increase in presence over time has been subject to research earlier, where the focus often was on JVs and its evolution. Büchel (2002) argues that in order to extract maximum value from JVs, managers need to be aware of and respond to possible changes in the strategic direction of the JV. In JVs, changes in ownership structure may come from conflicts that arise such that one of the parties may increase or reduce their ownership stake (Büchel 2002). The intra-mode switch can come gradually through the increased investments in the already established mode such as more personnel to increase control (Petersen, Welch, and Nielsen 2001), or through a replacement of an existing intermediary with another (Benito, Petersen and Welch 2012). However, it is hard to define at what point, an adjustment in mode configuration constitutes a mode change (Benito, Petersen and Welch 2009). It may be that the initial operation mode grows into another one, thus it will be hard to define at what point in time the 'switch' took place. However, an interesting question is to what extent a within-mode change raises or lowers the barriers to perform a mode switch.

Proposition 6a: Firms tend to use within-mode switch as a strategic tool to prepare for mode switches in the future.

Proposition 6b: Within-mode switches strengthen the mode and increase the barriers to perform mode switches in the future.

2.4.2.7 Switching Barriers

Companies may find it favorable to perform a mode switch, but there might be barriers to mode change, quantified as switching costs (Benito, Pedersen and Petersen 1999). Harrigan (1985) looks at exit barriers and mobility barriers, and argues that if high barriers of either one exist, companies that are underperforming in an industry may choose to continue their operations due to these barriers. The notion of exit barriers can be transferred to the dynamic perspective of foreign operation modes, where it can be difficult for companies to switch from one operation mode to another due to certain 'costs'. The barriers facing the company may be so high that they find the switch too costly to perform.

Sachse (2012) identifies a number of barriers to a switch for a sample of companies. These barriers are; capabilities, management capacity, mental barriers and switching costs. Capabilities are closely related to the acquisition of knowledge in the foreign operation modes. Sachse (2012 p. 175) states that: "*several companies interviewed admitted that they simply did not have the necessary capabilities, knowledge or experience to carry out a mode switch*." This will severely hamper the company's ability to consider alternatives to the already established mode. Management capacity is reflected in whether or not you have the right people available for making a mode switch (Sachse 2012). If the company lacks these people, then it will be difficult to perform such a switch. The mental barriers were reflected through: possible resistance in the internal organization, the possibility of a negative effect on reputation if they failed, and the perceived cultural differences. The mental barriers may also be built up due to lack of earlier experience with the alternative modes, thus they focus on all the negative aspects that may occur and do not consider the mode as a real alternative (Sachse 2012).

The literature on switching costs in a dynamic context looking at switching from one operation mode to another is scarce, but some research has been done on the topic. Benito, Pedersen and Petersen (1999) argue that switching costs may appear in two forms; as take-down barriers and set-up barriers. The cost categories related to these barriers are; revenue losses, costs, and perceived barriers (**Table 2-1**). Welch, Benito and Petersen (2007) argue that the revenue losses may in many circumstances be more of a barrier than the expected costs related to the switch. This is especially relevant in situations where companies use agents, or other intermediaries. In other situations, the switching costs can be indirectly linked through a mode decision, e.g. when the focal firm's operation in a market will be affected by a decision that is made in a different market or vice versa (Benito, Pedersen and Petersen 1999).

Table 2-1: Types of switching costs

Cost categories	Take-down barriers	Set-up barriers
Costs	Termination compensation (severance payment) Lawsuit expenses	Hiring/recruiting and training costs Foreign operation learning costs
Revenue losses	Reputation effects among distributors in other markets Loss of customers due to their loyalty to current agent	Loss of customers due to failures in initial phase of own operations
Perceived barriers	Personal bonds Loss of prestige for managers responsible for initial mode decision Career set-backs	Risk associated with "new" foreign operation method perceived as being unacceptably high

Source: Benito, Pedersen and Petersen (1999 p. 220)

The perceived barriers are more difficult to assess and measure when considering a mode switch, because of their qualitative nature (Benito, Pedersen and Petersen 1999). These may be managers' perception of risk or uncertainty, their personal experiences with the affected party, or how the decision may affect their individual career. The risk may be related to the consideration of switching to an unfamiliar operation mode from a mode they have thorough experience with (Benito, Pedersen and Petersen 1999). Thus, the associated perceived barriers will vary with the experience the manager have with the different operation modes.

Making a change in operation mode from a pure economic perspective, would indicate a switch when the benefits related to the change outweighs the costs, and vice versa. If the case is that the costs are higher than the benefits, the company might face what Benito, Pedersen and Petersen (1999) phrase as a lock-in effect. By being locked into a mode that is not preferable, the company may not be performing as well as it would have with a different operation mode. An interesting point for research is to what extent switching barriers differ for different operation modes, which is the foundation for proposition 7.

Proposition 7: Firms generally find non-equity modes to have lower switching costs than equity modes.

2.4.2.8 Mode Combinations – Types and Barriers

A decision to make an investment into a new foreign operation mode does not necessarily imply closing the existing mode, causing a mode addition rather than a mode switch (Welch, Benito and Petersen 2007). A mode addition causes a firm to have multiple foreign operation modes in the same location, often referred to as a mode combination or a mode package (Benito, Petersen and Welch 2009). Mode combinations may be used to increase operational efficiency, flexibility, control, for intellectual property protection, or as a stepping stone to a future change in foreign operation mode (Benito, Petersen and Welch 2012). Although these benefits look valuable to companies, only a few use mode combinations as an intended part of their strategy, suggesting either high barriers to mode combinations or lack of knowledge about how to implement such strategies. Sachse (2012, p. 235) identifies that: *"firms combine modes to specific profiles for their switches. Single strategies are used just as often as strategy combinations. This reduces the risk of the switch and potential problems tied to it".* As such, mode combinations lower the risk included in mode switch through the increased flexibility of having several modes.

The different types of mode combinations are categorized based on whether the new mode is part of the same value chain, serving the same segment, same value chain activity or being performed by the same operator (Petersen and Welch 2002). Mode combinations are arguably more beneficial in large heterogenic markets where different segments are best served by using multiple modes

(Welch, Benito and Petersen 2007). For instance, a firm may benefit from outsourcing marketing to someone with more specific market knowledge, produce in a JV due to legal restrictions or resource constraints, and have research and development wholly owned to maintain control and eliminate dissemination risk for their intellectual property. This would be an example of complementary mode package, based on different parts of the value chain (Petersen and Welch 2002). It has been argued that using a mode package with no subsidiary, or direct export without middlemen will return below-average performance (Sachse 2012). This shows that firms must not take combinations as a secure pathway to success, but that modes (and possible combinations) have to be carefully adapted to the specific markets.

A reason for avoiding strategies including mode combinations may be a lack of recognition of the possibilities it presents. This is often referred to as mode myopia, and may occur due to the enormous amount of operation mode alternatives the firm is presented with when considering mode combinations (Benito, Petersen and Welch 2012). The limited experience and exposure of such mode strategies, arguably makes this a strong barrier. As with mode switching, mode combination strategies cause switching costs in the sense of learning and setup cost of the new mode, and the cost of coordinating the new mode package (Benito, Pedersen and Petersen 1999; Benito, Petersen and Welch 2012). These costs are an important barrier to change due to the amount of managerial- and physical resources required. Even after the switch has been made, the use of mode combinations creates higher costs due to coordination, which is paramount for mode success. Consequently, if a mode combination is not coordinated well, this may lead to lack of collaboration and poor market servicing, removing the proposed benefits. As such, the fear of not being able to execute a mode combination strategy, leading to a lack of coordination of the mode and extraction of benefits, may be a barrier causing managers to prefer a single mode option (Benito, Petersen and Welch 2012).

Proposition 8: Mode combination strategies are used as a temporary solution prior to making a complete mode switch to lower risk

3. Methodology

Based on the literature review on the dynamics of foreign operation modes presented above, the thesis will now move towards providing empirical examples that may help us enlighten the propositions. In this section, a discussion about the planned research design, research method, and data collection will be presented. Subsequently, a discussion around the validity and reliability of the thesis is presented. In addition, a description of the cases used to answer the research question in this study will be provided. Selection of good cases is important to achieve a good understanding of what is being researched (Denzin and Lincoln 2005).

3.1 Research Design

"*A research design describes a flexible set of guidelines that connect theoretical paradigms first to strategies of inquiry and second to methods for collecting empirical materials"* (Denzin and Lincoln 2008, pp. 33-34). Researchers have pointed out that there is a need for more qualitative studies regarding the topic of dynamics in foreign operation modes (Benito, Petersen and Welch 2009). The research question in this study favors a qualitative research because we want to get more in-depth into the topic. By employing a qualitative research, a deeper understanding of behavior can be made and the researchers can find the meaning behind actions made by managers (Bryman and Bell 2007). Marshall and Rossman (2006) claim that if you want to understand why some actions are being performed, you need to understand the deeper perspectives that can be captured through face-to-face communication, thus qualitative research is an optimal choice. It is this deeper understanding of the factors influencing the dynamics in foreign operation modes the authors are looking for.

Simons (2009, p. 21) defines case studies as "*an in-depth exploration from multiple perspectives of the complexity and uniqueness of a particular project, policy, institution, programme or system in a real life context*." Schramm (1971) argues that the essence of a case study is to *"...illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result*." By looking at these definitions, and relating it to the research question at hand, it can be argued that a qualitative case study is the right approach. Though,

it should be noted that case studies are not a methodological choice, but it is a decision of what to be studied (Denzin and Lincoln 2005). A case study can be qualitative or quantitative, thus it is the nature of the research question that should determine which methodology to use (Yin 2009). Yin (2009) argues that the decisions being made are the main focus of case studies, and thus relating it to our research question, a qualitative approach is preferred.

When performing a qualitative case study, the authors recognize that they have to make some trade-offs. As Patton (2002, p. 223) says: "*There are no perfect research designs. There are always trade-offs*". The thesis aims to study one research question in-depth through the use of propositions and not many questions superficially. This is done in order to understand the question at hand more thoroughly, and establish knowledge about the question being asked.

Possible research designs to use are causal, descriptive and explorative (Gripsrud, Olsson and Silkoset 2006). Since not much is known and studied qualitatively regarding dynamics in foreign operation modes, an explorative design will be used. An explorative strategy with the use of a multiple case study design helps the researcher understanding the dynamics that exists in single settings (Eisenhardt 1989). The explorative research design is often used when little knowledge exists in the topic of study, and better insight into the topic is sought (Gripsrud, Olsson and Silkoset 2006). In this thesis, the authors have provided some propositions based on earlier literature, which will form the foundation for the qualitative data collection.

Since the study is focusing on more than one company, a multiple case method (Yin 2009) is employed. Such case studies include several cases, and according to Yin (2009), the probability of performing better with a case study will increase if you choose several cases. In contrast to studies focused on a single case;

> *Multiple case studies may, based on the variety between the phenomenon and contexts, contribute both to a better understanding of the interfaces between phenomenon and contexts and also to identification of different patterns in the interplay between them* (Aaboen, Dubois and Lind 2012, p. 236).

By choosing polar cases the authors hope to bring more knowledge into the topic of study by capturing the interesting phenomenon each case provides us with.

When choosing cases for a study, some criteria for being chosen needs to be applied. Thus, it is important to choose cases which will help enlighten the question asked. Eisenhardt (1989) argues that the cases can be chosen for a variety of reasons, and polarity is one of them. The cases chosen in this study are based on three criteria; 1) Norwegian company, 2) international experience and operations, and 3) polarity. Jotun has for instance used a combination of modes, and within-mode switch in their operations in China, while Marine Harvest mainly focuses on WOSs. The chosen firms can help us enlighten the research question by presenting different foreign operation mode portfolios, based on different strategic approaches. Variation is needed such that each case chosen is interesting and different than the other. In addition, the cases used should relate to the theory and research question that is being studied (Ghauri 2004). By choosing these companies the authors hope to gather interesting data on the dynamics in the companies' operation mode.

3.2 Data Collection

In the study, data will be collected qualitatively, through in-depth interviews with key personnel and others with extensive knowledge and experience from Jotun and Marine Harvest. In-depth interviews provide the researcher with the interviewees' perspective of the topic (Simons 2009). The interaction between the interviewer and the interviewee provides a deeper analysis of the issue at hand, and interviews provide the researcher with flexibility to adapt to issues emerging during the communication process. In addition, it provides the researcher with the possibility of uncovering feelings the interviewee has on certain issues (Simons 2009). Qualitative interviews may challenge the researcher in several areas. One example of a challenge is that the interviewee should be able to view the world as they perceive it, without being influenced by the interviewer (Yin 2011). In addition, the researcher should have a neutral appearance such that the interviewee does not twist the reality in order to please the interviewer (Yin 2011).

Data will also be gathered from annual reports, key information published online, and through continuous communication with contact persons. Yin (2011) argues that the use of documents may be important not only to supplement your own fieldwork, but also in order to prepare the researcher for the interviews. In addition to the above mentioned sources, articles other researchers have published, and other secondary sources may be important when collecting our data. The use of combination of data collection methods is often typical in case studies (Eisenhardt 1989). Yin (2009) claims that one of the strengths of case study data collection is that the researchers have an opportunity to use several different sources of evidence. Marshall and Rossman (2006) argue that in-depth interviews and document analysis are two of the main data collection methods available for researchers performing qualitative research.

The possible downsides with using in-depth interviews as a main source of data should also be noted. Askheim and Grennes (2000) discuss some of the weaknesses with in-depth interviews, and argue that they are; costly and time consuming, demanding with regards to the interviewer, and that the researcher may face problems with compiling, analyzing, and interpreting the data. In addition, there may be reactive effects with regards to the moderator, and the interviewee may perceive the possibility for being anonymous as low (Johnson and Turner 2003).

To protect against interviewer bias, both of the researchers are attending the interviews and one is taking notes in addition to the use of a tape recorder. Bryman and Bell (2007) argue that the use of tape recorders may disconcert the interviewee, such that they thoroughly consider what is being said. Thus, we need to acknowledge the possibility of interviewees not sharing information that might be of great interest to the thesis. The authors believe this will not be a major concern, since this research does not dig deep into issues concerning sensitive information. If cases where respondents refuse to be interviewed with a tape recorder occur, the authors will use their field notes and write them up after the interview, as recommended by Bryman and Bell (2007).

3.3 Interview Guide

An interview guide helps the researcher to address all issues he wants to discuss with the interviewee (Askheim and Grennes 2000). The three sources of topics to be addressed in the interview with the help of the interview guide, are according to King (2004); the research literature, informal preliminary work (information through secondary sources), and the researchers personal knowledge. Most of the knowledge, which is used in the interview guide, will come from the literature review, in addition to some secondary information about the companies.

Since the authors have developed a set of propositions in the literature review, an interview guide that is designed as a semi-structured interview will be used. This means that the interviewee will have flexibility with regards to how to reply (Bryman and Bell 2007). Thus, the researchers let the interviewee continue with the explanation of the topic discussed, even though the interview does not follow the outlined plan (Bryman and Bell 2007). The researchers will ask follow-up questions, also called 'probing' (Askheim and Grennes 2000), to dig deeper into the interviewees reasoning. Legard, Keegan and Ward (2003) argue that probing should continue until the researchers feels satisfied, and have uncovered the whole perspective of the interviewee. Some probes will be included in the interview guide, and the researchers acknowledge that this is an important part when conducting the interviews. As such, the researchers will follow a consistent line of inquiry, where the questions being pursued are flexible rather than rigid as argued by Rubin and Rubin (1995). The interview guide is attached in **Exhibit 1.**

3.4 Validity

The key quality control issue of a study and the results are related to validity (Yin 2011). Validity is concerned with whether or not the research measures the concept it is intended to measure (Askheim and Grennes 2000). Bryman and Bell (2007) note that critics of qualitative research points at generalization as one of the main problem areas. Although qualitative studies never can be generalized in a probabilistic sense, the knowledge and findings you obtain through the study can be transferred to similar contexts (Marshall and Rossman 2006). The limitation of external validity has always been a critique to qualitative studies, but since the critique is based on statistical generalization as in surveys, they do not capture the

nature of case studies (Yin 2009). In case studies, analytic generalization can be made, but the theory must be tested in multiple cases and the same results should occur (Yin 2009). Maxwell (1992) looks at many of earlier researchers' views on this topic, and claims that one of the key issues in the debate has been that if results of qualitative studies are not consistently valid, then predictions and other measures based on these results cannot be relied on. Payne and Williams (2005) on the other hand, point to the fact that some researchers deny intent to generalize with their qualitative research. In this thesis, the authors do not aim at generalizing the results, but rather to try to identify and understand why decisions are made. As Bryman and Bell (2007, p. 424) argue: "*The findings of qualitative research are to generalize to theory rather than to populations*."

In this thesis, in which the authors use a qualitative approach, issues regarding misunderstandings and confusions about the questions asked will be solved because of the proximity the researchers have to the interviewee. This is in line with Askheim and Grennes' (2000) arguments. As such, the interviewers in this study will elaborate on questions that the respondents find vague in order to increase the validity. According to Yin (2011), Maxwell (2009) discusses that one can get feedback from the respondent to reduce the possibility of misinterpretation of their views. This is one way of reducing the threat of low validity in the research. Therefore, the authors will ask questions to confirm the respondents' view, which may be necessary to increase the validity. Given the measures the authors will undertake in the study, the validity is considered to be high.

3.5 Reliability

Reliability addresses the issue of whether or not the results of a study are repeatable (Bryman and Bell 2007). As such, by doing the same research again, the researchers should obtain somewhat the same results (Gripsrud, Olson and Silkoset 2006; Yin 2009). There may exist some random conditions that may cause the study to be less reliable (Askheim and Grennes 2000), and Rand (1969) explains four different categories they may belong to: environmental conditions (such as the location the interview is taking place), the appearance of the moderator, conditions with regards to the interview guide and how the questions

are being asked, and conditions related to how the data analysis is being performed.

The authors recognize the importance of reliability in the research project, but since the results are affected by the interviewer himself in qualitative research, problems arise when doing a replica of the study. It will be difficult by other researchers to ask the same questions and get the exact same response from the interviewees. As LeCompte and Goetz (1982, p. 35) say: *"…Because human behavior is never static, no study can be replicated exactly, regardless of methods and designs employed*". Since the situations the researchers are operating in will never be the same, the results of a qualitative study will never be exactly the same as a previous one. In addition, other researchers have different backgrounds and experience, thus one will probably interpret and analyze the data differently than the authors of this thesis.

The authors acknowledge that it is highly important to document the procedures in the cases thoroughly. The authors will record and transcribe the interviews in order to overcome this challenge. As Marshall and Rossman (2006) argue: you should organize your collected data well, and keep a detailed journal or log of your design decision and its rationale, such that if your findings are challenged or another researcher wants to reanalyze your data, it should be easily available.

3.6 The Companies

In this section, a presentation of the two companies researched will be given. First, a general overview looking at the history of the companies, including a short presentation of their value chain, and an indication of their financial performance is given. Further, a description of each company's international experience is presented through looking at their international history and strategy. The data from these presentations lay the foundation for the subsequent interviews and analysis in this study.

3.6.1 Marine Harvest

3.6.1.1 Company Presentation

Marine Harvest is one of the world's leading seafood companies and their main product is farmed salmon (Marine Harvest 2012a). In 2011, Marine harvest had operating revenues of approximately NOK 16 billion, which is an increase of around 5 % from 2010 (Marine Harvest 2011). They have operations in 21 countries, with farming and processing activities in the major salmon farming regions, in addition to value adding processing activities and sales offices in many locations (Marine Harvest 2012b). In 2011, Marine Harvest reorganized, and moved from a geographic structure to a functional structure focusing on two business areas; Fish Farming and Sales and Marketing (Marine Harvest 2011). The reorganizations were made in order to reap benefits with regards to maximizing value creation through the allocation of skillsets and resources to the respective business areas (Marine Harvest 2011). To coordinate this division of upstream and downstream operations in an efficient way, much emphasis has been put into supply chain management of Marine Harvest's global value chain (**see figure 3-1**).

Figure 3-1: Seafood Value Chain

Source: Adapted by authors from Marine Harvest (2012c)

The upstream activities, as a cost center, focus on per unit costs and productivity. Further, upstream activities are faced with a high degree of capital intensity which is reflected through the way of operating fish farms. The location of where to start a new fish farm is based on many geographical factors, which severely narrows down the possibilities of where to build the farms. Amongst the locational factors needed is a constant supply of cold clear water, combined with protection from open sea, which makes for example Canada, Scotland and Norway preferable places for the farming operations. The breeders look for location where they can perform activities with high growth rates as well as a low degree of risk.

The first stage in the value chain is that the fish eggs are kept in incubation tanks filled with freshwater (Marine Harvest 2012c). Later, as they grow, the small fish are kept in areas supplied with freshwater, before they are moved to seawater. Smolt (the stage where salmons change in order to move from freshwater to seawater) are being transferred from the freshwater to seawater pens in order to continue the breeding (Marine Harvest 2012c). When the salmon reaches the preferred market weight (around 4 - 4,5 kilograms) they are harvested, which is the last phase in the upstream activities (Marine Harvest 2012c).

The downstream activities in fish farming companies are activities related to processing of fish along with sales and marketing. Marine Harvest uses wholly owned sales subsidiaries in countries where they are present, along with factories that run the processing activities. The processing activities are divided into primary, secondary, and value added. The primary processing activities are gutting of the fish, and secondary processing activities are making the product ready for retail and food service (Marine Harvest 2012c). In addition, there are value added activities such as smoking of the seafood.

3.6.1.2 Internationalization History and Strategy

In 2006, Marine Harvest merged with Pan Fish and Fjord Seafood, which may have affected their way of operating in foreign countries. Marine Harvest is also a result of several mergers and acquisitions prior to the one in 2006. Internationally, Marine Harvest mainly uses WOSs as its foreign operation modes (Benito, Petersen and Welch 2011). Their value chain, illustrated in **Figure 3-1**, is fully integrated which gives Marine Harvest full control over the activities performed and the inputs used.

The internationalization strategy for Marine Harvest differs much between upstream and downstream activities. In upstream activities, where potential countries are given, and everything is kept internalized to keep control over all processes, the strategy is quite straight forward, with a need for ownership and control to protect internal resources. For downstream activities, the strategy is more independently developed to suit each market's specific needs. As such, the downstream decisions are more based on external market conditions. According to an interview made with the CEO, Alf-Helge Aarskog, Marine Harvest sees

possibilities for consolidation downstream (Reuters 2011). This shows that acquisitions are an important measure when Marine Harvest expands internationally. Historically, Marine Harvest has expanded almost solely through M&As. Sales of farmed fish have an allocation component, where the salesperson at the subsidiaries works to match supply and demand. When the fish reaches market weight (4 - 4,5 kilograms) it must be transported to the factories where the processing activities are taking place, and the sales personnel in various locations need to have estimated the right demand in order to ship the most optimal number of tons of fish to the various locations. Thus, the sales personnel play a significant role in allocating the fish to the worldwide market.

Especially in Chile, Marine Harvest has grown through the use of M&As (United Nations 2006). Most of their fish that is farmed in their Chilean operations are exported to the United States and Japan (United Nations 2006). In 2007, Marine Harvest and other fish farmers faced a systemic biological breakdown in Chile, which significantly changed the business environment for the industry. A viral disease, infectious salmon anemia (ISA), severely affected the salmon industry in Chile, and the production of salmon fell by 50 per cent, in addition to causing a loss for the Chilean producers by two billion dollars (The New York Times 2011). Marine Harvest was one of the first companies that detected the virus at some of their fish farms in Chile. Adolfo Alvial, technical manager of Marine Harvest, said in an interview that "*This is undoubtedly the worst crisis in the entire history of the industry, not only due to its scope but also because it has made us admit that an urgent and deep change is needed*" (Intrafish 2012). The virus in Chile forced Marine Harvest to perform strategic changes in order to face the challenges caused by the crisis. This implied finding new ways to supply the US market, which is an exciting case for our thesis.

Information from the authors' early research and interviews also revealed other external events that caused challenges for Marine Harvest, for instance in China and Japan. The Nobel peace prize was in 2010 awarded to Liu Xiaobo. This caused challenges in getting Norwegian salmon into the Chinese market. Increased restrictions and quality checks have made it virtually impossible to supply the Chinese market with Norwegian salmon. As such, Marine Harvest needed to reorganize their international activities to work around this external

challenge. In Japan, socioeconomic downturns caused a change in demand towards more processed products, which meant that Marine Harvest needed to restructure their downstream presence in the Japanese market.

By applying these particular situations in the interviews with the respondents, the authors hope to get information that will help answer the research question. These are highly interesting external events that can be used in order to enlighten factors that may have influenced their decisions regarding foreign operation modes. This may not only be an explanation of how an external factor affects the dynamism, but in addition, it should be possible to uncover considerations Marine Harvest made linked to the other propositions.

3.6.2 Jotun

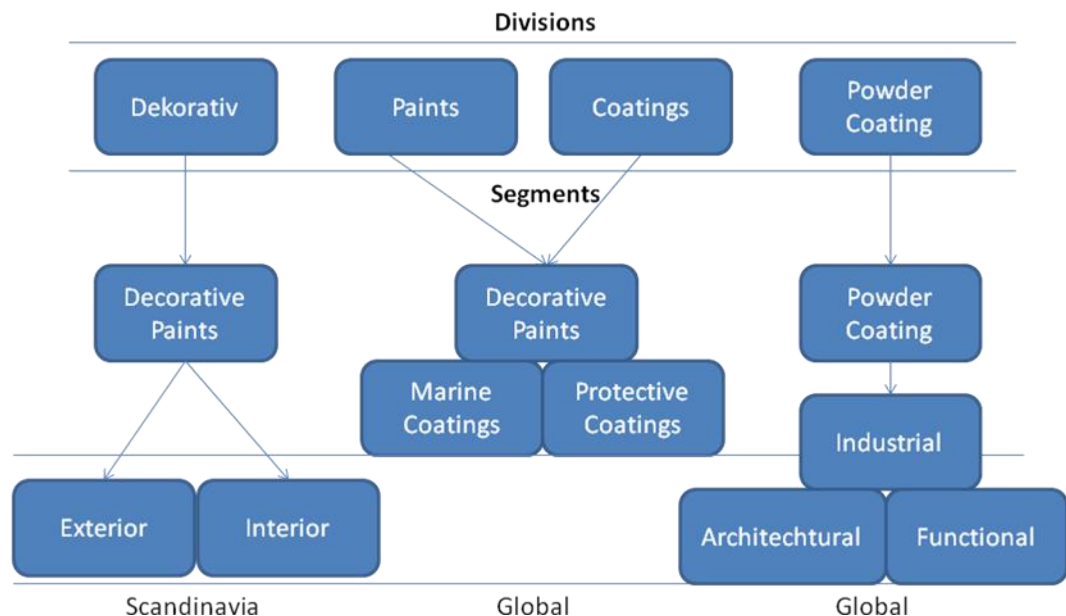
3.6.2.1 Company Presentation

Jotun was established by Odd Gleditsch Sr. in 1926, in Sandefjord, Norway. The company was initially focused on paint and maintenance of Norwegian whaling ships, which laid the foundation for a strong relationship to the shipping and maritime industry (Jotun 2010). The organization is structured into 4 divisions, namely Dekorativ, Paints, Coatings and Powder Coatings, of which the latter three are global divisions. The Coatings division is by far the largest, with 50 % of total operating income in 2011 (Jotun 2011). The Paints and Powder Coatings divisions have their headquarters located in the United Arab Emirates, while the Dekorativ and Coatings headquarters are located in Sandefjord, Norway. In 2011, the group had a total operating income of 1.9 billion USD, with 8300 employees worldwide (Jotun 2011), which amounts to a 17% increase in income and a 7% increase in employment from 2010 (Jotun 2011). Jotun has achieved large growth in previous years, with a strong strategic focus on organic growth in emerging markets (Jotun 2010).

Jotun is a privately owned company, with the Gleditsch family owning the majority of shares (54%) and the Norwegian conglomerate Orkla as the second largest owner with a 42,5% share (Gleditsch 2007). Broadly, the value chain of Jotun can be divided into an upstream- (production) and a downstream (marketing) part. Jotun divides their customers into four segments supplied by the

four internal divisions. These are Decorative Paints, Marine Coatings, Protective Coatings, and Powder Coatings. Although there are certain market specificities to the paint products, most coating products are considered global, and upstream activities are thus not market specific. This implies that some production is regionally centralized in many parts of the world. Also, some divisions (Paints and Coating) serve the same segments, making cross production a viable option. Marketing is, on the contrary, more sensitive to local conditions and is thus done with strong responsiveness to local cultures and preferences. **Figure 3-2** shows the connection between divisions and segments. Although Paints and Coatings serve the same segments, Paints is focused towards decorative paints, whereas Coatings prioritize the marine- and protective coatings segments.

Figure 3-2: Organizational Structure Jotun



Source: Developed by authors based on Jotun (2011).

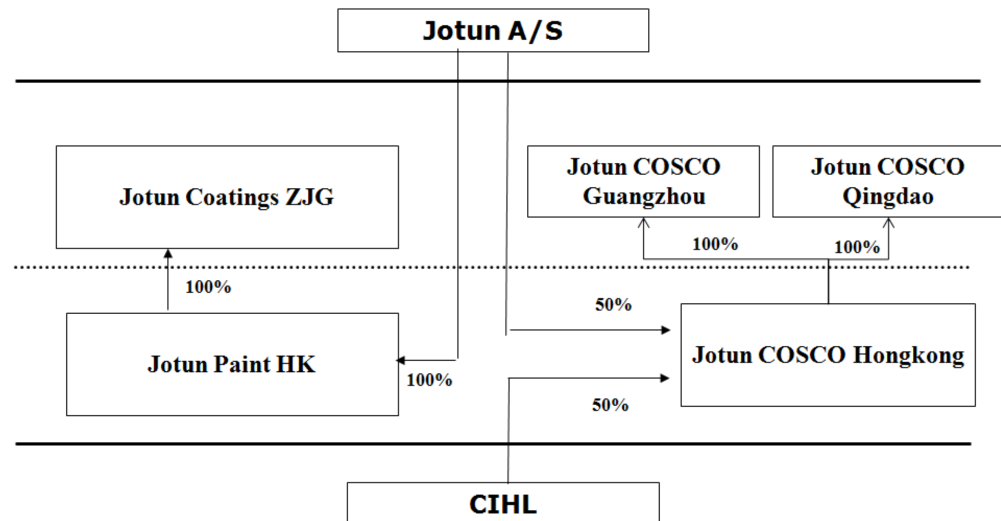
3.6.2.2 Internationalization history

Jotun started their internationalization process by entering Libya in 1962 and Thailand in 1968, and have since then become a global leader in paints and coatings and one of the most international companies in Norway with operations in more than 80 countries (Jotun 2011). The initial internationalization of Jotun is often referred to as a 'one man's show' with the determination of Odd Gleditsch Jr. as a significant influence on the expansion. Odd Gleditsch Jr. was also central in the merger of four of the largest paint manufacturers in Norway, made in 1982,

which gave Jotun a strong position in its home market and further prepared the company for internationalization.

In terms of operation modes, the firm has used a variety of modes in different markets (licensing in Chile, WOS in Thailand, JV in U.A.E, agent in UK), and also made mode changes in specific markets over time including mode combinations. For instance, Jotun entered China in 1983 through a sales office established in Hong Kong. After 10 years, they added joint venture sales office and production in Guangzhou with COSCO Goandong, a Hong Kong based subsidiary of a large Chinese shipping company, COSCO intl. (Chinese Ocean Shipping Company). In 1998, Jotun opened a wholly owned sales office in Shanghai as a within-mode switch, structured under the Hong Kong operations. In 2004, Jotun started building a wholly owned production facility in Zhangjiagang outside of Shanghai. Then in 2005, they entered into a larger Joint Venture with the mother company of their existing partner. This included building production facilities in Qingdao, which are still under construction. These actions implies that Jotun, in 2012, use a mode combination strategy in China where different modes are used for different divisions, supplying different segments (wholly owned for Paints and Powder Coatings and joint venture for Coatings). Although the modes are not competing but serve different segments, the wholly owned facilities in Zhangjiagang have supplied the joint venture due to a lack of capacity in the JV production facility. The structure of the Chinese operations is presented in **Figure 3-3**.

Figure 3-3: Ownership structure: Jotun China



Source: Internal Jotun document

Jotun's initial background for going abroad was to follow Norwegian customers in oil, offshore and shipping, as they internationalized. As such, the internationalization process was market seeking with a focus on covering demand of existing customers in new locations. As such, their establishment chain was more consistent with the second Uppsala theory in that organizational learning happened with strong ties to networks of customers. This implies that markets where chosen based on psychic distance, which was influenced by their potential network connection more than geographical distance to home market. Thus, the five first international markets entered by Jotun were Libya, Thailand, United Kingdom, United States and United Arab Emirates (Jotun 2010).

3.6.2.3 Internationalization strategy

Although Jotun uses several different operation modes in different markets, there is a typical establishment strategy which has been used in several markets. For choosing markets, Jotun performs feasibility studies to evaluate the potential of a new market. This analytical tool is also performed before making future operation mode decisions. Generally, Jotun's strategy has been focused on organic growth, and with regards to markets, most success has been reached in emerging economies such as South East Asia, the Middle East and China.

When a market has been found to have enough potential, the typical entry is made by exporting from neighboring countries with local production, using agents, licensing or a joint venture, based on local conditions. In 2012, Jotun has production facilities in approximately 50 per cent of all countries they have operations. The long-term goal is usually to have control and ownership if the market is fairly large, such that as sales continue to grow, ownership increases in sales offices. When demand reaches a higher stage and has future growth potential, a natural local establishment of production is added to lower transportation- and importing cost. The production units are mostly wholly owned, with some joint ventures, and a few licenses. These three steps have been made in several markets, and although it is not an explicit internationalization strategy, it has dominated the international establishment process of Jotun in many success markets (e.g. South East Asia and the Middle East).

4. Data Analysis

After the interviews have been performed and the required data has been collected, an analysis of the data is needed. The authors will transcribe the data, code and categorize it with regards to the main topics in order to highlight the research question. Askheim, Aas, and Grennes (2008) argue that the use of 'tags' on your transcripts can help you to categorize some issues into key topics. The authors have done this manually, which has both pros and cons. By codifying and categorizing the data, we may be able to uncover patterns that may emerge (Yin 2009). Researchers discuss whether pre-coding or subsequent coding is the right way to codify the data (Simons 2009), but since the propositions are based on theoretical viewpoints, pre-coding may be the more appropriate way.

Ghauri (2004) argues that the transcription of the interviews should be done in short time after the data collection to avoid weakening the analysis. The authors will transcribe the interview within 24 hours in order to cope with this problem. The data collection and analysis is a simultaneous process in qualitative research, thus when the first interview starts, the data analysis also begins (Merriam 2009). In order to be focused on the research question without being overwhelmed by data, the researchers should analyze the transcripts from the interviews one at the time (Merriam 2009). The analysis will follow this approach in order to have the specific interview fresh in mind, and to be able to uncover weaknesses from the previous interview which can be improved in the subsequent one.

4.1 Case Analysis and Discussion

The case analysis and discussion will be based on interviews with managers and others with extensive knowledge and experience from the companies, in addition to secondary sources such as annual reports. It will be structured with first, an analysis of each case, where we link these to the propositions made in the literature review. The analysis will start with a matrix that sums up the respondents information on the different propositions. By using a matrix, we can compare the information from the respondents through the use of a 'copy-paste technique' within different topics (Askheim, Aas, and Grenness 2008). Thus, it will ease the analysis and help other researchers quickly identify key topics. Then, an analysis and discussion of the two cases related to the propositions will be

made, in order to compare how the different mindsets and companies look at the proposed influencing factors. At the end of the analysis, the results are summed up in a table presenting the main findings of the study.

4.1.1 Operation Mode Changes Due to Internal Conditions

The question of how internal conditions, and potential changes in them, affect the foreign operation mode will be discussed here. *Proposition 1* argues that changes in internal conditions will cause a change in foreign operation mode. **Table 4-1** sums up the most important information the respondents gave us during the interviews.

Table 4-1: Change in internal conditions

Respondent nr.	Topic: Change in internal conditions
Respondent 1 Jotun	- It is natural to change the structure when you get more knowledge and resources. As you get more knowledge about the market, the size of the organization will increase. - "Business culture eats strategy for lunch." As such, the business culture in Jotun is very strong, such that it dominates how we act. "We want more penguins".
Respondent 2 Jotun	- Network contacts are an important factor for making new mode decisions, both in new and existing markets. - The culture and global strategy of Jotun influences all mode decisions. - As the company has matured and gained resources, knowledge, and experience, mode decisions are made differently than earlier.
Respondent 3 Marine Harvest	- Mode specific factors are of course important. - Marine Harvest chooses to represent their products throughout the whole value chain. This is done in order to have control because of the risk that is present in food production. - "Maybe control is more important than risk." "In order to be able to deliver stabile, you need to organize such that you have control with regards to upstream variation."
Respondent 4 Marine Harvest	- The merger made it possible to access global hypermarkets that think global, but buy local. - Increased size and resources gave possibilities for making operation mode changes after the merger. - More key accounts than geographic responsibility.

Source: Developed by authors based on information gathered in interviews

Respondents from both companies believe that the internal conditions have an important influence on the operation mode. Still, Jotun, to a larger degree, follows the explanation of our proposition, namely that they change their structure when they for instance get more knowledge or resources. This is for instance done in China, where Jotun has made numerous investments in building up a strong

organization as they gain understanding of the Chinese market and the resources needed to run larger operations. Such knowledge or resources may be accumulated through many years, but as they reach a critical point, either with a critical mass of demand or a critical mass of internal resources and market experience, a change in the operation mode is a natural action. These changes follow the logic of the Uppsala framework (Johansen and Vahlne 1977; 2009), in that firms move towards a higher degree of ownership as they accumulate resources, knowledge and experience (Welch, Benito and Petersen 2007). As Jotun has achieved positive changes in internal conditions, they have changed their foreign operation mode strategy and are able to make bolder choices today than previously. The internal culture, often referred to as the 'penguin spirit' is an essential part of Jotun as an international company and has a strong influence on how they perform all international activities. Mode switching is part of Jotun's intended strategy as their operation mode strategy in new markets includes several changes from first entry to fully established operations. This contradicts the argument of Benito, Petersen and Welch (2012) that mode changes often happen because of modification of company strategy.

Even though Marine Harvest mostly uses WOSs in their foreign operations, the merger in 2006 caused them to internalize and get more control over the downstream activities. For Marine Harvest, a change in the internal conditions had an impact on their foreign operation modes, but they did not change to another mode because of the shift in internal conditions. They rather got more control over how they operated. As such, it can be argued that they made several within-mode switches, which indicate that changes in internal conditions also affect their operation modes. The respondents argued that it was industry specific, and since Marine Harvest is producing food, control is important to reduce the risk. Health- and safety regulations must be followed, and ISO and other types of certification need to be in place in order to follow health standards related to selling quality food products. This applies both to upstream and downstream activities. As such, control is the preferred option at all times, which may limit some operation mode alternatives. On the other hand, one of the respondents mentioned that the merger, and other changes in internal conditions, had a significant impact on how they operated. The increase in size and resources made more options available for the firm which influenced their strategy. For instance, reaching a critical size made

them able to approach large multinational hypermarkets such as Tesco, Carrefour, and Wal-Mart etc. This may not necessarily imply making inter-mode changes, but it still indicates that Marine Harvest partially tends to follow the logic behind *proposition 1* as well.

Respondents from both firms mentioned networks of the employees as an important factor, both for entering markets, and for making operation mode changes. For example, Jotun used the network of their general manager in Oman, when entering the Indian market. His experience with this specific market was used to find the right agent, and enter the market. Then, at a later point, as the company reached a crucial size and market share, they internalized their operation by buying out the agent and replacing the mode with a WOS. This first decision shows how an internal conditions influence a mode change in entering a market, while the second shows how a change in internal conditions cause a change in operation mode.

Overall, much of the findings in this study tend to follow the logic behind *proposition 1*, in that internal conditions have an influence on operation mode decisions. The most mentioned factors in Jotun where size (market share), network, strategy and culture. However, for Marine Harvest the focus was on size (market share), control, risk, and strategy. With regards to the two types of internal factors (Welch, Benito and Petersen 2007), Jotun has a focus on company background (size, strategy) whereas Marine Harvest also includes several specific company mode concerns (control, risk). This suggests that there are some differences between the cases, which may be industry specific or firm-strategy specific.

4.1.2 Operation Mode Changes Due to External Conditions

This section will discuss how changes in the external conditions have affected operation mode decisions in Jotun and Marine Harvest. *Proposition 2a* and *proposition 2b* state that a positive change in external conditions would cause an increase in investments, and that a negative change would cause a decrease of presence in the market. As the information in **Table 4-2** illustrates, the external conditions have a large influence on their decisions of how to operate.

Table 4-2: Change in external conditions

Respondent nr.	Topic: Change in external conditions
Respondent 1 Jotun	- Feasibility studies which look at competitors, economic indicators, expected growth, prosperity, purchase power, potential industrial partners are being performed continuously. - Even though there is a change in external conditions, “the preferred choice is to own 100 %, no matter what.” - “We do not share risk with purpose, even though we feel there is a high risk. It is not so that we do not dare to lose the money.” - If large external changes take place, operations do not continue at any price (such as Libya). - If the results from operations in a market are poor, it has happened that the local production is closed, and import has been initiated. One can rather reestablish the operations if something changes.
Respondent 2 Jotun	- The risk is being evaluated dynamically, for instance if the external risk is reduced quite a lot, then we go into dialog with the agent, and reduce his ownership, or buy him out such that we can run the business wholly owned. - The operation mode is highly related to the external risk, such that the lesser the risk, the higher the ownership stake.
Respondent 3 Marine Harvest	- Political conditions are being evaluated when they are ‘on the radar’. - We do not have many examples of a change in ownership structure caused by external changes. - External changes took place after the Nobel peace prize given in 2009. This made exporting of Norwegian fish to China difficult.
Respondent 4 Marine Harvest	- We were moving into Russia at one point, but we ended the operations. We wish to do as little as possible until the political situation is different. - Changes in the socioeconomic situation in Japan made Marine Harvest set up value added activities near the market.

Source: Developed by authors based on information gathered in interviews

The interesting operation mode strategies of our two cases can also be seen in the discussion related to how a change in the external environment influences how companies act in a market. Both companies have much experience with challenging external conditions and events, which have influenced their operations significantly. Still, there are some differences in their approaches that are very interesting.

Jotun is an example that follows the theory behind *proposition 2a* and *proposition 2b*, in that they increase their presence in the market if positive external changes emerge, and vice versa. An interesting remark from one of the respondents in Jotun reflects this: *“when something happens, such as in Libya, we do not continue at any price.”* They also have an example from Spain where the operations did not yield positive returns, so they closed the local production, and

opened for import of the goods instead. The answer from the respondent could be interpreted such that if a positive shift in the environment again emerged, they would be very likely to open the facilities and initiate local production again. This was confirmed by the other informant, which argued that external risk is being evaluated dynamically. Thus, when external risk is reduced, such as political conditions are getting more stable, the respondent stated that *"we go into dialogue with the agent, and reduce his ownership, or buy him out such that we can run the business wholly owned."* This reflects that a positive change cause the company to increase their presence. The informant also claimed that the ownership stake was closely related to external risk, such that a negative change may cause the company to decrease their presence in the market. This is what happened in Jotun's operations in Libya when Gadhafi said that they had 48 hours to abandon the factory. This may be seen as a restriction on ownership that reduces the company's investments. At the same time, both respondents noticed that Jotun struggled with exit strategies, and perhaps at times were not willing to let go, when not performing to the required standard. Consequently, in the case of Jotun, the external environment's effect is both related to mode increases and mode reductions, and does not mainly follow one direction as suggested by both Swoboda, Olejnik, and Morschett (2011) and Calof and Beamish (1995).

Other interesting remarks regarding the external environment's influence on the foreign operation modes was also shared by the respondent from Jotun. One argued that "*We do not share risk with purpose, even though we feel there is a high risk. It is not so that we do not dare to lose the money."* This shows that the preferred mode, regardless of external risk in the market, is WOS. As such, it contradicts the notion that preferring a wholly owned establishment is connected to a low perception of risk (Puck, Holtbrügge and Mohr 2009). Being a risk taker could imply preferring an approach that is wholly owned, even though a change in the conditions appears. This is also reflected through the argument: "*even though there is a change in external conditions, the preferred choice is to own 100 %, no matter what."* This reflection contradicts *proposition 2a and 2b*, which argues that a change in the conditions will cause a change in operation mode.

The answer from Marine Harvest's respondents follows much of the same logic as Jotun. They analyze the local external conditions when they are *'on the radar'*, but they do not have any examples of a severe change in operation mode due to a change in external conditions. However, Marine Harvest faced trouble in China after the award of the Nobel Peace Prize to Liu Xiaobo in 2010. After the award, the Chinese government sanctioned Norwegian products in China, such that Norwegian salmon were almost impossible to sell. This caused Marine Harvest to supply China with salmon from other countries, such as Scotland. This may be seen as a change in operation mode where they move the distribution from one country to another. As described earlier, with regards to Marine Harvest, they also have a preferred operation mode with WOSs. The topic of using an agent in China to overcome the restrictions was discussed in the interviews, but the respondents did not believe that this would be enough to overcome the restrictions. Another example of how changes in the external conditions affected the operation mode is in Japan, where the socioeconomic conditions changed, such that value adding process activities were established in Japan. This was done as a strategic choice, since operation mode strategy for downstream operation is based on *"being as close to the customer as possible"*, and to move the complexity costs as close to the end consumer as possible. A third external event, which was thoroughly discussed in the interviews, was the challenges in Chile in 2009. The result of the virus was that Marine Harvest and most of their competitors had to reorganize their global operations to supply the markets that were previously supplied from Chile. The changes made for Marine Harvest was to move downstream value adding processing activities to a new facility in Miami, which had previously been done in Chile, and import the raw fish mainly from Norway and Scotland.

By looking at the interviewees' response on how a change in the external environment affects the operation mode, there seems to be a tendency amongst both cases that a change regarding political-, economical-, or legal conditions will cause a change in the operation mode, especially when there are restrictions on ownership. Also, other unforeseen events may have an enormous impact on activities, and suggest changes to remain successful in the markets. This may be context specific, but the results from this study tend to be in line with *proposition 2a* and *proposition 2b*.

4.1.3 Operation Mode Decisions Based on Experience

Experience from other markets, or the experience of usage of certain modes is an interesting aspect when analyzing the companies' approach to the dynamism in operation modes. *Proposition 3a* looks at how experience from other markets lead to similar operation mode decisions, whereas *proposition* 3b suggests that experience increases the number of operation mode alternatives. **Table 4-3** sums up the main arguments the respondents provided the authors with regards to this issue.

Table 4-3: Operation mode decisions due to experience

Respondent nr.	**Topic: Experience**
Respondent 1 Jotun	- Experience are being shared around the lunch table - The executives' experience clearly affects how the company's approach to internationalization is today. - "That experience also influences us today." - The establishment chain is based "on experience, only experience." This is the preferred approach to use in foreign markets.
Respondent 2 Jotun	- Experience is highly important in uncharted territories - Jotun is very good at utilizing experience. - Jotun takes into account the errors they have made, and base their decisions on that experience. - Jotun considers less operation mode alternatives when experience increases, because they know what works.
Respondent 3 Marine Harvest	- Experience and knowledge has a high influence on the chosen operation mode in a certain market. - A lot of tacit knowledge exists, due to the fact that many have worked a long time in the industry. - Many people that work in the industry and have been managers over time have a backbone for it. They know that some countries work, and some do not. - The choice of operation mode is based on experience and knowledge from other markets. - "With a clean slate you will evaluate every option, but you never get a clean slate."
Respondent 4 Marine Harvest	- If you fail a couple of times, you will learn. - We have poor experience with the use of agents, thus we use it as little as possible. - Operation modes you have good experience with will be preferred over modes you do not have experience with. - Flexibility and future scenarios are considered when making operation mode decisions.

Source: Developed by authors based on information gathered in interviews

The issue of experience has an influence on operation mode decisions, and *"companies who does not learn from experience will not endure in the long run"* (respondent 4). Both companies argued that experience was an important factor when making decisions, and that it, to different extents, may influence the mode chosen. Looking at the historical mode decisions in the companies, Jotun has throughout their internationalization process, preferred different modes at different times. According to the respondents, this was to a large degree linked to experience and increased international knowledge and resources.

Jotun often uses an establishment chain strategy in their foreign operations, and this strategy is, according to the respondents, based on *"experience, only experience"*. What Jotun has done previously, and had success or failure with, will affect the choices they make when changing foreign operation modes. As one of the informants from Jotun argued; *"The executives' experience clearly affects how the company's approach is today."* This statement gives an indication of how the past decisions made by managers create a bias towards which operation modes that are in the consideration set when making current decisions. It is natural to interpret this information such, that negative experiences with one mode reduces the probability to change into that mode again, and positive experiences with a mode increase the likelihood of changing your mode into that mode. This was confirmed by the other informant at Jotun, which argued that *"Jotun takes into account the errors they have made, and base their decisions on that experience."* With regards to the establishment chain strategy, the potential challenge of path dependency may appear due to strong influence of previous choices (Asmussen, Benito and Petersen 2009). This may potentially reach the point where future operation mode changes are made due to previous mode decisions, and not based on an objective analysis. Respondent two at Jotun argued that they consider less operation mode alternatives as experience increases because they know what works. Thus, negative experiences, for instance with acquisitions in the United States for Jotun, reduces the possibility for the decision makers to choose that mode at a later time. Still, the respondents clearly argued that no mode was completely excluded as a result of previous experience. Not only the decision maker for a specific foreign operation mode decision may have an impact on the modes being chosen, but also others in the company that have experiences with specific modes may affect the decision. An informant stated that experiences are

shared around the lunch table, so there is a lot of tacit knowledge in the system which is exploited in order to make decisions regarding foreign operation modes.

The respondents from Marine Harvest argued that experience with certain modes has a high influence on the operation modes in foreign markets. An interesting comment from one of the respondents was that a lot of the people working in the industry, have been working there for many years, and have developed a 'backbone' for what works. The experience with certain modes from other markets influence which modes managers choose to operate with in foreign markets, along with subsequent investments. One respondent argued that Marine Harvest has poor experience with the use of agents, such that they use it as little as possible. They found agents to act as a filter towards the end users, thus limiting the information flow both ways between Marine Harvest and the end user. This reduced the probability of choosing agents as an operation mode in other markets.

In Marine Harvest, one of the respondents argued that with a clean slate, you would evaluate every operation mode equally each time. However, you will never get a clean slate. This indicates that the experiences made in the past, influence the decisions you are making today, thus interpreting this in the light of *proposition 3b*, firms will not have more options available as their experience increases, but they would rather choose amongst the operation modes they know have been successful in the past. In addition, a respondent argued that flexibility and future scenarios are considered when making operation mode choices and since WOS are the preferred mode, this may limit the number of operation modes considered.

According to the informants, experience has a high influence on the companies' choice and change of foreign operation modes. All informants highlighted this issue as a very important aspect when considering both to enter a foreign market and to change their current operations within it. Based on the information from the respondents from both companies, *proposition 3a* seems to give an explanation to how the factor 'experience' affect the operation mode decisions by companies. There seems to be a tendency that firms make operation mode decisions in accordance with experience from other markets. The respondents' statements regarding *proposition 3b* shows a tendency that more experience reduces

operation mode options rather than increasing them because of the impact success and failure with certain modes have on the decision makers. As such, we find that the information from the respondents is in line *proposition 3a*, whereas *proposition 3b* does not tend to be in line with the respondents view. As such, the cases does not follow the Uppsala model in that increased international knowledge and experience increases the options available to the firm (Johansen and Vahlne 2009). This may imply that managers operates and change into suboptimal operation modes in markets where other modes may be more beneficial. This may also be seen in an interrelationship with rules-based decision making, which will be discussed next.

4.1.4 Rules-based operation mode decisions

When facing different alternatives on how to operate abroad, companies face a substantial amount of potential structures. In the literature review, *proposition 4* discusses that the decisions made by managers were rules-based in order to simplify the decision making process. **Table 4-4** sums up what the respondents had in mind regarding this issue.

Table 4-4: Rules-based decisions to simplify the decision making process

Respondent nr.	Topic: Rules-based decisions
Respondent 1 Jotun	- "To be honest, I believe the first contact is a bit random". Will very often start with a small step, as a test of the market. The most used, is to start with an agent, and continue the establishment chain from there. - "Once we see that it is attractive to own, we want to have control. It is preferred even though it is not written down anywhere." It is implicit that the operations after a while will be governed and controlled. It is a rule of thumb. - When Jotun already is present, and is considering the next step, wholly owned is preferred, if that does not work for some reason, then you look for alternatives.
Respondent 2 Jotun	- Either you produce locally, or import from another factory. - The value chain is not split up into parts when making operation mode decisions. - For production, 100% ownership is the only alternative, unless rules require JV. - For every operation mode decision, a feasibility study is performed. This study is, to a degree, based on past experiences and successes. - Feasibility studies are often performed by people with experience to the relevant market, and their convincing power may influence the decision making process.
Respondent 3 Marine Harvest	- There are no explicit rules regarding foreign operation modes, but the general trend leans towards seeking ownership and control on foreign operations, both upstream and downstream. - To a larger degree use of rule of thumb, but these rules are based on observations and analyses over a large period of time. - All products with the Marine Harvest brand name on it is always 100% produced in-house to secure product quality etc. This implies that 100% ownership is not only preferred, but the only alternative for some of the operations.
Respondent 4 Marine Harvest	- No operation modes are excluded. - Regarding logistics and distribution, we mainly outsource these activities. - Production and processing activities are being done by us. - "You could not farm salmon only through partnerships"

Source: Developed by authors based on information gathered in interviews

None of the interviews revealed an explicit rules-based decision-making process. However, both companies admitted that there was a business practice which did not consider all alternatives equally. As one respondent in Jotun noticed, the firm strategy was not telling what to do in each market, but practice revealed many similarities between countries in terms of operation mode decisions. The other Jotun interviewee explained how the feasibility studies were made for each operation mode decision. These studies were often written by people with first-hand experience to the market or a neighboring country. The result of the study presented alternatives for operation mode decisions, and subjective criteria of the

analyzer may influence the decision making. As such, some alternatives may be eliminated due to bounded rationality of the person making the feasibility study if the employee has bad experiences with a certain mode.

Both companies stated that ownership was preferred in operations, indicating an exploitative approach to operation modes and that there may be rules-based practice towards such modes, although not stated explicitly. Neither company split up all activities in the value chain for making decisions, but to an extent divided into upstream and downstream, depending on the decision. Such decision making simplification may be necessary due to the very large amount of alternatives present when considering all parts of the value chain separate. However, the use of ‘rule of thumb’ may eliminate alternatives and cause suboptimal decision making.

Both interviewees at Jotun argued that production was not to be outsourced or licensed. Also, both respondents from Marine Harvest noticed that all products sold with the Marine Harvest brand name had gone through an in-house value chain. This could indicate some rules on operation mode in upstream activities. An interviewee also remarked how the decision maker may have a bounded rational approach, due to the fact that he never starts with a clean slate. Rules seem to be based on previous success, in a way that following successful strategies becomes implicit rules in the companies. For Jotun, the feasibility study laying the foundation for operation mode decisions is to a large extent based on previous knowledge and experience, with high influence of past successes.

With regards to *proposition 4*, findings from the interviews support the idea that decisions are made without considering all alternatives equally. Still, both companies seem to put a lot of effort into making these decisions, and both argued that all mode alternatives were considered. However, the main reasons for simplifying seem to be bounded rationality of the decision makers, and implicit rules from firm strategy created due to knowledge, experience and previous successful operations.

4.1.5 Operation Mode Decisions Influenced by Competitors

Proposition 5 states that competitors and their moves in foreign market have, in the literature review, been proposed to influence how other companies in the same industry acts. In the interviews, the informants provided the authors with a lot of interesting information, summed up in **Table 4-5**.

Table 4-5: Operation mode decisions influenced by competitors

Respondent nr.	Topic: Competitors influence
Respondent 1 Jotun	- "We are definitely watching our competitor's moves." - Use of common business practice in the country you are operating. - The competitors' move does not necessarily affect us, but we watch their moves and take note of it. I do not believe we have changed because a competitor has done it. - They may see business models that work for others which they may copy in other markets (e.g. Denmark operations).
Respondent 2 Jotun	- We do not care much about our competitors. - If the competitor changes operation mode and it works, it may influence Jotun. If the agent cannot give us market power, we continuously consider the operation mode.
Respondent 3 Marine Harvest	- Marine Harvest is the point of reference in the market, meaning that the competitors follow them more than the other way around. - You compare yourself with the competitors through EBIT/kg. So if you own your own sales structure, it is a strategic choice with regards to an expected future income.
Respondent 4 Marine Harvest	- Competitors may influence us, but we have our own strategy on how we want to penetrate different markets. - Even though the competitor would change agent and have success with it, we would probably not do it. - Experience with political challenges, partners etc. may be discussed in industry organization. However, the company is very careful with what type of information is discussed with competitors.

Source: Developed by authors based on information gathered in interviews

Information given by the respondents in relation to how the competitors influence the operation mode decisions provided a new and interesting insight. Both companies claim they have not changed operation mode due to the strategic actions made by their competitors. On the other hand, both say they take notice of their competitors' actions. One respondent from Jotun stated that "*We are definitely watching our competitors' moves."* This statement reflects that the decision makers in Jotun and their strategic decisions may be influenced by their competitors' actions. On the other hand, this may be more operative decisions which are not as large as making a decision regarding an operation mode change. Respondent two at Jotun stated that if they see a competitor change operation

mode and it yields significant benefits, it may influence Jotun. For instance, if an agent does not give Jotun the expected market power, they consider the operation mode. This does not necessarily have to be influenced by the competitors, but it is natural to assume that they compare their own performance with the competitors'. An interesting point brought up by all four respondents is that they saw many competitors making similar strategic choices as they did, also with regards to operation modes. As such, Knickerbocker's argument (1973) stating that a mode decision from a company would create subsequent countermoves from competitors seems to be in line with the information given by the respondents. This may be a result of these firms being industry leaders, and may imply that other firms in the industries are to a larger extent subject to being influenced by competitors' operation mode decisions.

Respondent one at Jotun stated that they to a large degree use the common business practice in the country they are operating instead of responding to their competitors' moves. This statement is in line with Guillén's (2003) argument which indicates that following a norm in the industry enhances legitimacy and reduces uncertainty. Considering that following common business practice in a market is related to how others have acted in the same market before, it can be argued that using common business practice is influenced by the competitors. This is not directly influenced by a competitor's strategic action, but it is an established operation pattern that is built up over time. Thus, Jotun's operation mode decisions does not tend to be directly influenced by their competitors as argued in *proposition 5*, but rather follows common business practice in the country they operate.

Marine Harvest compares themselves with their competitors through EBIT/kg, thus if they see the competitors making strategic actions that increases this ratio, it is likely to believe that Marine Harvest may also change their operations in order to increase the ratio. This is in line with the arguments of Haunschild and Miner (1997) regarding efficient outcome imitation. As the respondent argued; *"If you own your own sales structure, it is a strategic choice with regards to an expected future income."* This statement reflects a choice of following a strategy where the revenues are expected to be higher than with the use of other operation modes. As such, if Marine Harvest observes that competitors with other operation modes

have a higher EBIT/kg it is natural to believe that the mode the competitors are using is being analyzed and evaluated. On the other hand, the respondents at Marine Harvest argued that the most important criteria were to have control and minimize risk, and they argued that this was done through the use of WOS. Thus, this is a long term strategy that is expected to yield results, meaning Marine Harvest's operation mode decisions are to a less degree influenced by their competitors. This is also shown through the statement *"If the competitor would change agent and have success with it, we would probably still not do it."* Marine Harvest has their own strategy on how to operate in foreign markets, thus a change in operation mode from the competitor's side will not affect them to a large degree.

The above discussion shows that these companies have a tendency of not following their competitors' moves, and the operation mode decisions are to a less extent influenced by the competitors. Sticking to your operation mode strategy, such as Marine Harvest, seems to have a greater impact than following a competitor's mode that may be perceived as more revenue generating. In addition, following common business practice in the country you are operating, such as Jotun often does, tend to have a greater impact on the operation mode decisions than the competitors' actions. Thus, some of the arguments leading up to *proposition 5*, seems to be line in with the information given by the companies in this study, but changes in operation modes are not made as a response to a competitors' move. However, these companies have very high international experience and a good reason to stick with their international strategy, also with regards to foreign operation modes. As such, it may be the case that other companies in the industry will have a very different point of view on this matter.

4.1.6 Within-Mode Switches

In the literature review, we proposed that firms tend to use within-mode switches as a strategic tool to prepare for mode switches in the future (*proposition 6a*), and that such switches strengthens the mode and increase the barriers to perform mode switches in the future (*proposition 6b*). The interviews uncovered some interesting aspects regarding *proposition 6*, and **Table 4-6** sums up the most important views and information the informants provided us with.

Table 4-6: The influence of within-mode switches

Respondent nr.	Topic: Within-mode switches
Respondent 1 Jotun	- We definitely make investments in the same structure over time. It is done both to strengthen the position of the already established mode and to prepare for a new structure, and the reasons varies each time. - Part of the establishment chain strategy is making continuous investments as the operations move from low ownership towards WOS. This also implies many within-mode switches.
Respondent 2 Jotun	- A change of agent may happen in order to prepare for a future change. For instance, if the existing contract with an agent includes a clause where he claims ownership if a factory is built, changing to a new agent without this clause is a strategic move. - A change in operation mode does not increase the barriers to perform future switches for Jotun. - COSCO is the world's largest shipping company, so it is a good partner to have in Marine.
Respondent 3 Marine Harvest	- In Japan, an add-on was made in order to provide a better offer to retail. It was based on a wish of making a product suiting a changed demand in the market. - The investment in a structure is made both to strengthen the existing structure in addition to prepare for a potential change in operation mode. - You invest because you believe it will provide increased revenue over time, or because you want to spin out and sell it. "You do not want to destruct your value creation."
Respondent 4 Marine Harvest	- Investments are being made all the time, and you are never finished investing. - Within-mode switching is more relevant for certain modes. For instance, we would not change from an agent to another. - The investment is made to strengthen the establishment.

Source: Developed by authors based on information gathered in interviews

Within-mode switches can be made for several reasons, and can take many forms as argued in the literature review. The information from the interviews with the respondents uncovered that both companies make investments in a structure/mode in order to strengthen the already established mode in addition to prepare for a potential change in operation mode. Still, there are some interesting differences between the two companies.

Following the arguments leading to *proposition 6a*, the respondents' statements shows that a within-mode switch tend to be used as a strategic tool in order to prepare for mode switches in the future. As one of the respondents from Jotun stated; "*When it becomes something worth owning, we would like to have control, it is preferred.*" Though, with this statement in mind, it could be argued that the increased investments within a mode are made in order to see if it will be

profitable to perform a mode switch in the future. Respondent two at Jotun also argued that for instance "*a change of agent may be initiated in order to prepare for a future change.*" This can be done in situations where the existing agent contract is poor for Jotun if they want to expand with the establishment of a factory, thus a change of agent will lower the switching cost of a future mode switch. Increased investments will hopefully increase the profitability of the operations, and when it reaches a 'critical point', a mode switch towards for instance a WOS will be performed.

The above arguments are also in line with Marine Harvest's strategy where a wholly owned structure is a strategic choice with regards to future expected income. As we can see, the difference between Jotun and Marine Harvest on *proposition 6a* is that Marine Harvest often uses WOSs from the beginning, while Jotun invests in a mode over time in order to prepare for a switch. From Marine Harvest, one informant argued that they would never switch from one agent to another; they would rather do the job themselves. In addition, the informants argued that the investments were made in order to strengthen their already established mode. It is interesting to note that Marine Harvest stated that they also made within-mode investments in order to prepare for a potential mode switch. As one of the informants stated; *"You invest because you believe it will provide increased revenue over time, or because you want to spin out and sell it. You do not want to destruct your value creation."* This statement shows that even though the investments primarily are made in order to be revenue generating for the preferred mode, within-mode investments are also made in order to maximize the revenues the company can get from a potential sale of a part of the ownership to another company. Thus, *proposition 6a* lean towards receiving support from the informants in the study.

Regarding whether or not within-mode switches strengthen the mode and increase the barriers to perform mode switches in the future as argued *proposition 6b*, the statement regarding value creation and value destruction above can be applied. A within-mode switch, with regards to an increase in use of resources and activities, may be used in order to gain more from a potential sale of ownership. This leans towards not supporting *proposition 6b*. On the other hand, one of the informants from Jotun argued that through an expansion of the existing mode, the employees

are the costs. In addition, the respondent claimed that "*It is much harder to let people go than ending a contract with someone.*" Thus, by increasing the involvement in the market by hiring your own employees, they may act as a barrier to perform a mode switch in the future. Also, one respondent at Marine Harvest argued that the within-mode switches, or investments, as he referred to it as, were made in order to strengthen the existing establishment. This may arguably imply increasing the switching costs. It is natural to believe that this argument mainly applies to circumstances where the mode is wholly owned, since there will not be any higher ownership alternative to switch to over time. Thus, *proposition 6b* does not tend to be completely in line with the information given by the respondents in this study.

4.1.7 Switching Barriers

Regarding the switching barriers, *proposition 7* in the literature review argues that non-equity modes have lower switching costs than equity modes. The respondents contributed to this proposition with highly interesting information, where the most important points are summed up in **Table 4-7.**

Table 4-7: Switching barriers of different modes

Respondent nr.	Topic: Switching barriers of equity and non-equity modes
Respondent 1 Jotun	- "Scaling up is definitely a cost, because of the many investments that must be made." - "To buy land or property for production does definitely have a high cost, both actual-, and perceived costs." - If we had licensed more, instead of producing everything ourselves, the cost would have been much lower. - Regarding exit barriers, it is much easier to exit if you end a contract with someone instead of lay off your own workers. "It is really smooth to get out of these contracts." - The switching costs would definitely be different if the structure were different. - The higher the equity stake, the greater the exit barriers. Both actual and perceived costs.
Respondent 2 Jotun	- If you scale down from wholly owned to agent, or exit the market, you have accounts receivable. If you exit Syria or Lebanon, the money is almost lost, so if that is switching costs, they are extremely high. - The higher the ownership stake, the higher switching costs. - It is lower switching costs by scaling up than down, substantially lower. - You have to admit that you have been wrong, that is a problem both for the individual and the company. Prestige is involved.
Respondent 3 Marine Harvest	- "The switching cost itself is not so interesting, the investment case is interesting. If you earn more money by doing sales yourself, instead of not doing it, you will prefer to own it yourself." - The switching cost of changing from a preferred mode is generally higher than from a non-preferred mode.
Respondent 4 Marine Harvest	- There are both economic switching costs, and reputation and PR 'costs'. - The switching cost would be the same regardless of ownership stake.

Source: Developed by authors based on information gathered in interviews

Jotun follows the arguments leading up to *proposition 7*, and the informants argued that the switching costs of equity modes were higher than for non-equity modes. One of the informants from Jotun stated that *"The higher the equity stake, the greater the exit barriers."* The other respondent also claimed that a higher ownership stake would imply that the switching costs were higher. This illustrates what is expected, namely that a company operating with an equity mode will have made investments with higher costs than those operating with a non-equity mode, and thus the switching cost tends to be higher for equity modes.

Marine Harvest mainly uses WOS and their operations often have high costs related to the investments. In addition, since they mainly use WOS, the company may not have the capabilities, knowledge or experiences necessary to make a switch. Then, it is natural to assume that this acts as a barrier to perform a mode

switch for Marine Harvest. One informant at Marine harvest stated that "*The switching cost itself is not so interesting, the investment case is interesting. If you earn more money by doing sales yourself, instead of not doing it, you will prefer to own it yourself."* This argument reflects how Marine Harvest perceives the potential revenue loss of changing operation mode from an equity- to non-equity mode. Further, the interviewee stated that "*by having complete ownership, you believe that there exist other values than the commodity itself, namely loyalty enhancing values*." This is in accordance with Benito, Pedersen and Petersen's (1999) types of switching costs, where you might face revenue losses due to customers' loyalty to their current agent. Thus, by exiting a wholly owned mode, you lose a set of customers that might be highly important to your business, especially since this primarily is the B2B market. The importance of public relations- and reputation 'costs' were also noted by one respondent, who argued that this was an important switching cost to consider.

Jotun uses many modes in their operations, and one of the interviewees stated that; *"Regarding exit barriers, it is much easier to exit if you end a contract with someone instead of having to lay off your own workers. It is really smooth to get out of these contracts."* This statement illustrates how one may perceive the switching costs of non-equity modes versus equity modes. A contract can be terminated without great costs, while shutting down your own operations have large costs related to it, such as severance payment. In addition there are other costs, and the other informant from Jotun pointed at the loss of prestige for managers as a switching cost. The respondent claimed that since the decision maker had to admit that he or she was wrong, it would cause a problem for both the individual and the company. The loss of prestige will probably be worse when the investments are high, such as with a WOS, rather than with an agent. The informant correlated the exit barriers with the equity stake the company had, and argued that *"The higher the equity stake, the greater the exit barriers, both actual- and perceived costs."* For Marine Harvest, one respondent argued that the switching cost would always be exactly the same, also the perceptual, regardless of equity. Further, the respondent argued that getting out of contracts with agents could be very costly if the business was a large percentage of the agent's total revenue. With several court cases in mind, he thus emphasized the switching cost of non-equity modes as well. A possible reason for this different viewpoint may

be the culture of the two companies, that Jotun places such a high value on its employees that firing them has a higher cost than it does in Marine Harvest, or that Marine Harvest places more focus on its agents and partners and puts a higher costs on removing these contracts. Also, it may be a result of information asymmetry of the respondent with regards to the first-hand experience respondent 4 had with these agent contracts, which the other respondents may not have had.

The switching costs were believed to be the same regardless of equity stake by one respondent, while the others assumed that a high ownership stake would imply high switching costs and vice versa. With one exception, the arguments above tend to be in accordance with *proposition 7*, and one can argue that switching costs are higher for equity modes than for non-equity modes.

4.1.8 Mode Combinations

Jotun and Marine Harvest have used mode combinations in several of their markets, and the respondents highlighted some interesting aspects regarding this issue. The interviews managed to uncover some of the reasoning behind such mode strategies, and show the polarity between the chosen companies. *Proposition 8*, which argues that mode combination strategies was used as a temporary solution prior to making a complete mode switch, will now be discussed. The most important information regarding mode combinations given by the informants is summed up in **Table 4-8**.

Table 4-8: Reasons for the use of mode combinations

Respondent nr.	Topic: Reasons behind the use of mode combinations
Respondent 1 Jotun	- Business practice is an obvious reason for mode combinations. - "If you have both production and agent in the same country, they treat different segments, such as in England." Mode combinations in England are part of a long-term strategy, and will always be. - The combinations are not meant to compete, they are divided into segments, but in China, competition may occur. - "Mode combinations are not a temporary solution. It can be changed, but then, it is also in accordance with a long term strategy."
Respondent 2 Jotun	- Mode combinations are historically, so it is often not a part of a long term strategy. - COSCO is the world's largest shipping company, so it is a good partner to have in Marine. Thus, some combinations are strategic long term investments. - We may combine different distributors in a competing fashion to increase the efficiency in markets. This is usually not a long term strategy, but may boost sales and increase our performance in the market.
Respondent 3 Marine Harvest	- We do not use mode combinations. - In Prague, we have a partnership agreement with the distribution central.
Respondent 4 Marine Harvest	- Use mode combinations in Czech Republic. Joint venture in distribution and logistics. - It is a temporary solution until it reaches a critical mass.

Source: Developed by authors based on information gathered in interviews

Jotun has for several years used mode combinations as a part of their strategy, while Marine Harvest focuses mainly on single modes with a primary focus on WOSs. One respondent in Jotun stated that "*If you have both production and agent in the same country, they treat different segments, such as in England.*" This illustrates that the use of mode combinations is often meant to serve different segments, which is in accordance with Welch, Benito and Petersen's (2007) arguments. In this way, the firm can operate in the market most efficiently. However, the other respondent at Jotun argued that they would use competing mode combinations (Petersen and Welch 2002) in some markets by using several distributors. This was done to increase efficiency and test the market more thoroughly, and was not intended as a long term solution. However, it shows a different applicability of combining modes. We know from other statements from the respondents at Jotun that "*the preferred choice is to own 100 %, no matter what*", thus one might believe that mode combinations are used as a temporary solution prior to making a switch. Regarding the view of whether or not mode combinations are used as a part of a long term strategy, one respondent answered

that: *"Mode combinations are not a temporary solution. It can be changed, but then, it is also in accordance with a long term strategy."* This contradicts *proposition 8* in the literature review, namely that mode combinations are used as a temporary solution. However, a different respondent at Jotun argued that mode combinations in most countries was a result of the entries made several years back and was not part of a long term strategy. Rather, they still had a mode combination structure since the size of demand did not allow for larger investments in all divisions. As such, the strategy behind the mode combination differs between countries. Both respondents in Jotun argued that some combinations, such as China, were strategic and not something Jotun would want to change.

One respondent at Marine Harvest also gave an explanation of what can be seen as a mode combination with a partner who executes a different value chain activity. In Prague, Marine Harvest has a partnership with a firm performing the distribution as a complementary mode combination (Petersen and Welch 2002). Here, Marine Harvest uses a partner in a less critical value chain activity, where they do not consider owning it themselves as long as the market has not reached a critical point. This solution works fine, as long as the partner satisfies certain criteria, such as cooling and hygiene. The other informant confirmed the use of mode combinations in the Czech Republic, and argued that this was used as a temporary solution until the operations reached a critical size. When this was reached, they would go in, and buy out the partner such that they owned the distribution themselves. These arguments can be interpreted such that there is a continuous evaluation of the partnership, where Marine Harvest decides whether or not to own the distribution themselves based on a calculation of cost versus revenues. Thus, this mode combination can be seen as a part of a long term strategy, where Marine Harvest chooses a mode combination in these less critical parts of their value chain in order to serve the market most efficiently. It is interesting to note that one respondent first argued that Marine Harvest did not use mode combination, which may indicate that it is not an explicit long-term strategy, but rather a way of best serving the specific market which happened to fall within the definition of a mode combination.

By looking at all the answers from the respondents in **Table 4-8**, the pattern that appears is that mode combinations are used very differently in dissimilar markets, and in different industries and companies. Still, based on the discussion above regarding the use of mode combinations, it can be argued that they can be used as a part of a long term strategy in a successful manner. This contradicts *proposition 8* which argues that mode combinations are used as a temporary solution while performing a mode switch. These findings also show that mode combinations are not being used as an intended strategy, and perhaps that there are possibilities of using mode combination strategies as a resource to reach superior performance.

4.2 Results of the Data Analysis

The findings in the data analysis showed that different companies may have both similar and different approaches to their international strategy, and to different extents follow the theoretical propositions with their international activities. Also, the interviews revealed that companies may follow different operation mode strategies in different locations. Although this is directly linked to *proposition 2*, it also indicates why different cases may show different results. At the same time, the interviews unveiled that different time periods have been dominated by different strategic approaches, and that some of the decisions made recently with regards to operation modes, were made to counteract previous modes more suited for those specific time periods. As such, the matters discussed in this analysis are, as suggested in the introduction, highly context specific. **Table 4-9** sums up the analysis and shows to what degree the two companies chosen tend to follow the propositions.

Table 4-9: Summary of findings

Proposition	Jotun	Marine Harvest
P. 1: Change in internal conditions	Changes in internal conditions have an impact on mode changes.	Changes in internal conditions have an influence on strategy, but most often does not lead to change of operation mode.
P. 2a and 2b: Change in external conditions	Positive and negative changes will often lead to increase or decrease in organizational presence through mode switching.	External changes have caused several strategic moves and changes, but not many examples of change in operation mode.
P. 3a and 3b: Experience based	Experience has a strong influence on operation mode decisions and reduces rather, than increase the alternatives considered.	Experience is an important factor when making operation mode decisions, and has led to mainly using one operation mode.
P. 4: Rules-based	All alternatives are considered, but there is a tendency towards choosing specific alternatives. Follows a specific strategy (export – sales office – local production)	All alternatives are considered, however, not equally. Knowledge, experience and previous success lead to a WOS-focus.
P. 5: Competitor's influence	Follow their own strategy without considering their competitor's moves. However, they stay informed on what their competitors are doing. They feel that competitors more often copy their moves.	Looks at what competitors are doing, and would consider making changes if competitors had better solutions. Historically, competitors have tended to use Marine Harvest as a reference point.
P. 6a and 6b: Within-mode switch	The international strategy consists of making several within-mode switches on the path from export to WOS with local production. Thus, within-mode switches are made both to strengthen the current mode and prepare for future change.	Within-mode switches are most often made to strengthen the established mode, and increase the barriers to change. However, these switches also create value in that the price of a hypothetical sale would be higher.
P. 7: Switching costs	Switching costs increase as the ownership percentage increases. Also the perceived costs of divestiture are considered higher than for investments. This may arguably be linked to culture.	One respondent argued that switching costs would always be the same, and that equity stake did not influence these. This may be linked to a culture putting high emphasis on agents and partners.
P. 8: Mode combinations	Mode combination strategies are highly context specific. Mode combinations are used in several markets, but these are generally large markets. Some are part of a long-term strategy, and some are part of a transition between modes.	Mode combination strategies are rarely used. However, there are some examples where it is used as a stage in a strategy when increasing investments in a country.

Source: Developed by authors based on information gathered in interviews.

5. Conclusion and Implications

The objective of this study was to uncover which factors that influenced the dynamics in foreign operation mode decisions, and which implications it may have. Since little research has been done qualitatively on this issue, the study attempts to uncover which factors two Norwegian companies considered when performing changes in their foreign operation modes. Managers and others with extensive knowledge and experience from Jotun and Marine Harvest were interviewed as well as an investigation of annual secondary sources.

In the literature review we created a set of propositions, which were formed on the basis of a thorough research on the different topics of interest. In addition to classical theories, such as internalization, and learning and belonging, the authors applies theories regarding the dynamics of the foreign operation modes, such as mode combinations, mode switching, and within-mode switching, in order to focus the study towards a more dynamic approach. The most researched factors influencing the dynamics of foreign operation modes were also discussed.

The nature of the research question led the authors to the use of a qualitative case study research design, and the results reached through the analysis may have implications both for theory and practice. Our findings show that there are many commonalities between earlier research on internationalization of the firm, and the present studies on the evolvement of foreign operations within a country. The results of this study show a tendency towards the same explanation as argued by Benito, Petersen and Welch (2009), namely that past experience may create mode bias, which may reduce the consideration set of mode alternatives for managers. In addition, rules-based decisions tend to be made in order to simplify the decision making process, which may reduce the consideration set of modes.

There were some factors that leaned towards being more important, and that reached a greater degree of consensus among all the informants. External factors seemed to have a great influence on the informants' view of the business world. Building on the results from the study, an implication is that managers need to be aware of the reality that companies reduce their presence and investments when negative changes happens in the external environment, and increase investments when positive changes emerge in the external environment. This may imply that

managers feel a pressure to make changes in such times, even though it may not be the optimal choice. The authors hope this implication may lead managers to perform a thorough situational analysis each time, and not only following the industry norm.

Experience with modes from other markets also influenced the companies' operation mode decisions. The findings can provide a more dynamic insight into Yiu and Makino's (2002) results, namely that past operation mode decisions will influence future mode decisions instead of only the static entry decision. This may imply that managers potentially can make suboptimal operation mode choices, and rather choose operation modes they have extensive knowledge and experience with. This 'fear for the unknown' may severely hamper a company's ability to perform optimal, thus managers should be aware of the importance of making a thorough study of which operation mode to choose and customize it to each specific situation the company is facing.

The factor switching barriers, also reached a high degree of consensus among the respondents. The results showed that the switching barriers seemed to be closely related to the equity stake. Thus, a high equity stake may imply high switching barriers and vice versa. Implications regarding this result are that managers may need to take into account the potential future switching barriers when making operation mode decisions. When making decisions of operating with certain modes containing a high degree of equity, managers must acknowledge that they may face substantial switching barriers for future switches, compared to choosing a lower equity mode.

The other factors researched tended to be more distinctively divided between the two companies. Especially mode combinations, which were very different for the two companies, showed how both company and country would influence the preferred mode strategy differently. Here, Jotun seemed to have more of a long term perspective, while Marine Harvest used mode combinations as a temporary solution. Both companies operate successfully with their mode combination strategy, and theory and practice is yet to uncover a superior approach to mode combinations. The difference between the strategies in these companies reflects the complexity of how to operate with mode combinations. They are used with

different purposes, and even though they often are used in order to serve different segments (Welch, Benito and Petersen 2007), mode combinations are also used in other parts of the value chain. An implication for managers is that since no perfect solution exists for how to exploit mode combinations, they have to analyze each specific situation they are facing and tailor the mode combination to it.

The way competitors influence operation mode decisions, may have given different results in two other companies as most respondents argued that their company was an industry leader, and that their competitors tended to copy their strategic choices. This suggests that managers who see their companies as industry leaders stick to their operation mode strategy, while other, smaller companies may follow, or make operation mode decisions influenced by the competitors in order to reduce risk. As such, being aware of your role in the industry is highly important in order to make correct judgments on how to operate in foreign locations.

Internal conditions seemed to impact the foreign operation modes of the companies, but in different ways. Jotun may alter their operation mode due to internal changes, while Marine Harvest may change their strategy, but not their operation mode. This can imply that there is no correct solution for how to utilize a shift in internal conditions, but that mode changes are a result of company- and industry specific factors. As such, managers cannot apply the same mode strategies in different industries when facing a shift in internal conditions.

Managers make within-mode switches for several reasons, and should recognize that even though such changes are a natural part of their internationalization, potential future changes will be affected by the present choices. Thus, an implementation of a long-term strategy will prove to be valuable when considering within-mode switches.

The findings in this study could indicate that managers should continuously share their experiences with others in the company, such that the risk involved in foreign operation modes could be reduced. Connecting and coordinating managers that perform different activities in foreign operations is a challenge that should be addressed in order to make decisions which may minimize the costs. This may

also increase the overall knowledge and experience related to foreign operation modes and may help the company avoid suboptimal mode decisions in the future. Since some of the findings may be industry specific, managers may emphasize different factors based on the industry they belong to. The findings also indicate that managers should recognize the high number of possibilities that one should consider when making foreign operation mode choices, but that the use of rules of thumb, based on learning, is acceptable and may prove to be valuable for managers. This will ease the decision making process and make companies more responsive when facing rapid changes.

6. Directions for Future Research and Limitations

This study is based on two companies listed in Norway, with informants that have extensive knowledge within the two companies and much personal international experience. The researchers have translated the transcription from Norwegian to English, which may have influenced the interpretations and results. In addition, the authors have limited experience with performing interviews, such that the results may have been affected by this. Although the topic in this study naturally limits the number of informants with a required amount of knowledge about the theme, the scarce number of informants in the study also limits the results.

Future studies should include a greater set of informants from different industries and/or markets in order to build on the knowledge obtained in this research. The research performed in this study is qualitative and there is a need for more expanded research on the proposed factors leading to dynamics in foreign operation modes. There may be other factors than the ones proposed in this study that influence the dynamics of foreign operation modes, such that more qualitative research in this field should be performed. In addition, a quantitative research on the propositions formed in this thesis should be made in order to test the statistical significance of the proposed factors leading to dynamics in foreign operation modes.

The authors recognize that interrelationships between the propositions may exist, such that the factors proposed to influence the dynamics, may influence each other. Thus, future studies may analyze and test the significance of the interrelationships. Performing a multivariate analysis of the factors can uncover highly interesting patterns and relationships, and provide valuable information and insight into this relatively new and interesting topic. Future studies, could also examine whether or not the same factors are applicable in other contexts. As an example, Marine Harvest operates in the food industry, which implicitly may lead towards another weighting of the importance of the different factors than companies in other industries, such as Jotun. This may cause companies in specific industries to choose different foreign operation modes. In addition, both of the companies researched in this study saw themselves as industry leaders. This may have affected the data, and companies that may be defined as 'followers' could provide an important contribution to the field of study. By using 'industry

followers' in a study, data regarding some of the factors would probably be different, and provide an interesting insight into the topic. Also, there are many companies labeled as 'born globals' that have emerged in recent years (Dow and Larimo 2011), such that a study on such companies might prove to be valuable for theory and practice in the topic of foreign operation modes. In addition to 'born globals', small and medium-sized enterprises, as well as companies early in their internationalization stage, are highly interesting cases to look upon in future studies. They will probably have a completely different approach to foreign operation modes than the companies participating in this study.

A weakness in previous research, mentioned in the introduction of this thesis, is that there is a difference between the theory in the books and what firms actually do. One of the respondents in the interviews stated that *"theory was good on paper, but did not fit with the real world"*. As such, future research needs to keep developing theory that presents what international companies actually are doing. Such research will be highly relevant for companies, and may help firms use foreign operation mode strategy as an intended strategy rather than an emergent.

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Exhibits

Exhibit 1 – Interview Guide

Since we are conducting semi-structured interviews, this is only a list of checkpoints which we need to cover during the interview. The interview does not have to be conducted in the specific order the questions are listed. All follow-up questions are not presented in the interview guide, since they will be a natural part of the conversation.

Introduction (5-10 minutes)

- Welcome the interviewee and tell him about the purpose of the study.
- Ask the respondent whether or not it is OK to tape-record the interview.
- Explain the length of the interview, and that a fluent conversation without too many direct questions is what is preferred.
- Present the topic of our study, and then ask what the interviewee thinks about how internationalization affects the companies in the interviewee's industry.

Mapping/Main part (30-40 minutes)

- Generally, what can you say about the approach the company have when operating in foreign markets?

- What do you consider when deciding to enter a foreign market?

- Are there any factors that can make you reconsider the choice of operation mode, and perhaps alter it to another mode
    - Examples of operation mode changes: export with external agent to sales office (JV or WOS) or licensed production to wholly owned production (may also be downscaled)

- How does the external environment influence the preferred choice (politics, economy, legal issues, and business practice)?
    - Can it be a reason to not enter a market that is seen as profitable?
    - Which external conditions are weighted as the most important, and are they being taken into consideration?

- If you are already established in a market, and the conditions change externally, will you reconsider the established mode (increase or decrease the presence/investments)? Do you have examples of this?
    - Ex. New government, socioeconomic changes etc.

- What about the company's internal conditions (resources knowledge in general and about specific markets, products, and global strategy), which influence will it have on the operation mode?
    - What about specific company mode concerns, such as control, risk, partner, and flexibility, how does these factors affect the operation mode over time?
    - Which internal conditions are most important and are being prioritized highest?

- What if the conditions change internally, will you reconsider the established mode (higher/lower control- equity modes)?

- How will experience and learning from other markets affect your operation mode decisions? (Will experience with specific modes cause the company to choose that mode, even though others may be just as good?)

- Is future flexibility and choices considered when making an operation mode decision?
    - If you have an agent in a country where the company exports to, is this a part of a future plan where there are different scenarios for further focus in the market (change agent, keep agent, exit the market, invest more with WOS or JV sales office)?

- When making an operation mode decision, do you consider all mode alternatives? If so/not, how and why?
    - Do you have a rule of thumb on choice of operation mode (simplified decision-making process)?

- In what way does the competitor's strategic behavior in foreign markets affect your decisions?
    - Will you consider altering the operation mode if a competitor do it (and benefit from it)?
    - Are there any communication between competitors where you exchange experience and knowledge about markets or operation modes?

- Do you make investments in operation modes over time? If so, why are these investments made?
    - In order to strengthen the current mode, or to prepare for a mode switch? Can you give any examples?
    - If the objective is to strengthen the mode, would the barriers (cost, uncertainty, risk) related to switching mode increase?
    - Have you made changes within a mode (change of agent, distributor, licensee, JV partner etc.)?

- How do you perceive the switching cost of your current operation mode? Is it only financial, and if not, how is it affected by perceptional factors (resistance to change, resistance to try new operation modes, resistance to admit errors)?
    - Would it differ if the mode was different? How?
        - If you have a preferred alternative, would it be easier to switch to this mode and harder to change from it to another?

- Does the firm use several modes in the same location/market? If so, what is the rationale behind this decision?
    - Is this part of a long term strategy, or a stage in a mode switch
    - Has it been, or will it be an alternative to outsource a part of the value chain such that you use contract, agent or other modes at the same time as you have the most important parts of the chain internalized? Why/why not (control, flexibility, experience, competence, culture)?

- Are there any factors besides what has been discussed you believe is important with regards to considering a change in the operation mode for your company?

Closing (5-10 minutes)

- Let the respondent give more information in areas he/she believes that is not covered thoroughly.
    - Ask follow-up questions where we believe the interviewee have not answered thoroughly enough.
- Thank the respondent for his willingness to participate in the study and close up the interview.

Exhibit 2 – Preliminary Thesis

Hans Christian Mickelson, ID Number: **0836117**
Kristoffer Evenstad, ID Number: **0856647**

BI Norwegian Business School – Preliminary Thesis Report

- Dynamics in Foreign Operation Modes -

Name of Supervisor:
Sverre Tomassen

Hand-in date:
15.01.2012

Campus:
BI Oslo

Examination code and name:
GRA 19003 Preliminary Thesis Report

Programme:
Master of Science in Business and Economics – Major in Strategy

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Summary

The international business field of research has been growing continuously during the last 40 years and is perhaps more relevant than ever in 2012. However, some research issues are still underdeveloped, which have been addressed in previous studies. As such, this paper will aim to fill a gap presented in previous research by looking at: *Which factors influence the dynamics in foreign operation mode decisions? What are the implications?*

To investigate the area of research, a brief literature review gives an introduction to different ways of approaching international business with a focus on foreign operation modes. Also, the review presents some of the specific operation modes to clarify differences between these. Further, the issues more directly related to our research question regarding the dynamics of foreign operation modes are addressed by looking at mode dynamics, mode combination, and change of modes.

We find a qualitative comparative case study most suitable for our thesis, since it is in line with the proposed gap, and is most appropriate for our research question. We discuss research design, data collection, data analysis and some of the potential weaknesses of our approach. Also, a brief presentation of some possible firms is given, but we specify the importance of having separate cases which brings an interesting contrast to the discussion. Thus, the scope of the paper is not set regarding choice or amount of cases and countries.
At the end, a proposed plan of progression for conducting the study is presented.

Research Background

Issues in the field of international business have been studied and published in many renowned international business journals throughout the past 40 years (Welch, Benito and Petersen 2007, 8). The growing interest of this field in academia has caused a development of new and an expansion of existing theories (Shenkar 2004). The field has continuously evolved and grown simultaneously with an overall increase in international operations of multinational corporations (MNCs) worldwide. Hence, the field is becoming more and more important as firms, more than ever, seek to learn how to operate successfully in an international competitive environment (Welch, Benito and Petersen 2007, 9). Much of the attention has been focused on the way firms establish their organizational boundaries in foreign locations based on different theoretical perspectives such as; product life cycle (Vernon 1966), internationalization theory (Johanson and Vahlne 1977), transaction cost economics (Hennart 1982), knowledge based theory (Kogut and Zander 1993), resource based view (Mutinelli and Piscitello 1998), and institutional theory (Brouthers, Brouthers, and Werner 2002). A tendency in some of this research has been to view the entry mode decision as a sticky strategic choice that is enduring and costly to change.

Some scholars has recognized the importance of not merely focusing on the single entry mode decision during establishment, but rather the ongoing development of foreign activities including mode changes and perhaps the use of several modes in one location (Benito and Welch 1994). Thus, the use of the term "operation mode" is more appropriate than entry mode. Much research on operation mode decisions have tried to fit data with existing theory, rather than applying an explorative design and critically look at to what extent theory actually is in line with what the firms are doing. As Benito, Petersen and Welch (2009, 455) states: *"Theory typically treats foreign operation modes as choices between well-specified, discrete alternatives. Observation of business practice reveals a "messier" reality".* Thus, the choice of how to operate in a foreign market is very complex, being influenced by internal firm factors and external market factors. As these change over time, a change in operation mode may be required (Welch, Benito and Petersen 2007, 438). This proposes firm strategies involving use of different modes in different locations, but also the possibility of multiple modes in a single location. The focus of this paper is to look at how some firms configure

and develop their international activities over time and look at the strategic rationale behind the decisions made.

Research Issues

Theory on mode switching, mode combination and mode packages is arguably still in the development phase, suggesting that there is a need for more research on this matter. Both a need for more longitudinal research and in-depth qualitative research is proposed (Benito, Petersen and Welch 2009, 1467). From a managerial perspective, "little is known about how managers actually choose combinations of modes and evaluate the applicability of different mode packages" (Benito, Petersen and Welch 2009, 1467), suggesting a need for more in-depth studies of the decision making factors of foreign operation modes. Can for instance changes in organizational structure and leadership experience influence the dynamics in how firms operate abroad? These are some issues that may be interesting to look at in our study.

Research Question

Based on the gaps in literature regarding rationale and complexity of foreign operation mode decisions in a dynamic perspective (Benito, Petersen and Welch 2009), we seek to explore:

Which factors influence the dynamics in foreign operation mode decisions? What are the implications?

The purpose of the thesis is to provide more insight into the decision making process of foreign operation modes by presenting and discussing the relevant factors. The scope of the paper will be on Norwegian firms operating abroad with fairly a recent time focus to ensure good data collection. Mainly, the unit of analysis will be firm level, but we will also look at some factors influencing the decision maker.

Literature Review

The theory on firms' internationalization is divided between internalization (Dunning 1988; 2000), and learning and belonging (Johanson and Vahlne 1977;

2009). The internalization view mainly uses the OLI framework which is primarily based on the resource based view, institutional theory and transaction cost economics (Dunning, 2000). The framework seeks to unveil ownership- locational- and internalization advantages of the firm, which again propose the type of foreign investment the firm should make. If all these advantages are present, the framework proposes that the firm makes a foreign direct investment. The Uppsala framework, which is the basis of internationalization as learning and belonging, is mostly based on organizational learning and network theory. The main argument of this view is that the natural establishment of the firm is decided by the liability of foreignness and liability of outsidership that the firm perceive, which can be lowered by increased international experience and knowledge, and by enhancing a good position in a valuable network (Johanson and Vahlne 1977; 2009). Lower liability of foreignness and liability of outsidership will cause firms to perform larger investments in more distant locations as their overall perceived risk is reduced (Johanson and Vahlne 1977).

Foreign Operation Modes

Foreign operation modes have several definitions in international business research, and Welch, Benito and Petersen (2007, 18) defines it as

... the institutional/organizational arrangements that are used in order to conduct an international business activity, such as the manufacturing of goods, servicing customers, sourcing various inputs – in fact, undertaking any business function.

Root (1994, 24) defines an international market entry mode as "*an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country*". Foreign direct investment decisions are often divided into the choice of ownership mode and the choice of establishment mode (Brouthers and Hennart 2007, 399). First, the choice of ownership mode implies the extent of ownership the firm seeks in their foreign operations. This is either perceived on a scale from 0% ownership (contracts) to 100% ownerships (wholly owned subsidiary) where joint ventures (JVs) are considered as a separate mode (Hill, Hwang and Kim 1990), or as a division of contracts (non-equity) vs. equity mode (Hennart, 1988; Hennart 1989).

Further, the firm needs to decide their establishment mode within the chosen ownership mode. This implies that within an extent of internalization lie several alternatives with regards to mode of operation. For a 0% ownership mode, the firm may choose between several establishment modes such as franchising or licensing. For an equity mode, equity-JVs, greenfields or mergers and acquisitions are possible alternatives. The categorization of modes is based on the way of remunerating the input providers (Brouthers and Hennart 2007).

Foreign investment decisions, even in an isolated view is quite complex and require much strategic planning. Much attention has been given to choice of ownership mode (Hennart and Reddy 1997) and to some extent establishment mode (Harzing 2002), both from an entry mode point of view (Hill, Hwang and Kim 1990), and to some extent a dynamic approach (Harzing 2002). In addition to the operation modes identified above (Hill, Hwang and Kim 1990; Brouthers and Hennart 2007), Hill (2009, 493) also presents exporting as an operation mode option.

Exporting

Companies in their start phase of internationalization often use exporting when wanting to increase their profits and revenue base (Welch, Benito and Petersen 2007, 239; Hill 2009, 540). It is often perceived as the easiest way of operating in a foreign market with regards to establishment costs and control. Johanson and Vahlne (1990) argue that small companies often use exporting when entering foreign markets. According to Johanson and Vahlne (1990) the relevance of cultural distance has received empirical support when explaining international business behavior. Thus, firms may enter foreign markets that are culturally and geographically close to the company's home country to reduce the liability of foreignness.

Exporting is often the first step of the internationalization process, also referred to as the establishment chain, and is followed by increased investments if the market is found to be attractive (Johanson and Vahlne 1977). As Hill (2009, 547) argues; "Exporting is often not an end in itself, but merely a step on the road toward establishment of foreign production". However, host-country governmental regulations, high transportation costs, and potential high production costs in the

home country relative to countries abroad, are all disadvantages that should be considered when exporting (Hill 2009, 493-494).

Licensing

When licensing, a licensor grants the rights to intangible property through the use of a contractual agreement with a licensee in a specified period of time, and the licensor get remunerated through a royalty fee paid by the licensee (Hill 2009, 496). The use of a licensing agreement can be a first step to attain knowledge about a market or local partner, thus help the entrant in preparation for future entry (Jiang, Aulakh and Pan 2009). When using a licensing agreement, the risks associated with performing activities abroad, are reduced (Hill 2009, 496). In addition, the capital needed is lower than with equity modes. The use of a licensing agreement can be described as a touch and feel of a foreign market for the entrant. However, a potential drawback of licensing is that you have less control and may risk that the licensee acquires your technical know-how and becomes a future competitor (McMillan 1965; Hill and Kim 1988).

Franchising

A franchise agreement is defined by Caves and Murphy (1976, 572) as an agreement:

> *...lasting for a definite or indefinite period of time in which the owner of a protected trademark grants to another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service.*

Franchising consists of many of the same elements as licensing, but is often used for longer term agreements (Hill 2009, 498). In franchising, the franchisor receives royalties from the franchisee in addition to supply-chain markups (Eramilli, Agarwal and Dev 2002). This fee grants the right to use the franchisors business concept. One can also separate franchising into business format franchising and product and tradename franchising (Welch, Benito and Petersen 2007, 52; Gripsrud and Nygaard 2005, 132). The franchisee in business format franchising uses a full business system and is thoroughly trained, in addition to receiving more support from the franchisor than a franchisee in a product and

tradename franchise would (Gripsrud and Nygaard 2005, 132-141). The compensation system also varies between the different modes. In product and tradename franchising the franchisor is compensated mainly through the wholesale margin, whereas in format franchising, the franchisor is compensated through a royalty- and entry fee (Gripsrud and Nygaard 2005, 138). With the use of a franchise, the benefits will be similar to those of licensing; namely reduced costs and risks in opening a foreign market (Hill 2009, 498). Since the franchisee uses the brand name of the franchisor, a potential disadvantage is loss of quality control which can affect the brand name (Hill 2009, 498).

Joint Ventures

The international joint venture (IJV) literature defines IJVs in a variety of ways, but we aim to use the definition by Chen, Park and Newburry (2009) that entails the main issues concerning IJVs. They define IJVs as; "…legally independent entities formed by two or more parent firms from different countries that share equity investments and consequent returns" (Chen, Park and Newburry 2009, 1133). The share of investments and returns are often reflected in the share profile of the venture. A 50/50 venture is most common, but other share profiles such as 25/75 ventures is also frequently used because it provides the majority owner with tighter control (Hill 2009, 499). Advantages with entering into IJVs are that the firm can get knowledge about local conditions, overcome local restrictions regarding foreign companies, and share risks and development costs through their local partner (Hill 2009, 499; Welch, Benito and Petersen 2007, 331-332). The issue of control is a major topic when looking at disadvantages for entering into IJVs, and research on IJVs shows that there is a relationship between management control and performance (Choi and Beamish 2004). Research suggest that split control should be established between the local partner and the MNE, which means that parties should control the activities that match their respective firm-specific advantages (Choi and Beamish 2004).

Wholly Owned Subsidiaries

When establishing a wholly owned subsidiary (WOS) in a foreign market, you have 100 percent ownership. This is attained through either a greenfield venture or an acquisition (Hill 2009, 500). Wholly owned subsidiaries are often a preferred choice when the firm has strong competitive capabilities they need to protect

(Chen and Hennart 2002; Anderson and Gatignon 1986; Hill, Hwang and Kim, 1990; Welch, Benito and Petersen 2007, 331). The choice of greenfield and acquisition is highly influenced by the corporate strategy of the firm, where global firms will prefer greenfields and multi-domestic will prefer acquisitions (Harzing 2002). Morschett, Scramm-Klein and Swoboda (2010) studied antecedents of the entry mode choice by meta-analyzing data from 72 previous studies on the topic, and found that power distance in the company's home country had a positive influence on the probability of establishing a wholly owned subsidiary. Wholly owned subsidiaries are often used when the company wants to realize location and experience curve economies (Hill 2009, 500).

The negative sides of establishing a wholly owned subsidiary is that it is costly and you have risks related to operating in a foreign country. The cultural risks can be reduced through acquiring an already established company in the host country, but then the company faces challenges in congregating all the corporate cultures into one (Hill 2009, 501).

Beyond Entry Modes

The main focus of research on foreign direct investments has previously been dominated by the entry decision rather than looking at a longitudinal development of international operations (Welch, Benito and Petersen 2007, 10). In some recent studies, a more dynamic focus on operation modes looking at the development, change, and management of international operations has broadened the scope of this research field to include mode combinations and mode packages (Benito, Petersen and Welch 2009; Petersen and Welch 2002). As such, the concept of de-internationalization, as a reducing mode change, constitutes the other side of the coin with a decision made as a result of negative changes in the foreign business environment (Benito and Welch 1997). A partial de-internationalization implies a "voluntary or forced action that reduce a company's engagement in or exposure to current cross-border activities" (Benito and Welch 1997, 9).

Mode Switching

"Firms switch foreign operation modes for two reasons: either as a correction of managerial misjudgments or as an adaptation to new circumstances as foreign operations evolves" (Welch, Benito and Petersen 2007, 363). Local market growth

is seen as one of the main reasons for international relocation (Dunning, 2000), and can be a typical reason for changing foreign operation mode as this causes the foreign operation to evolve (Benito, Petersen and Welch 2009). One example is the development from export to local production, which often happens as the demand reaches a crucial point, making the cost of transportation higher than that of local production (Horst 1974 in Welch, Benito and Petersen 2007, 366). Mode changes also include the other side of international business with deletion of existing modes (Benito, Petersen and Welch 2009).

Mode switches can also be more incremental and happen within a given mode, often referred to as mode stretching (Welch, Benito and Petersen 2007, 387). This implies that the firm may increase their commitment to a market significantly without changing the foreign operation mode. However, it is hard to define at what point, an adjustment in mode configuration constitutes a mode change (Benito, Petersen and Welch 2009).

From a strictly economics perspective, the optimal timing of operation mode changes occurs when the cost of having a different operation mode is lower than the cost of continuing with the existing mode (Buckley and Casson 1981, 80). Welch, Benito and Petersen (2007, 371) argues that also switching costs, the cost of setting up the new mode and the cost of taking down the old, must be included in the equation. Switching costs can be divided into measurable and perceived switching costs, where the measurable costs are for instance hiring of new personnel, severance payments to fired personnel, and reputation in the market among customers and suppliers (Benito, Pedersen and Petersen 1999, 220). Perceived costs can be risk associated with the use of a new mode or a personal loss for the manager who admits the failure of the previous mode used (Benito, Pedersen and Petersen 1999, 220). These switch factors suggest that the decision of mode change is highly complex, and that an optimal timing of the decision based on purely economic premises may not be sufficient. Thus, the behavioral approach to internationalization suggests that bounded rationality of the decision maker, and lack of information and understanding of the complexity in foreign operation mode decisions, creates difficulties in making optimal decisions.

As firms make foreign operation mode change- or mode combination decisions, these tend to be influenced by previous choices, hence creating path dependency (Asmussen, Benito and Petersen 2009). This suggests that each decision made should be analyzed deeply, considering their impact on future decisions. Using the integration-responsiveness framework of Bartlett and Ghoshal (1989), Welch, Benito and Petersen (2007, 429) presents the expected paths towards a global value chain configuration for a firms. Their conclusion is that based on the company being global or multi-domestic, there will be a tendency towards choosing a specific mode and make specific mode changes as part of the establishment chain. This is also argued by Harzing (2002), who concludes that global firms will tend to focus on internal isomorphisms, implying high subsidiary control, more expatriates, and lower local responsiveness, preferably using a greenfield operation mode. Multi-domestic firms will prefer an acquisition and their focus will be opposite of the global firm in managing the foreign subsidiary (Harzing 2002).

Path dependency based on previous decisions, or rules-based configurations based on previous success in a firm may cause suboptimal operation mode decisions as this eliminates some of the alternatives presented to the firm (Asmussen, Benito and Petersen 2009). However, having rules-based configurations will dramatically lower the amount of alternatives the firm is faced with. Each value chain activity should be analyzed with regards to all potential foreign operation modes, to find an optimal configuration for each country. This is identified in the "entry mode diversity matrix" (Hashai, Asmussen, Benito and Petersen 2010). An analysis considering all possible alternatives would give the following formula: $\textit{Mode diversity} = (\textit{number of governance forms})^{\textit{number of discernable value added activities}}$, which would give a very high amount of options for a decent sized MNC, suggesting that rules-based configuration makes thorough analysis possible. Still, to what extent the rules should limit the alternatives available for the firm is a difficult question.

Mode Combination

A decision to make an investment into a new foreign operation mode does not necessarily imply closing the existing mode, which causes a mode addition rather than a mode switch (Welch, Benito and Petersen 2007, 393). A mode addition

causes a firm to have multiple foreign operation modes in the same location, often referred to as mode combination or mode package. The different types of mode combinations are categorized based on whether the new mode is part of the same value chain, serving the same segment, same value chain activity or being performed by the same operator (Petersen and Welch 2002). The reason for having a mode combination will differ, but may for instance be beneficial in large heterogenic markets where different segments are best served by using multiple modes (Welch, Benito and Petersen 2007, 397). For instance, the firm may benefit from outsourcing marketing to someone with more specific market knowledge, produce in a JV due to legal restrictions or resource constraints, and have R&D wholly owned to maintain control and eliminate dissemination risk for their intellectual property. This would be an example of complementary mode package, based on different parts of the value chain (Petersen and Welch, 2002).

Conceptual Framework

Benito, Petersen and Welch (2009, 1465) present a dynamic model of the choice and development of operation modes, which is illustrated in **Figure 1**. What is interesting is that Benito, Petersen and Welch (2009) also draws upon behavioral theory in their framework, and explains that the decision drivers themselves are influenced by earlier experiences and the present operations. The modes that earlier has been used, has given the company different experiences, causing a possible mode inertia (Benito, Petersen and Welch 2009). External and internal factors needs to be taken into consideration, thus a company cannot rely on a mode that has been successful in one market to also be prosperous in another market. In their framework, they argue that the managers' evaluations are influenced in many ways, such that the range of mode options often is limited. Following the framework further through mode actions and mode use, leads us to learning, which is happening at each of the different stages, and influence future decisions. These future decisions are reflected in the mode actions box in a dynamic perspective, and can be of different significance.

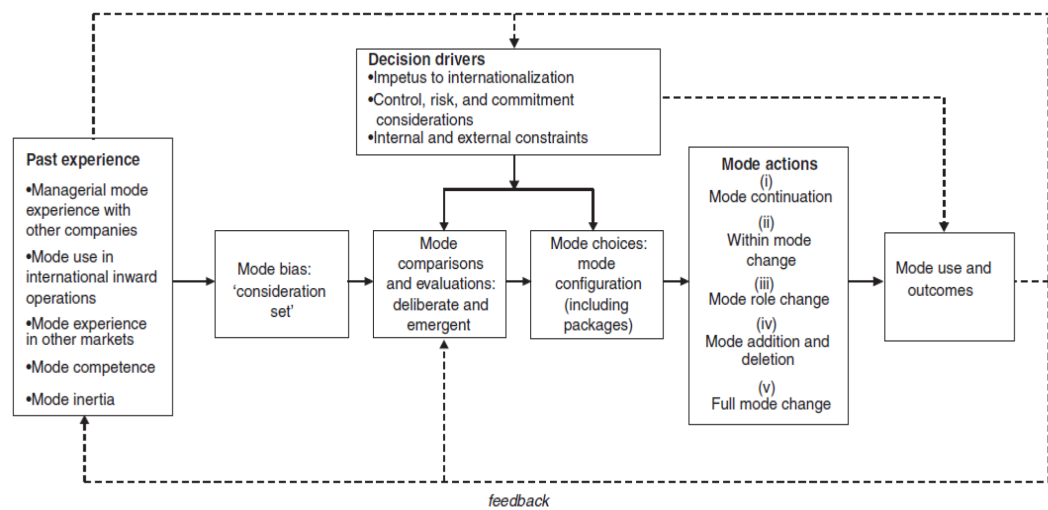

Figure 1: Mode choice and change by Benito, Petersen and Welch (2009, 1465)

Methodology

In this section we will present the potential candidates we have identified as possible to use in order to answer our research question. Selection of good cases is important to achieve a good understanding of what is being researched (Denzin and Lincoln 2005). In addition to the cases, we will discuss the planned research design, research methods, data collection, data analysis, and the limitations connected to these. Below, we present four potential candidates for further analysis in our thesis.

The Companies

When choosing cases for our study, we need to apply some criteria for being chosen. The most important criterion is that they are highly interesting for our topic of study. We need to choose cases which will help us to enlighten the question we ask. Jotun has for instance used a combination of modes in their operations in China, while Marine Harvest focuses on wholly owned subsidiaries. These firms can help us enlighten the research question by being two extremes at each end of the scale. Variation is needed such that each case chosen is interesting and different than the other.

Nemko

Nemko is operating within the classification industry, and offers different testing-, inspection-, and certification services around the world for products, systems,

machinery, installations and personnel (Nemko 2012a). Nemko's headquarter is located in Oslo, and Nemko is present with wholly owned subsidiaries in 11 countries, and has partnerships in three countries. Nemko has also established bilateral agreements with other certification bodies worldwide, which provide manufacturers a global access with their products. They have also recently established a joint venture with DNV for certification and testing operations of medical and EX equipment industry starting from January 2012 (Nemko 2012b). In 2000, Nemko established a representative's office in Shenzhen (China), and in the past 12 years, they have also set up offices in Shanghai, Guangzhou, and Beijing (The China 2012).

Marine Harvest

Marine Harvest is the world's leading Seafood Company and their main product is farmed salmon (Marine Harvest 2012a). They have operations in 21 countries, with farming and processing activities in the major salmon farming regions, in addition to value adding processing activities and sales offices in many locations (Marine Harvest 2012b). Marine Harvest only use wholly owned subsidiaries as its foreign operation modes (Benito, Petersen and Welch 2011). In 2006, Marine Harvest merged with Pan Fish and Fjord Seafood, which may have affected their way of operating in foreign countries. It might be interesting to collect data regarding this. Also, Marine Harvest may be an interesting comparative case with their use of purely wholly owned subsidiaries.

DNV

DNV is another company in the classification industry, and has over 100 years of experience as an international firm. They are present in more than 100 countries, and use extensively wholly owned subsidiaries and joint ventures as a part of their foreign operations. They have recently changed their organizational structure from a business area structure to a geographical division structure (DNV 2012). DNV emphasize organic growth, but also use acquisitions in their expansion strategy (Businessgreen 2012). The link between organizational structure and foreign operation mode may be investigated through this case.

Jotun

Jotun operates in the paints and coating industry and is divided into 4 divisions. Two divisions have their headquarters in Sandefjord, Norway, whereas the

remaining two are located in United Arab Emirates. Jotun started their international adventure in Libya in 1962, and currently have activities in more than 80 countries, with the use of many different types of modes and methods (Jotun 2010). The company follows a global strategy of organic growth and consequently generally avoids acquisitions as establishment mode choice (Jotun 2010). The main focus of Jotun has been to enter high growth markets which often pose a cultural threat in order to take advantage of their international knowledge and experience. This has caused great growth and profitability in emerging markets like China and Southeast Asia (Jotun 2010).

Research Design

As mentioned earlier, researchers have pointed out that there is a need for more qualitative studies regarding the topic of dynamics in foreign operation modes (Benito, Petersen and Welch 2009). The research question in our study fits best with qualitative research because we want to get more in-depth into the topic. By employing a qualitative research, a deeper understanding of behavior can be made and the researchers can find the meaning behind actions made by managers (Bryman and Bell 2007, 426). The use of a qualitative case study approach is highly relevant because of the question we ask. Simons (2009, 21) defines case studies as "an in-depth exploration from multiple perspectives of the complexity and uniqueness of a particular project, policy, institution, programme or system in a real life context". Schramm (1971) argues that the essence of a case study is to "…illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result". By looking at these definitions, and relating it to the research question at hand, we realize that this is the right approach. Though, it should be noted that case studies are not a methodological choice, but it is a decision of what to be studied (Denzin and Lincoln 2005, 443). A case study can be qualitative or quantitative, but it is the nature of the research question that should determine which methodology to use. Yin (2009, 17) argues that the decisions being made are the main focus of case studies, and thus relating it to our research question, a qualitative approach is preferred. Since not much is known and studied qualitatively regarding dynamics in foreign operation modes, an explorative strategy is planned to be used. An explorative strategy with the use of a multiple case study design helps the researcher understanding the dynamics that exists in single settings (Eisenhardt 1989).

Since we are planning to use more than one company in our study, a comparative case method (Yin 2009) is preferred. This type of case study includes several cases, and according to Yin (2009, 61) the probability of performing better with a case study will increase if you choose several cases. The possible cases we have identified are present in many countries around the world, and use different operation modes in the countries. As an example, Jotun started with a joint venture in China, and later added a wholly owned subsidiary, which reflects the interesting dynamism in Jotun's foreign operation modes in this market.

Data Collection

In our study, we plan to collect the data qualitatively, through in-depth interviews with key personnel employed in the different companies. In-depth interviews provide the researcher with the interviewees' perspective of the topic (Simons 2009, 43). The interaction between the interviewer and the interviewee provides a deeper analysis of the issue at hand, and interviews provide the researcher with flexibility to adapt to issues emerging during the communication process. In addition, it provides the researcher with the possibility of uncovering feelings the interviewee has on certain issues (Simons 2009, 43). We also plan to gather data from annual reports, key information published online, and through continuous communication with contact persons. In addition, articles other researchers have published, and other written material accessible in for instance the companies' archives, will be important when collecting our data.

Yin (2009, 114-115) claims that one of the strengths of case study data collection is that the researchers have an opportunity to use several different sources of evidence. Marshall and Rossman (2006, 97) argues that in-depth interviews and document analysis are two of the main data collection methods available for researchers performing qualitative research. They further claim that if you want to understand why some actions are being performed, you need to understand the deeper perspectives that can be captured through face-to-face communication, thus qualitative research is the optimal choice (Marshall and Rossman 2006, 53). It is this deeper understanding of the factors influencing the dynamics in foreign operation modes we are looking for, thus we believe that a qualitative research is the optimal way to perform the study.

Data Analysis

Having performed our interviews and collected the data required, we need to analyze it. We are planning to transcribe the data, code and categorize it with regards to the main topics in order to help us highlight the research question. Askheim and Grennes (2008, 148) argues that the use of "tags" on your transcripts can help you to categorize some issues in key categories. This can be done manually, or by the use of computer software, which both has pros and cons. By codifying and categorizing the data, we are able to uncover patterns that might emerge (Yin 2009, 128). Researchers discuss whether precoding or subsequent coding is the right way to codify the data (Simons 2009, 122), but since we plan to use a theoretical framework, precoding might be the right way to go. It can be a good idea to perform concept mapping, which will illustrate how the categorized data fits with certain themes visually through interrelationships and patterns (Simons 2009, 122-123). It should be noted though that cognitive mapping may be time consuming.

Limitations

When performing a qualitative case study, the authors recognize that they have to make some trade-offs. As Patton (2002, 223) says: "there are no perfect research designs. There are always trade-offs". In our thesis we plan to study one question in depth and not many questions superficially. This is done in order to understand the question at hand more thoroughly, and establish knowledge about the question being asked.

As this is a master thesis, we recognize that we have limited time and resources, thus the research question and the methodology that is chosen should be feasible. The importance of choosing a research question, and a suitable methodology that is achievable within the given amount of time should not be neglected. It is also a limitation that the cases we have identified are all Norwegian. Although qualitative studies never can be generalized in a probabilistic sense, the knowledge and findings you obtain through the study can be transferred to similar contexts (Marshall and Rossman 2006, 42). The limitation of external validity has always been a critique to qualitative studies, but since the critique is based on

statistical generalization as in surveys, they do not capture the nature of case studies (Yin 2009, 43). In case studies, analytic generalization can be made, but the theory must be tested in multiple cases and the same results should occur (Yin 2009, 44).

When performing case studies, reliability is also a topic of interest. The objective is for another researcher to be able to follow the same procedures as you have done, and by performing the same case study again, reach the same findings and conclusions that you have done (Yin 2009, 45). With the basis of Yin's (2009) description, we recognize that it is highly important for us to document the procedures in our cases thoroughly. By recording and transcribing the interviews, and describing our approach, we hope to overcome this challenge. As Marshall and Rossman (2006, 204) argues; you should organize your collected data well, and keep a detailed journal or log of your design decision and its rationale, such that if your findings are challenged or another researcher wants to reanalyze your data, it should be easily available.

Thesis Progression Plan

January	Deliver Preliminary thesis report, continue reading- and writing literature review, look more in-depth into companies.
February	Choose the optimal companies. Establish contact with the companies, continue literature review.
March	Collect secondary data, and construct an interview plan, arrange interviews
April	Perform interviews, and collect the necessary data.
May	Start data analysis
June	Analyze data, continue writing the thesis
July	Finish writing
August	Wrapping up the thesis, making finishing remarks

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