Soft Service Firms: A deep dive into foreign entry mode decisions

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Abstract

With the forces of globalization, previously safe home markets open up to foreign competition. This urges companies to expand internationally to keep growing. Current literature on how a company should enter a foreign market, namely the choice of entry mode, is based on findings for manufacturing firms and studies on service firms are scarce. In recent years, the service sector has grown steadily and stands for an increasing share of the overall economy, leading to studies on service companies gaining importance. This study looks at a sub-set of the service industry, soft services, and discern what factors are important for their choice of entry mode. Soft service companies are generally identified as companies where the production and consumption of a product cannot be separated, ruling out export as an entry mode. A literature review was conducted to create a comprehensive framework of the influencing factors for the choice of entry mode. This framework was evaluated by interviewing five soft service companies: Max Burgers, Nordic Choice Hotels, BrewDog, O'Learys and Espresso House. The cases were selected based on their international experience and industry criteria. Each company represents a different sector within soft services to ensure conclusions from contrasting companies within soft services. The framework was then modified to incorporate the findings from the case studies. The factors with substantial support from theory and emphasized as important in the interviews were categorized as primary factors. These were: Internal resources with emphasis on financial resources, capabilities with emphasis on international experience, strategic objective and legal considerations. The interviews also revealed the complex relationship among factors, which limit the applicability of general models and decision trees. A further discovery was that the relationship between the degree of control and chosen entry mode was not as strongly supported as theory suggests, with multiple companies stating that franchise, considered a low-control entry mode, enabled sufficient control. This points towards a difference for soft service companies compared to manufacturing firms in influencing factors and preferred entry mode, raising the importance for further research to better understand how service firms in general and soft service companies in particular, decide on entry mode.

Key Words: Foreign market entry mode, Internationalization theory, Entry mode, Entry mode decision, Soft service, Internationalization, Wholly owned subsidiary, Franchise, Joint venture, Licensing

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1 Background

There is an indisputable trend in today's world, economies are growing ever more intertwined due to forces such as globalization and liberalization of economies. These trends have been fueled by an advance in technology which in turn has increased the mobility of capital, goods and services (United Nations, 2017). This has made it possible for firms and governments to invest in markets yielding the highest returns, lowering global market imperfections. Despite a recent uptick in new tariffs and protective measures for countries to shield off their economies, most notable in the US and China trade war, the last decade saw a sharp drop in the use of protective measures. This can be seen as a sign that the world economy is growing tighter together. (Santacreu & Zhu, 2018) These reductions in protective measures have made it possible for companies to expand into new markets, but it has also opened an abundance of companies' home markets to foreign competition. This growth can be seen particularly in the global market for services that have grown considerably in recent years, with impressive growth in M&A and Greenfield foreign direct investments of almost 40 percent from 2017 to 2018 from 675B$ in 2017 to 942B$ in 2018 (UNCTAD, 2019).

This growth and leveling of the playing field for foreign competition, is particularly relevant for companies from small and open economies, such as Sweden. The limited domestic market with fierce international competition does not create enough growth potential for companies from small and open economies, instead they are forced to expand internationally early on to survive. (Gabrielsson, Gabrielsson, & Seppälä, 2012) This puts additional pressure on companies to adapt to a globalized world and be even more flexible in order to respond to this new environment. (Jansson & Sandberg, 2008) How a firm internationalizes becomes a question of great concern for managers. When a firm has decided to go international, it must decide on the most appropriate way of expanding. This decision, namely the choice of entry mode, is important to the company as it will in many ways prove significant for the long-term health of the company (Hill, 2008).

1.1 Problem discussion

The internationalization of companies has gained traction, not only by managers wanting their companies to succeed and governments wanting to create jobs, but by researchers as well. The interest in research regarding entry-mode decisions and how companies expand internationally has grown significantly in recent years and is identified by researchers as one of the more significant subjects in international business research (Ahsan & Musteen, 2011). Here, researchers attempt to present conceptual models based on theories in order to understand the factors that influence the process of expanding internationally, and the entry mode chosen for this endeavor. Even though a great amount of research has been conducted in this field, there is still no comprehensive framework or theory to explain all the factors influencing the crucial decision of how a company chooses their entry mode (Andersen, Meng, & Zamberi Ahmad, 2014). Research in this field has mostly addressed the concerns of manufacturing firms and the dominating theories are all directed at multinational manufacturing companies (e.g., Gatignon & Anderson, 1988; Hymer, 1960; Johanson & Vahlne, 1977; Vernon, 1966). However, these manufacturing firm-based theories are not necessarily applicable to service firms. In a study by D. D. Sharma & Johanson (1987), they found that there are differences in priorities and considerations. With the internationalization of service firms on the rise, researchers have started to ask questions on how this breed of companies expand and which factors are influencing their choice of entry mode.

When discussing service firms, how to group the industry has been a struggle for researchers. A prevalent distinction was made by Professor Erramilli (1990) in his article on entry mode choices for service firms. Erramilli found a great diversity in behavior when it comes to foreign entry modes, a stark contrast to the more heterogeneous manufacturing industry. The main distinction found in the study was that the criteria of inseparability of production and consumption, previously attributed to all service firms, was not a universal characterization for service firms. An example is the banking industry where technological advances have made it possible to service the consumer remotely by either telephone or the internet. This allows for some sectors within the service industry to export their services, an entry mode that had previously been ruled out for service firms. Therefore, Erramilli made the distinction between hard services, where the production and consumption can be decoupled, and soft services for the industries where that is not possible. (Erramilli, 1990) A few examples of soft service industries are healthcare, hospitality and fast food. Ekeledo & Sivakumar (1998) also state that classifying the service sector into hard and soft services reduces the vast diversity and reveals meaningful insights about foreign entry modes that stretch across individual service industries.

1.2 Purpose

This master thesis aims at developing a comprehensive framework, based on existing theory and a case study, of influencing factors impacting foreign entry mode for soft service companies.

1.3 Research questions

The purpose has been divided further into three main research questions.

RQ 1: Which factors are considered important for the choice of entry mode in current literature?

RQ 2: How can this theory be transformed and concretized into a new tailored framework for soft service firms?

RQ 3: Which additions/changes can be detected on this framework when looking at case studies in order to devevlop the framework and for it to better suit soft service firms?

1.4 Delimitations

The decision of when and where a company expands internationally are important parts of the internationalization process. However, this thesis will only focus on how a company expands internationally, namely which entry mode a company should choose. The thesis will only look at soft service companies. Since a soft-service firm, by definition is unable to export, exporting will not be seen as a viable entry mode.

1.5 Disposition of the master thesis

Chapter 1 – Background

This chapter aims at explaining the background and problem discussion for the thesis. These discussions are followed by the thesis' purpose and research questions as well as relevant delimitations.

Chapter 2 – Methodology

This chapter will give the reader an understanding of how the thesis is devised. Discussions regarding the research design and review of the quality will also be made.

Chapter 3 – Theory

This chapter presents the different entry modes for a soft service company followed by a presentation of the relevant theories of entry mode research. A collection of the most relevant factors from theory will lead to the first draft of the framework.

Chapter 4 – Case studies

In this chapter, case studies on five companies that have undergone an international expansion will be presented. The results from this chapter will be summarized in key takeaways after each section as well as a final table on the companies' opinions on the factors included in the framework.

Chapter 5 – Analysis and framework revision

An analytical discussion on the different factors and their importance as was learned from the interviews is held. The purpose of this chapter will also be to revise the current framework with the insights registered in the previous chapter. The final version of the framework will be presented.

Chapter 6 – Conclusion

The conclusions from the thesis are discussed in this chapter. A section on suggestions for further research is also presented.

2 Methodology

2.1 Research purpose

Research purposes can be categorized into four groups; explanatory, descriptive, exploratory or problem-solving. Explanatory studies have the purpose of finding and outlining relationships between variables (Saunders, Lewis, Thornhill, Lewis, & Thornhill, 2009). Descriptive studies aspire to evaluate and portray a phenomenon. With a common objective with descriptive studies, exploratory studies also intend to deepen understanding of a phenomenon as well as assess it on a profound level. They are useful when researching queries with a cause and effect which is not clear. (Robson, 2011) The problem-solving purpose is mostly found in engineering studies. (Höst, Regnell, & Runeson, 2006)

This study can be categorized as exploratory, as its purpose is to seek new insights and to look at the choice of foreign entry modes for soft service companies, a sub-segment of the entry mode field with limited previous research.

2.2 Research strategy

2.2.1 Inductive, deductive and abductive research

When deciding on a research strategy it is vital to look at what role theory and data collection in general will play in the thesis. This decision will decide how the research design will be structured. In total, there are three conventional ways of viewing theory. The first one, deductive reasoning, is a way to deduce the conclusion from a set of premises. The conclusion is only true if all the premises are true. Deductive reasoning is normally used when data collection evaluates a proposition related to an existing theory. Theory will be used to verify or falsify the hypothesis, which is common in natural sciences. The second way is inductive reasoning. This reasoning originates from social science and is used when the research starts by data collection to explore a phenomenon that later leads to the building of a theory, potentially in the form of a conceptual framework. Instead of verifying or falsifying the hypothesis, using the induction approach data collection is used to explore the phenomenon and try to identify patterns. The third way is called abductive reasoning. This approach could be seen as a combination of the two previously mentioned. Data is collected to form an understanding of the phenomenon at hand. A hypothesis in the form of a conceptual framework is produced and then again tested by data. When the conceptual framework is tested, the framework can be revised to incorporate new findings. (Saunders, Lewis, & Thornhill, 2008)

Looking at this thesis, with the purpose of creating a conceptual framework for how soft-service companies decide on entry modes, the decision was made to use the abductive approach. The creation of a conceptual framework was produced after reviewing existing theory and then tested with case studies. The final framework was developed by using both theory and case studies. When using this iterative back and forth approach, abductive reasoning is deemed superior.

2.2.2 Quantitative and qualitative approaches

There is a distinction in research on two different types of data collection techniques. The first one, quantitative methods, is generally described as the collection of data numerically. Examples of this could be questionnaires, polls or other forms of data that could be presented in a graph or form the basis for statistical tools. The opposite of this is qualitative data. This type is usually the ones obtained during interviews or data analysis procedures and generate non-numerical data. However, this division in quantitative and qualitative research is problematic, since most businesses and some research as well combine both types of data. This could be in the form of a questionnaire with open answer questions in addition to more straightforward questions. A third approach has therefore gained popularity, which uses both types of data. This is called mixed-method research and uses the strengths of both sides in the data collection. (Saunders et al., 2008)

This study is almost exclusively qualitative, but with some elements of quantitative data. Revenue figures and similar kinds of data have been collected quantitatively. The bulk data from this thesis is based on theoretical frameworks, qualitative interviews which combined has been compiled to a framework using the authors' qualitative reasoning.

2.3 Research design

2.3.1 Literature review

To be able to perform significant research of an area it is imperative to first understand the field's literature (Boote & Beile, 2005). It was therefore indisputable to start with a literature review. By conducting a literature review the authors demonstrate their knowledge of a certain field of study. In addition to that it educates the author of influential research groups and researchers within the field. Aside from the aforementioned reasons for writing a literature review there are many more, including for example devising delimitations, looking for new inquiries, attaining insights on methodology, determining what has been researched and what needs to be. (Randolph, 2009)

Studying literature was done foremost during the first half of the thesis but was present to some extent during most of the study. The literature review is mainly based on secondary sources in the form of articles and publications in journals to study recent research, but also to some extent relying on books for theories and definitions.

2.3.2 Conceptual framework development

After conducting the literature review certain insights into the field as well as common ground among researchers were found. These insights could then be grouped into four different areas affecting the choice of foreign entry mode. Factors were then adopted into the four areas to solidify and clarify the effect of the four areas. The developed conceptual model should serve as a starting point for the final model on factors affecting the choice of entry mode.

2.3.3 Case studies

2.3.3.1 Case selection

Choosing the right cases is a vital step in order to draw conclusions from the thesis. Due to the large number of companies within soft services, a number of criterias had to be met for a company to be of interest. The first one was that the company should have experience of internationalization and presence in preferably more than two countries. The second criteria was for the company to be of a certain size so that the internationalization followed a decided-upon plan. This criteria was added to sort out companies that had expanded to one other country without plans or resources to expand further. An upper level of company size was also added for the selection. Interviewing large corporation with abundance of resources could skew the results for the study. A last criteria was a desire to interview a broad range of companies within soft services, so that the results could be applicable for the whole field and not just one or two industries. With these criterias, a number of potential companies was listed and then contacted. Out of the initial list of companies, seven responded to the request for interview. From these seven companies, two were excluded since the person to be interviewed was not considered to have the right profile for the study. Therefore, five companies was interviewed.

2.3.3.2 Interviews

Interviews were held with all five of the companies included in our multi-case study. Of the five companies in the study, each company was represented by one interview, except for BrewDog were two interviews were held. All interviews were conducted remotely, either by phone or other communication software due to the physical distance between the authors and the company representatives. Yin (2018) emphasizes the importance of interviews as the primary source of data collection in case studies. The advantages of interviews are the insights that can be gained from discussing the topic with people involved in the decision-making process with invaluable knowledge and personal experience. The downside of this might be that the results concluded from the interviews have a slight bias, both in terms of what the interviewee shares, as well as what the interviewer focuses on. These downsides can be countered if the interviewers are cognizant of the issue. (Yin, 2018) Therefore, questions were asked in an unbiased fashion and effort was put into not leading the interviewees into answering in a particular way.

Table 1: List of conducted interviews

Company	Interviewee	Position	Length	Date
Max Burgers	Johan Ståhl	Head of Max Burgers International	50 min	24th of January
Espresso House	Tobias Larsson	Head of Production and New Channels	45 min	27th of January
Nordic Choice	Daniel Stenbäck	Chief Development Officer	45 min	6th of February
O'Learys	Greg Buckley	International Expansion Manager	50 min	30th of January
BrewDog	Alan Moore	International Sales Director	35 min	10th of January
	Lisa Paton	International Growth Director	45 min	31st of January

2.3.3.3 Documents

Yin (2018) argues that additional documentation can be used to confirm information obtained from other sources, which for this study would be the interviews. In this way, information received from the interviewees can be validated or discarded if proven contradictory to official documentation from the company. In the thesis, complementary documents, such as annual reports, press releases and other articles were used to get a better view of each company.

2.3.3.4 Individual case report

After each completed interview, a report of the case was written for the reader to get familiar with the information collected. The cases are organized by company and each case features a key-takeaway section in the end. This was done for the reader to get a better understanding of what the authors thought most important from each case. Upon request, each case report was sent to the company for approval.

2.3.4 Cross-case analysis

One of the reasons for conducting a cross-case analysis is according to Miles, Huberman, & Saldana (2014) to enhance generalizability or transferability to other contexts. These are not questions typically suited for qualitative studies, but if the cases are adequately sampled, and analyzed thoroughly, generalization of the findings can be made. The cases chosen for this study were chosen to represent a broad category of soft-service companies, including hotels, fast food companies as well as bars. A second reason for cross-case analysis brought up by Miles, Huberman, & Saldana (2014) is to deepen understanding and explanation. This can manifest itself by finding negative cases or highlight differences and similarities across cases. It is further emphasized that multiple cases help form conditions for how categories of conditions may be related. (Miles et al., 2014) To find categories of conditions and how they are related to each other as well as generalize the findings, are key questions this study tries to answer and is one of the strongest reasons why a cross-case analysis was the appropriate analysis tool to use. The analysis was structured by factor, where the experience from the different cases could be discussed and similarities and differences could be drawn at a factor level. The core findings in the analysis were then compiled in a final summarizing section.

2.3.5 Revision of the framework

When conducting a multi-case study, it is vital to take into account how to respond to situations where the results are not in line with the theoretical framework created. In these situations, the framework must be modified to better capture these cases. (Yin, 2018) This revision of the framework was done in this section. The framework developed from theory was revised to better capture the thoughts and priorities being discussed during the case studies and subsequent analysis. The final revised framework is therefore a combination of previous theoretical knowledge, combined with a broad category of soft service firms' experience within the field.

2.4 Research quality

To ensure research quality, this study draws on the most highly cited quality criteria system for research that is qualitative and is developed by Lincoln, Guba and colleagues (Denzin & Lincoln, 2011; Lincoln & Guba, 1985). They recommend using five concepts to evaluate qualitative research quality, these five concepts are:

- Credibility, when members of the researched field perceive that the findings mirror their experience.
- Transferability, how applicable the findings are in other contexts.
- Dependability, the similarity of the findings if the research was done by someone else.
- Confirmability, if the findings are the result of participants responses and not affected by the researcher's motivations, perspectives, interests or biases.
- Authenticity, if the research depicts a reasonable range of varying viewpoints on the subject matter. The transformative potential of the findings as well as if there is consensus in the community that the findings have meaning and are useful.

(Treharne & Riggs, 2015)

Continuously during the thesis, credibility has been confirmed by using sources from acknowledged publishers and academic journals. Ensuring the credibility of the interviews is challenging, but preventative and institutive actions were taken to validate responses from the interviewees. Conformability is dependent on the interviews and the aforementioned assurance actions have been taken. Regarding transferability this was ensured by providing a detailed description of the interviewees’ responses. Dependability is guaranteed by a well-written methodology chapter as well as the findings being based on the literature review and interviews. Authenticity is assured by portraying viewpoints from various industries within soft services as well as a wide range of sources used in the literature review.

3 Theory

3.1 Entry modes

3.1.1 Low control

3.1.1.1 Licensing

One way to enter a foreign market is through a licensing agreement. It is a form of alliance where one party acquires the right to produce or sell (or both) a certain product exclusively in a geographical market. The agreement let the buying party (licensee) use industrial property and know-how in exchange for payment to the owning party (licensor). Typically, the licensor allows the licensee to use a patent, trademark or other firm specific intellectual property. This fee usually comes as a percent of sales in the geographical market the licensee undertakes. Normally, the contract specifies which geographical area and a time-period that the license is valid for. This makes it possible for the licensor to have different licensing agreements across multiple geographical locations. (Luthans, Doh, & Hodgetts, 2012) Licensing tends to be connected to products and hence more frequently used by manufacturing firms (Hill, 2008).

Licensing agreements are usually made in a few common situations. The first situation is that the product being considered by the licensor is in the mature stage of the product life cycle, with the characteristics of fierce competition and shrinking profit margins. This stiffening market environment makes the licensor unwilling to invest to enter a new market and might instead consider teaming up with a company already present in the market and bring both companies mutual benefits. A second situation is that some governments force foreign entities to make significant investments in the company to access the market. To avoid these high entry costs, a company might instead consider licensing to a company that is already present there to generate revenues without having to enter themselves. A third situation is if the licensing company is quite small and lacks the financial strength to enter foreign markets by themselves. (Luthans et al., 2012)

There are a few considerable drawbacks with using licensing. Firstly, the company loses control over manufacturing and other important strategic and operational aspects of the product to the licensee. This might be damaging if the production of a product has a long experience curve or there are location economics that favor a centralized production. Secondly, competing globally with a product sometimes require the firm to make strategic decisions such as using profits earned in one market to support competitive actions in another. With licensing, this sort of strategic allocation of resources will be limited. Lastly, a company's technological know-how usually constitutes its competitive advantage. That constitutes a risk with licensing, since the company secede control of their valuable know-how to another company. There are many examples of companies licensing their know-how and thus creating a competitor for themselves.

An example is RCA Corporation that licensed its color TV technology to Sony and Matsushita (now re-named as Panasonic). The Japanese firms assimilated the technology, improved it and later competed with RCA in its home market in the US and gained substantial market shares. A way of mitigating this risk is cross-licensing agreements where both parties license valuable know-how to each other and ultimately hold each other "hostage". This might not always work, e.g. if the perceived value of the know-how differs significantly. (Hill, 2008)

3.1.1.2 Franchising

Franchising is in many ways closely related to licensing, although franchising tends to be longer-term than licensing. It is a business agreement where one party, the franchisor, grants permission to another, the franchisee, to operate an enterprise using its trademark, logo, product line and methods of operations in return for a fee. There are strict rules on how the franchisee runs the business and the franchisor will assist the franchisee with the operations. The payment is usually defined as a royalty fee that is defined by some percentage share of revenues. Where manufacturing firms tend to favor licensing agreements, service firms usually use franchising agreements. (Hill, 2008) Since most service firms are customer-facing, most franchisors have well-managed operations for this to run smoothly to ensure a uniform treatment across franchisees. The franchisor can have guidelines for this treatment with penalties for non-compliance. A successfully managed franchising typically involves monitoring and standards. Due to this, it is often more resource-intensive than licensing. (ibid.)

The advantages of franchising mirror those of licensing due to their similarities and are mainly considered to be the ease of getting a global reach speedily without accumulating typical costs and risk associated with this, since these obligations tend to fall on the franchisee. This dynamic incentivizes the franchisee to develop a profitable operation as quickly as manageable. (Hill, 2008) One common difficulty of internationalization in the service sector avoided using franchising is the cost of purchasing or renting sites. Under franchising agreements this responsibility tends to fall on the franchisee, giving the franchisor a more resource-efficient way of expanding (De Búrca, Fletcher, & Brown, 2004).

The drawbacks of franchising are not necessarily the same as for licensing. There is normally no risk that the transfer of know-how will create a competitor in the home market and manufacturing issues like experience curve and location economics are not applicable. A major drawback though is quality control. A customer visiting a foreign franchisee expect the same service and quality she is used to in her home country. This might not always be the case if foreign franchisees may not be as concerned with quality as the franchisor expects, and the result of this poor experience might extend to a loss in trust for the brand. Geographical distance can make it hard for franchisers to detect lacking quality at an oversea franchisee. (Hill, 2008)

3.1.2 High control

3.1.2.1 Alliance & Joint Ventures

Alliances are considered to be any type of cooperative relationship with two or more separate firms. Similarly, an international alliance is a cooperation among two or different countries. A common alliance in today's globalized world is the joint venture. (Luthans et al., 2012) It has gained popularity especially in Asia where governments have foreign investment laws mandating that foreign subsidiaries must have some local equity (De Búrca et al., 2004). This might be beneficial to the foreign company as the local partner, with equity and hence investments in the joint venture, will speak on the venture's behalf against nationalization and government interference (Hill, 2008). In a joint venture, two or more parties together own or control a business. Both alliances and joint ventures can take a range of different forms, marketing arrangements, technology-sharing, production deals and equity arrangements. (Luthans et al., 2012) One reason for firms to create a joint venture is when local conditions are so different from the home market that a local partner is needed to succeed (De Búrca et al., 2004).

In addition to the benefit of local market knowledge, alliances and joint ventures have a few other main advantages. Firstly, joint ventures reduce the needed capital and other related costs for the firm while at the same time increasing the newly formed entity's chances of success in the market. (De Búrca et al., 2004) Secondly, the development costs and/or risk of entering a foreign market might be significant and a venture with a local partner would be a suitable way to mitigate those risks.

As with licensing, one of the major disadvantages of joint ventures is the risk of losing control of the firm's technology to partners. There are ways to mitigate this risk, either have a strong agreement stating the control of the technology, holding a majority stake in the venture or "wall off" the most important technology for the firm while at the same time sharing some less valuable technology with the partner. (Hill, 2008) Intellectual property theft, has been a hotly debated subject in recent years and is one of the reasons behind the ongoing US-China trade war (USCBC, 2015). A second disadvantage is control over the joint venture. The ownership structure of the joint venture might not give the company the tight control necessary to coordinate a broader strategy. For example, as a global coordinated attack on a rival, a company might expect that the venture will sustain losses. This would hardly be accepted by the venture partner. Research suggests that conflict of interest often arise in joint ventures and is a reason why some ventures dissolve. These conflicts are usually magnified if the partner companies are from different countries and conflict over control of the venture is listed as a reason for a limited lifespan. (De Búrca et al., 2004; Hill, 2008)

3.1.2.2 Wholly owned subsidiaries

When a company sets up a foreign subsidiary by themselves without a partner or alliance, it is called a wholly owned subsidiary. This means that the company owns 100 percent of the newly formed entity. This can be done in two ways; either by setting up new operations in the target market, referred to as a greenfield venture, or by acquiring an existing entity within the country. This is often pursued by companies when the transaction costs, namely the costs of negotiating and transferring information are deemed too high. One of the main reasons a firm decides on a wholly owned subsidiary is to be in total control of the new entity and the belief that this will increase efficiency in the company. The control of the entity also makes it easier for the company to coordinate global strategy. It has been suggested in research that due to the level of control which leads to better communication and a shared vision, profits can be higher. (De Búrca et al., 2004; Hill, 2008)

The clear advantages of this setup are that the company does not have to fear losing control of its intellectual property or firm-specific know-how. This is a leading reason why companies with technological competence as their primary competitive advantage choose wholly owned subsidiary. A second advantage is to increase the level of specialization of the subsidiary and hence reap benefits of location economics and experience curve. The firm optimizes its supply chain by only manufacturing a specific component in the subsidiary and dictating transfer prices, level of output and other parameters. Such a subservient role would be hard to accept if the company was a part of a joint venture. (De Búrca et al., 2004; Hill, 2008)

There are some drawbacks as well. The investment to establish a wholly owned subsidiary is usually substantial and the company takes a significant risk in doing so. It drains the company's resources which makes it hard for a company to rapidly expand across different markets simultaneously. Furthermore, legally some countries are skeptical towards foreign companies investing with a wholly owned subsidiary. Governments motivate this by alleging that wholly owned subsidiary does not necessarily benefit the local competitors and therefore some countries have put up restrictions on how a company can enter its market. Unions in the company's home-market also feel threatened by wholly owned subsidiaries. Especially if the company first export to a foreign market and then set up operations there. This can be seen as a way of "exporting jobs" and can lead to significant problems. Acquiring a foreign company can lead to problems when it comes to integrating two different corporate cultures in the new subsidiary and can be a struggle. (De Búrca et al., 2004; Hill, 2008)

3.2 Models of entry mode theory

3.2.1 Monopolistic Advantage Theory

Monopolistic advantage theory, (MAT), is one of the oldest market entry mode theories developed and was published by Stephen Hymer already in 1960 (Hymer, 1960). Hymer is considered to be one of the founders in the academic field of studying multinational companies (Dunning & Rugman, 1985). Later on, he gradually became more explicit towards his socialist influences and made his Marxist ideas explicit toward the end of his life and thus became a vocal critic of Western multinationals (Buckley, 2006).

Hymer's thoughts was that if a company has firm-specific assets that its competitors are unable to easily replicate, the company can generate higher returns. This revenue can be invested in international expansion. When it came to entry mode, his idea was that if the market was imperfect, the company would choose to use foreign direct investments such as wholly owned subsidiary as an entry mode. Conversely, if the market was closer to a perfect market, the company would prefer to use a contractual entry mode such as joint venture or licensing agreement. Factors that are highly valued in an imperfect market are according to MAT economics of scale, superior knowledge and diversification. With these factors, a company could obtain an almost monopolistic position in a targeted imperfect market. (Buckley, 2006; Hymer, 1960) MAT suggested that foreign direct investment is an important way to expand internationally for two main reasons. The first reason is that it enables intra-firm transfer of intellectual property and specific assets to the company. To reap the full benefits of these resources, the firm must set up a foreign operation. The second motive is to avoid conflicts in regards to control of the foreign entity that might occur if a contractual arrangement was established. (Buckley, 2006; Hymer, 1960)

MAT supports the idea that Ricardian rents play a role in the international expansion of firms (V. M. Sharma & Erramilli, 2004). Ricardian rent is a concept that takes into account the surplus from returns and add them to the opportunity costs. This is a common theme in resource-based theory of international expansion and MAT can be seen as a predecessor to this field of study (Kumar & Subramaniam, 1997). When a firm enters a foreign target market, according to Hymer, it faces additional costs that domestic companies in that market do not and hence have both tangible and intangible advantages. These costs, named costs of doing business abroad, or CDBA, include costs for knowledge of political, cultural and economic conditions within the market but also expenses for relations with suppliers, customers and governments. In order to become profitable with these additional costs, a firm has to utilize its full potential of advantages and firm-specific resources. Hymer's ideas of CDBA later on developed into the concept of liability of foreignness, which is seen as a barrier for companies when going international. (Chen, Griffith, & Hu, 2006; Hymer, 1960)

The contribution from both MAT and Hymer in the field of multinational companies and their dynamics is hard to question. The ideas first discussed by Hymer in MAT is the foundation that scholars later on in the 20th century developed further and made to separate fields of studies. Looking at MAT in isolation, it is arguably too narrow in its scope and there has been a string of criticism towards this fact. This is hardly surprising, since the world in the 21st century differs significantly from the world Hymer observed. As an example, Hymer viewed developing countries at the end of the colonial era, and hence saw them more as agricultural-based economies than what is the case today. To conclude, MAT is somewhat outdated, however, the value of intra-firm transfers, control of foreign operations and cost of doing business abroad are factors worth considering going forward. These three can be summarized in the somewhat broader term of market imperfections.

3.2.2 International Product Life Cycle theory

The international product life cycle theory, also known as the IPLC model, was introduced by Raymond Vernon (1966). The model states that a firm's internationalization process is sequential steps related to the cost level of production between countries (Reiner, Demeter, Poiger, & Jenei, 2008). The theory is based on manufacturing firms from the US and has a scope for such companies and explain the reasoning for firms to go from exporting to wholly owned subsidiary (V. M. Sharma & Erramilli, 2004; Vernon, 1966).

The IPLC model states that there are four stages in a product life cycle and that the internationalization process follows these four stages. The first stage, product introduction, is focused on manufacturing based on low volumes and with a low level of standardization. The main driver in this stage is not cost, but flexibility, control and communication. Companies with products in this stage should, according to the IPLC model, export to other developed markets rather than expanding production elsewhere. In the second stage, growth, companies standardize their production to achieve economies of scale. A company in this stage should start making investments in other similar developed markets to broaden its ability to grow outside the home market. When the product enters the third stage, maturity, the competition is starting to increase when competitors offer similar products to gain market shares. The firm should now consider moving the production to developing countries since it has become standardized and easy to keep costs down. There could even be an argument made to stop production domestically and instead import from international subsidiaries. The final stage, decline, is characterized by increased competition from lower technology competitors in all markets. At this stage, cost control is an even more important consideration. (Malhotra, Agarwal, & Ulgado, 2003; Reiner et al., 2008; Rutashobya & Jaensson, 2004; V. M. Sharma & Erramilli, 2004; Vernon, 1966, 1971)

Since the IPLC model takes into account the location advantage of a host country, the theory aims to explain the reasoning of firms, why it enters two markets in two different ways (Kumar & Subramaniam, 1997). Although applicable to explain the product life-cycle and considerations in the different stages, the theory has gathered criticism from various sources. Kwon & Konopa (1993) argue that the IPLC is too general to explain the patterns of globalization and does not in an adequate way capture the selective approach of choosing entry mode. Further criticism has been raised that the theory does not address different forms of exporting or other contractual approaches such as joint venture (V. M. Sharma & Erramilli, 2004). For this study, since the model is mostly looking at manufacturing firms, it carries conceptual knowledge rather than practical. Factors such as location advantage, later used in the eclectic paradigm approach, is a noteworthy factor first discussed by Vernon in IPLC.

3.2.3 The Uppsala model

The Uppsala model is one of the first models for international expansion, drafted by Jan Johanson at the University of Uppsala together with Jan-Erik Vahlne at Stockholm School of Economics. They found that the Swedish companies in their study developed their international operations in incremental steps, rather than making a few major investments. (Johanson & Vahlne, 1977) The chain of establishment that they saw in their studies followed a simple pattern; first, export through an independent agent, followed by the opening of a sale subsidiary and later full operations and production in the specific country. By these results, Johanson and Vahlne concluded that this chain of establishment was not the result of a company strategy to optimally allocate resources, rather a consequence of strategy adjustment when the company is faced with new situations and environments. Therefore, the contributing factor with the most relevance for international expansion according to the Uppsala model is knowledge and experience about the targeted market and its dynamics. Knowledge then influences the level of market commitment for the company in that specific market. The more knowledge and experience a firm have in a market, the more specialized and bespoke an investment can be without taking too large market risk. This framework does only apply in a homogeneous market where market uncertainties, such as political uncertainties are low. (ibid.)

The model, albeit gaining traction and popularity, was criticized for being too deterministic. Later research showed that some companies did follow the incremental approach suggested in the model, but many did not, and "mixed" approaches were common as well. (De Villa, Rajwani, & Lawton, 2015) This prompted Johanson and Vahlne to refine their model (Johanson & Vahlne, 1990). The major changes they made were excepting the service industry from following their deterministic approach. Furthermore, they pointed out three situations where the model was unfit: first, companies with a large amount of resources that can make more sizable investments without adding too much risk; second, in stable markets where market information and knowledge can be obtained without necessarily having experience; and lastly, companies that have a significant presence in a similar market where it can be possible to generalize their market specific knowledge. (ibid.)

More recently, in 2009, Johansson and Vahlne once again updated their model and addressed criticism regarding their too singular dependence on experience as the only factor. In the updated model, the idea of "outsidership" is developed and the emphasis is more on that the foreign company might lack the relevant business networks to get knowledge about the local market. The challenge for the international expansion is not the physical distance, but rather gaining access to the relevant local networks and hence become an "insider". (Johanson & Vahlne, 2009)

For companies with their value-add locally, such as soft service companies, one obstacle with the Uppsala model is that the first step, namely exporting, is not an option. This would in theory force the soft service companies to embrace an entry mode that requires more knowledge and expertise as well as market commitment, than they would prefer. The theory has, as most older studies, its roots in the manufacturing sector and some of the conclusions might not be applicable. However, the factors of outsidership and market-specific knowledge and experience are highlighted and have broader applicability than just to the manufacturing space.

3.2.4 Network model

The network theory in essence describes how companies can achieve a faster internationalization through the resources and experience of their network partners (Mtigwe, 2006). All companies are embedded in a network of linked relationships, for example connected to customers, suppliers and distributors. Therefore, a company's internationalization could be explained as a network phenomenon. The companies network enables them to acquire resources that are needed for international expansion. In the process of internationalization, a company develops and establishes positions concerning its counterparts in networks abroad. Both the network which the company is a part of, and the company assets are considered with regards to the network model, where the market (networks) internationalization as well as the company's internationalization degree affect the process of internationalization. National networks concerns relationships with organizations inside national borders. (Johanson & Mattsson, 1988)

The network model identifies four types of a company's internationalization when considering the degree of internationalization for the company and its network:

- **Early starter**, low degree of internationalization for the organization and market. The organization does not have sufficient knowledge of markets abroad to commence business activity in foreign markets with ease and are not able to rely on other actors' part of their networks experience. Here it is suggested to use an agent to begin the internationalization process in a similar market to the home market. When knowledge of sales and resources increase, the organization can choose to move on with a foreign direct investment.
- **Late starter**, low degree of internationalization and no direct relationship with markets abroad. However, the organization's customers, competitors and suppliers in their home market all demonstrate a high degree of internationalization. In this case small companies have the option of using an agent for establishing a production or trade branch, while large companies can enter a joint venture or possibly an acquisition.
- **Lonely international**, is a development of early starter where the organization's degree of internationalization grows, whilst the network does not have a high degree of internationalization.
- **International among others**, the network as well as the organization have a high degree of internationalization

(Johanson & Mattsson, 1988)

The network model presented by Johanson and Mattsson (1988) describes the company's internationalization process as well as how organizations' selection of entry modes varies depending on the degree of internationalization of the organization's network context. With an internationalized market, therefore an internationalized network as well, the process of a firm's internationalization is faster.

The network theory has been extended by researchers to include governments and political actors. It is important for managers to respond to interdependencies between the firm and state as well as the political environment. Consequently, relationships with socio-political actors are critical for the market position development and internationalization process.

In summary, the following factors can be found affecting the choice of foreign entry mode from the network theory:

- Internal forces
    - Network internationalization
    - Linked relationships
    - Network knowledge
    - Social capital, Resources acquired through network relationships
    - Experience, Firms lacking experience and resources may leverage network relations to compensate
    - Socio-political relationships
- External forces
    - Conflicting interests
    - How visible the firm is to other actors and activeness of external factors
    - External actors and organizations influence on the firm's internationalization
    - Political environment

(Andersen et al., 2014)

Even though the network theory has empirical support, researchers have criticized it. Network relationships are often unplanned and ad hoc. The theory is also unable to explain how firms with no network relationships internationalize. Firms sometimes copy successful internationalization strategies of other players without communicating directly with them. (Johanson & Mattsson, 1988)

3.2.5 Eclectic paradigm approach

The Eclectic Paradigm approach, or OLI paradigm is a model developed by John Dunning at the University of Reading in 1977. The theory was designed to overcome the weaknesses of previous theory (Ekeledo & Sivakumar, 2004). It mainly focuses on manufacturing companies that operate in a technology-heavy industry. It is called eclectic since it is a combination of earlier studies, namely ownership advantages incorporated in the theory of the growth of the firm suggested by Penrose (1959), the monopolistic advantage theory by Hymer (1960), the localization advantages proposed by Vernon (1966) and lastly the transaction cost views of Kobrin, Buckley, & Casson (1977). The eclectic paradigm theory states that a firm will enter a market with wholly owned subsidiary and hence full control if three key advantages play to their advantages. These three are; Ownership advantage (O), locational advantage (L), and internalization advantage (I). (Johanson & Vahlne, 2009; Rugman, 2010)

The model is commonly referred to as the OLI model by making an abbreviation of the first letter of the three groups of advantages. Ownership advantage refers to the firm's unique advantages and resources the company has in-house. They can include firm size, multinational experience or a particular product differentiation, but also growth potential in the home market. If a firm can leverage these advantages, it will have a competitive advantage in the target market even if the asset is not necessarily transferable. The location advantages are dependent on the cost of resources that has to be invested by the firm when it enters the target market, the specific barriers of entry in this market as well as the market potential. If the barriers are low, the investment risk low and the potential in the market is high, the firm should be able to be profitable. Internalization advantages depend if the company can internalize activities or organize them through the market. It depends on how efficient technology transfer and management are operated in the target market. If transfer risks and costs are high, the firm would choose to enter through wholly owned subsidiary instead of using contractual agreements. (Dunning, 1980)

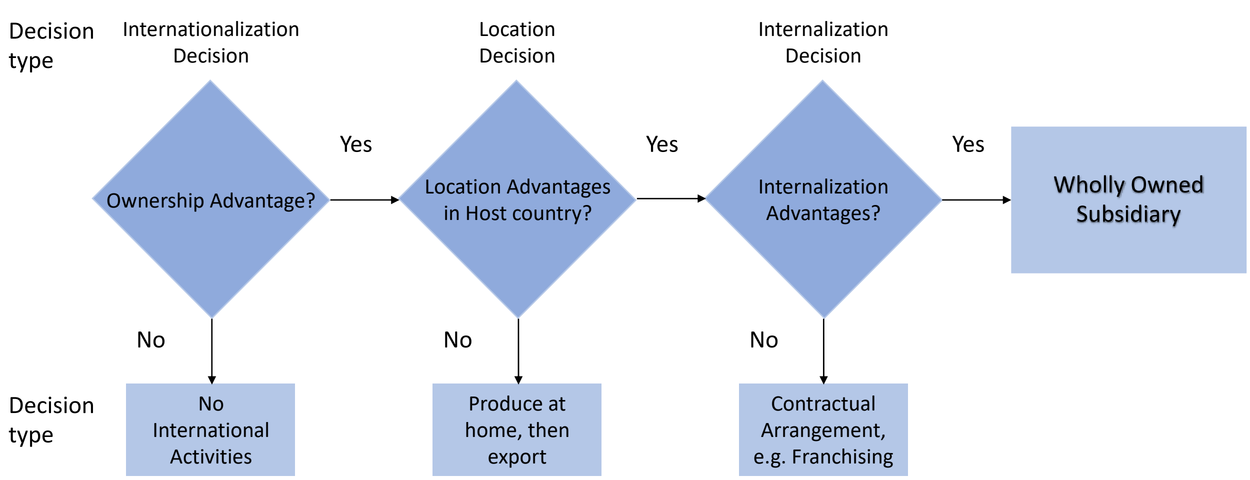

Figure 1: Eclectic paradigm shift visualized

These advantages guide the company towards the most suitable way for them to engage in a target market. The ownership advantages indicate who can expand its operations, the location advantages guide the firm to where it is most suitable to locate and lastly internalization advantages decide if the company should enter the market either with wholly owned subsidiary or with a contractual agreement. (Stoian & Filippaios, 2008) Even though all firms can access the location advantages in a target company, only those with a high degree of ownership advantages will be able to reap the benefits. One should therefore not just analyze each of them in isolation, as that would not cover all forms of potential key insights since they are interrelated. (Dunning, 1980)

The eclectic paradigm theory has been expanded and researched extensively since Dunning wrote his first article. Agarwal & Ramaswami (1992) expanded it by looking at how joint ventures might fit into the theory whilst Guisinger (2001) revised the original OLI model to a broader OLMA model. In the article, Guisinger replaced internationalization advantages with a mode of entry (M) to differentiate depending on the firm's choice of entry mode. Adaptation was also added, to emphasize that companies need to adapt to the international business landscape, which includes a legal aspect. Even though the eclectic paradigm theory has been accepted in empirical studies, it has also been criticized. P. P. Li (2007) criticize it for having both internal and external validations problems, whilst Gannon (1993) argues that it is not comprehensive enough. A further point of criticism has been the perceived overestimation of the role that the environmental factors play in international expansion. This might be a substantial contributing factor for manufacturing companies who rely on raw materials but might fit worse for firms offering services. (Ekeledo & Sivakumar, 2004; Pan & Tse, 2000)

3.2.6 Transaction cost theory

Transaction cost theory is an entry mode model first developed in the late 70s and early 80s by researchers Buckley, Casson and Hennart on ideas first laid out by Coase in 1937 (Weisfelder, 2001). The idea behind the theory is mostly based on the behavior of market participants and uncertainties related to their behavior. Basic transaction costs theory argues that firms arise when they are the most efficient organization to manage interdependencies among individuals or agents. (Coase, 1937) For international companies, i.e. multinational companies or companies with international ambitions, the theory argues that they thrive when they are more efficient than the market in organizing interdependencies between agents located in different countries. The market in this case constitutes all kinds of contractual agreements and exporting which are not institutionalized within the firm, i.e. all arrangements with more than one party (the firm) is considered the market. A hybrid structure is a merge of these two examples and are usually considered joint ventures. The choice for the firm wanting to expand to a certain market is then if it should decide to enter the market with foreign direct investment or with a contractual agreement. Their decision is based on the costs of entering the market with wholly owned subsidiary and if they are lower than using contractual agreement, or similarly, if the benefits are higher to enter with a contract. (Hennart, 2001) Conceptually, the different alternatives of entering the market have different characteristics when it comes to incentives, managerial characteristics, knowledge transfer, legal issues and control. Regarding control, both the market and hybrid solutions require consensus and decisions from at least two parties, making it less adaptable and flexible than a hierarchical structure within the firm. Similarly, the firm is more easily governed when it comes to legal issues since it depends on self-governance when both hybrids and market requires contractual law to coordinate behavior. This once again makes it less flexible when market condition changes and a renegotiation of the contract has to be conducted. (Williamson, 1991) The same argument goes for knowledge transfer where the firm and hybrid organizations can diffuse knowledge without considerable risk to their subsidiary. (Hennart, 2001)

Transaction cost theory studies the alternating means of organizing economic activity, either within the firm itself, a hybrid solution or on the market. The major assumption in the theory is that an organization is needed to decrease externalities. The relative cost of organizing these activities differ among markets and products and will be the deciding factor for how the company will enter the market. (Weisfelder, 2001) A common consensus among studies within transaction cost theory is that with an increase in uncertainty, opportunism and firm-specific assets, the cost of transactions on the market rises, hence, more companies will choose to enter with wholly owned subsidiaries. Conversely, with stable conditions and a functioning market place where opportunism is hard for suppliers and partners, companies should instead focus on either a hybrid solution or contractual arrangements. (Anderson & Coughlan, 1987; Gatignon & Anderson, 1988)

3.2.7 Transaction cost approach for service firms

Erramilli and Rao (1993) suggest in their article on entry-mode choices for service firms, that the transaction cost approach should be modified to fit the characteristics of service firms. They argue that the assumption that firms with low firm-specific assets, e.g. service firms, uses market-based (low control) entry modes as their default mode suggested in earlier studies (e.g. Gatignon & Anderson, 1988) is not necessarily true. For this to be true, two assumptions have to be true. Firstly, firms only benefit from integration as a reduction of transaction cost in imperfect markets and secondly, integration is costly. None of these assumptions necessarily applies. There can be a range of non-transaction costs, reasons why a firm decides to integrate, such as profits, easier alignment of business strategy, extended market power and to avoid traditional disadvantages of joint ventures. Similarly, integration costs for service firms can be limited to a quite small overhead since most service firms only need an office to start operations. (Erramilli & Rao, 1993) Sharma & Johanson (1987) found that Swedish technical consultancies only attributed minor significance to resource commitments for the companies to favor full control over overseas subsidiaries.

To account for the specific situations that service firms face, Erramilli and Rao found support in their study for a few alterations to the transaction cost approach. Service-oriented firms favor cooperative approaches when firm-specific assets are low rather than when it is high. This connection becomes stronger if; (1) It is not possible to separate the service's consumption from its production (soft service), (2) there is substantial country risk and (3) the firm itself is small.

These slight changes are more tailored towards service firms and extend the Transaction cost theory further. (Erramilli & Rao, 1993)

Transaction cost as an approach, especially considering Erramilli and Rao's contribution, gives quite an interesting perspective on considerations for a firm when entering foreign markets. The factors of flexibility and control of the company and how much value the company puts on these are worth taking forward.

3.2.8 The Resource-based theory

Resource-based theory views the source of competitive advantage to come from the firm not the industry (Capron & Hulland, 1999). The competitive advantage is based on the resources (capabilities and assets) located in the firm (Barney, 1991). Resource-based theory has accepted the view of industrial organization-based theory, that the firm combines input and seeking efficiencies in distribution and production. It also takes it one step further and attributes a firm's success in the market to be dependent on the operating environment as well as the firm's part in forming that environment. (Conner, 1991). Looking at entry mode selection, the resource-based theory describes differences in the choice of entry mode that have been observed across various industries. In addition to this, they observed why firms cannot and do not pursue strategies that would expectedly produce the highest returns, but rather adopt strategies supported by their resources. The resource-based approach can be said to follow the fundamentals of strategic management; in a setting where there is a good fit between external opportunities and resources, an organization can compete well. (Conner, 1991; De Vasconcellos E Sá & Hambrick, 1989). The default entry mode for the resource-based theory is sole ownership (wholly owned subsidiary) and is the favored entry mode as well as being the ideal way to operate. (Stopford & Jr., 1972). On the contrary to sole ownership being the default entry mode, the transaction cost approach considers entry modes with shared-control, e.g. licensing and franchising, to be the default mode if market conditions are stable. (Anderson & Gatignon, 1986).

The resource-based theory explains that the success of a firm in a host country is dependent on its ability to transfer its valuable resources, and therefore a competitive advantage, to the targeted market. To conclude, the factors impacting internationalization and connected to entry mode choice have been listed below:

- Firm-specific resources
    - Tangible
        - Labour force
        - Physical assets
        - Financial resources
    - Intangible
        - Knowledge

        - Brand name
        - Business experience
        - Organizational culture
        - Proprietary technology
    - Capabilities
- Country-specific resources
    - Basic, e.g. raw materials
    - Advanced, e.g. technology

(Andersen et al., 2014; Camisón & Villar, 2009; Ekeledo & Sivakumar, 2004; V. M. Sharma & Erramilli, 2004)

3.2.9 Conceptual framework based on the resource-based theory by Ekeledo and Sivakumar (2014)

A conceptual framework, based on the resource-based view, was developed by Ekeledo and Sivakumar (2014) to study entry mode strategies for manufacturing- and service firms. The framework bases choice of entry mode on a few essential factors;

- Resources specific to the firm
- Factors of the home country
- Factors of the host country
- The products nature, goods versus services
- What degree of control the firm wants

The results showed that resources specific to the firm as well as the nature of the product were good predictors of the choice of entry mode. The study also showed firm-specific resources to drive entry mode strategy. (Ekeledo & Sivakumar, 2004)
The following figure is of the framework I. Ekeledo and K. Sivakumar used for their study, with focus being on the shaded areas.

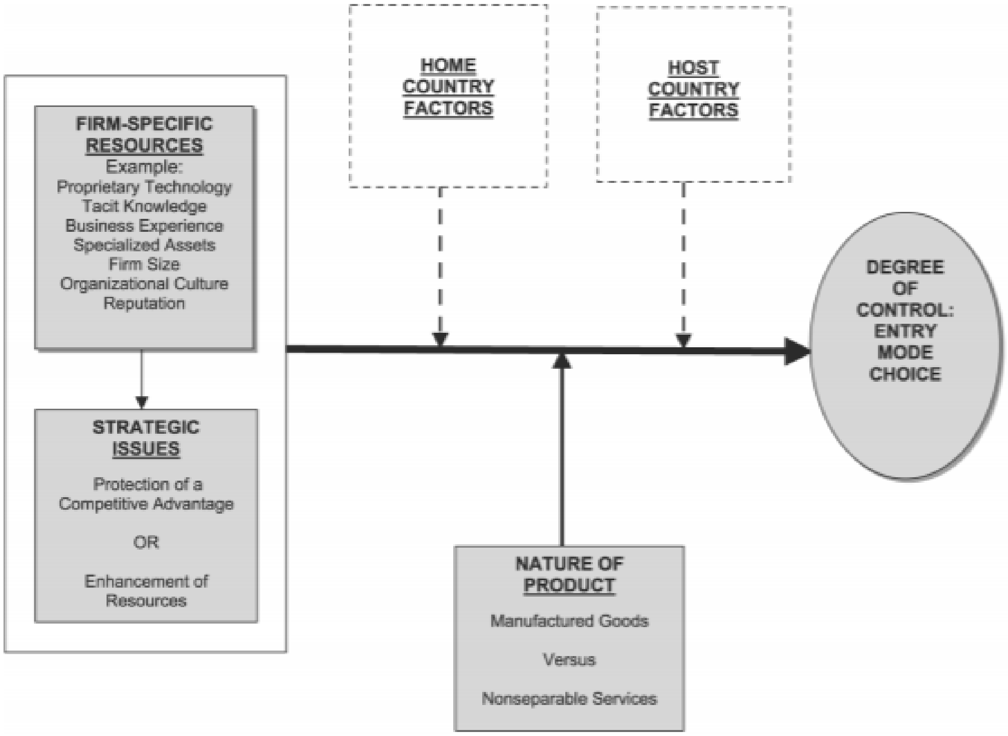

Figure 2: Conceptual framework by Ekeledo & Sivakumar (2014)

Market entry mode strategies

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Hypothesis	Variable	Label	Coefficient	WALD (Sig)
H1	Proprietary technology	PROPTECH**	2.5704	11.0561(0.0009)
H2	Tacit knowledge	TACITKNO	0.3611	0.8690 (0.3512)
H3	Business experience	BUSNEXPR**	2.0459	10.7211 (0.0011)
H4	Specialized asset	SPEASSET**	0.7908	6.6414 (0.0100)
H5	Firm size	FIRMSIZE2(1)	0.3602	2.0775 (0.1495)
H6	Organizational culture	ORGCLTR(1)*	1.5691	3.0942 (0.0786)
H7	Reputation	REPUTATN**	0.8185	4.4821 (0.0343)
H8	Paired application	PAIRDAPP**	−2.3117	0.9335 (0.0133)
	Business sector	BUSECTOR(1)**	2.7256	6.2209 (0.0126)
	Intercept	CONSTANT**	22.5669	

Notes: * Variables significant at 0.1; ** Variables significant at 0.05; Dependent variable: 1 if full control mode (FULCNTRL), 0 otherwise; $N = 130$; Model $\chi^2 = 114.016$ with df = 12 and $p < 0.00005$; -2 Log Likelihood: 49.568; Correct classification rate: 96.15 percent

Table III. Combined logistic regression model (*H1* to *H8*)

Figure 3: Variable correlation by Ekeledo & Sivakumar (2014)

The more positive the coefficient is in the table above; it is a sign that the firm is expected to choose a full-control mode. The opposite being a negative coefficient which implies an entry mode with shared control. Tacit knowledge, firm size and organizational culture are not significant (significantly lower than 0,05). The positive coefficient for the business sector implies that a service which is non-separable (i.e. soft service) increases the odds for a firm to select an entry mode with full control (sole ownership). The data from their study supported two statements: The explanatory abilities of the resource-based theory are good for entry mode strategies; entry mode practices and concepts used in manufacturing cannot always be used on service firms that are non-separable. But it has been hypothesized that the ability of an entry mode concept to be transferred from manufacturing to service firms is dependent on the characteristics of the concerned service, which their more recent study supports., which their more recent study supports. (Ekeledo & Sivakumar, 1998, 2004)

The degree of control is a key aspect of the resource-based view. Ekeledo & Sivakumar (2004) describe how service firms where production and consumption are inseparable need to supply a certain quality of their services, consequently they need higher control of their operations. This type of organization in general prefers wholly owned subsidiary, if they choose to cooperate with local actors they will franchise their business to control and ensure the quality of the services supplied using their brand name. (Ekeledo & Sivakumar, 2004)

Ekeledo and Sivakumar's (2014) results regarding firm size and entry mode were contradictory which is in line with previous studies. Certain studies found a positive relation between sole ownership of foreign subsidiaries and a large firm size and others did not. An additional factor Ekeledo and Sivakumar identified as important is the protection of resources which are the source of an organization's competitive advantage.

3.2.10 Contingency theory

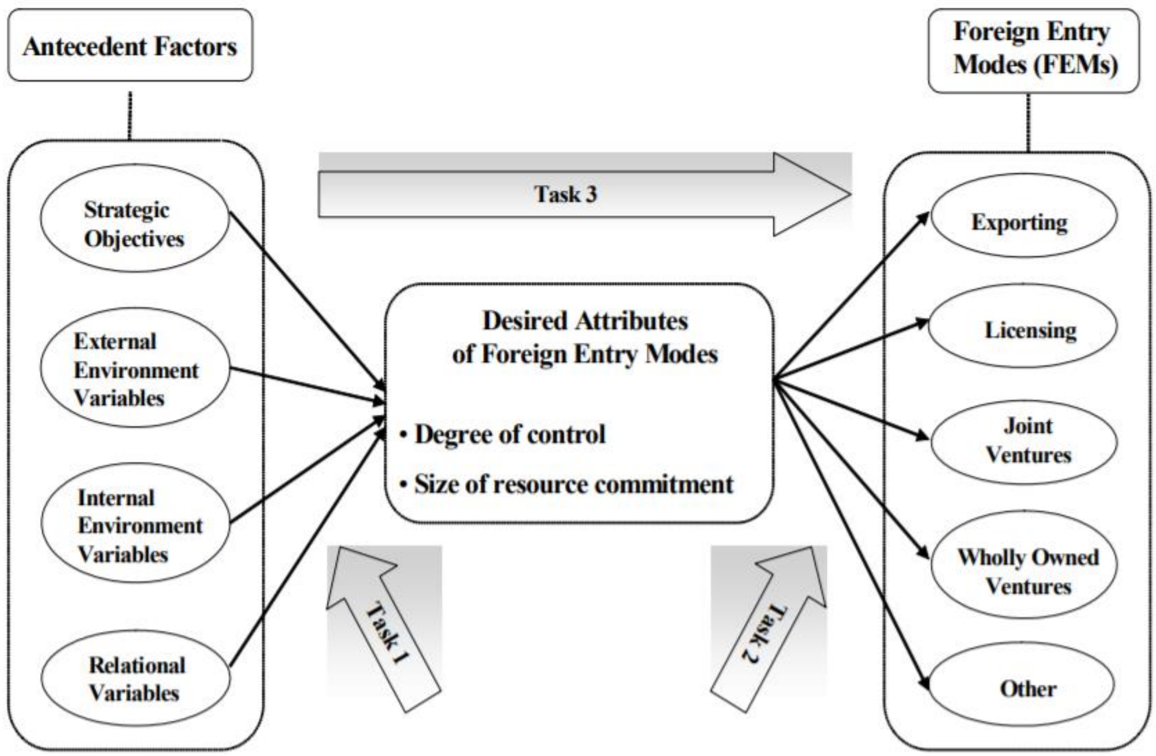
Literature regarding models for entry mode choice has been content-oriented and not considered the role of decision-makers, therefore researchers developed a business strategy approach or contingency theory (Andersen et al., 2014).

The literature on strategy has determined three views of strategy; Situation specific, universal and contingency view. The situation-specific view sees the outcome of a firm’s strategies only to be understood when looking at their unique situations. The universal view, on the other hand, ascertains that the universal rules of strategy apply to some extent in all situations. Contingency view could be seen as in between the situation-specific and universal view. The underlying assumption is that there is no assortment of universal strategic choices that are optimal for all circumstances and organizations, however, the optimal strategy is dependent on an assortment of environmental and organizational conditions. (Ekeledo & Sivakumar, 1998)

The rationale of the contingency model proposes that the strategic foreign entry mode choice should attune to the organization's strategic goals and objectives, internal resources and capabilities as well as numerous external environment forces to attain superior performance. (Gao, 2004)

Tao Gao (2004) summarized the general theorem of the contingency perspective as follows:

"The general theorem of the contingency perspective can be summarized as follows: the subsequent performance of a foreign entry mode is contingent on the degree of fit between attributes of the entry mode and the firm's strategy, its internal resources, and the operating environments surrounding the entry effort. In order to apply the contingency theory to FEM decision making, firms need to go through three distinct steps" (see Figure 4).



General Theorem: The fit between the achieved attributes of foreign entry mode and various situational factors determines the success of the foreign operation.

Task One: Use antecedent factors to predict desired attributes of foreign entry modes.

Task Two: Link foreign entry modes to certain attributes or arrange foreign entry modes along these characteristics.

Task Three: Link antecedent factors to foreign entry modes *based on* the first two steps.

Figure 4: The basic logic of the Contingency Framework for foreign entry mode decisions (Gao, 2004)

The majority of entry mode studies based on the contingency perspective compare, rank or map various entry modes in regards to important attributes, the most distinguished being the degree of control. After this, the circumstances are usually identified, during which particular levels of numerous characteristics (for example the need for high versus low control) are preferred. As the characteristics are tied directly with various entry modes along with entry mode mapping, this leads the contingency framework to link previous factors to be preferred for certain entry modes. (Gao, 2004)

To conclude the section on contingency theory a summary of factors affecting internationalization and entry mode have been collected and are presented below.

- Firm-specific resources
- Management attitudes
- Firms market position
- Entry market characteristics
- Environmental factors (not under a firms control)
    - Trade barriers
    - Economic infrastructure
    - Political and socio-cultural factors
- Organizational factors (under the control of the firm)
    - Organizational culture
    - Corporate goals and objectives
    - Corporate strengths and weaknesses
- Early clients
- Product classification (goods vs services)
- Degree of control
- Resource commitment
- Relational variables

(Andersen et al., 2014; Ekeledo & Sivakumar, 1998; Gao, 2004; Rundh, 2001)

3.2.11 Real options approach

The real options approach is based on the concept of financial options, the right – not the obligation – to undertake or terminate a specific action in the future (Mitchell & Hamilton, 2007). Applied on business, this could be translated to decisions such as either terminate or pursue an investment. Real options for firms normally conceptualize as a joint venture. The option provides greater flexibility for the investment concerned, as the firm has the option to make the upfront investment at a later stage in the process and gain greater knowledge. There are two requirements for it to be considered a real option. Firstly, there has to be a level of uncertainty, usually in regard to the future returns of the investment. Secondly, there is an associated cost connected to the reversal of the investment. Under these conditions, usually called uncertainty and irreversibility, an option enables the ability to postpone the investment decisions until some of the uncertainty has been resolved. (Dixit & Pindyck, 1994) As a generalization, there is two different kinds of options, the option to grow, and the option to abandon (J. Li & Rugman, 2007).

For most investments a company does, i.e. investment in aging capital equipment, the option value is negligible. Some investments though, provides a window of future opportunities, the option to expand in a foreign market or a new product, where the value of this option can be considerable. (Kogut, 1991) The value of a real option for a firm is described in a formula by Pindyck:

$$Vj = Fj(\, K, \pi \,) + Oj(\, K, \pi \,)$$

The value, V, of an asset as estimated by firm j, $Fj(\, K, \pi \,)$, is the current value of the asset as it is used today. $Oj(\, K, \pi \,)$ is a valuation of future growth opportunities, where π is the value of an uncertain state variable. (Pindyck, 1988) F and O differs fundamentally by the latter one not being based on future expected profits, since the firm still maintains the flexibility to choose among a range of different investment alternatives. The value of the asset will also differ among parties within the joint venture. For example, a joint venture might source some of its components from one of the partner firms but not the other, potentially raising the valuation of the firm from the sourcing partner's side. (Kogut, 1991)

Kogut's study of joint ventures points out that with a joint venture, both parties can bring a different set of capabilities that might limit the initial investment and, in some industries, development costs. This can significantly shorten the launch time for the project. Therefore, joint ventures serve as a beneficial way for firms to reduce the overall risk of a project but at the same time gaining the knowledge and the option to continue the venture. Compared to the two alternatives to joint ventures according to the Real Options Approach, namely waiting to invest or invest now, joint venture is the safe middle way. When the market conditions or the technology being developed in the venture is right, the option still gives the company a chance to exercise it and reap the benefits. The buying party of the joint venture then has the skills acquired by the partner firm and can now expand solely in the target market. The selling party might be doing this to realize capital gains, or it might still lack some expertise or technology to bring the venture to market. For one of the parties to acquire the joint venture, it must hold that the valuation of the venture is at least equal to comparable targets on the market. There is usually not a problem here since the party has gained experience running the venture and knows it well. Even if this condition does not hold, there is a bias to acquiring the venture still, since you have better valuation information on the venture than other assets on the market. (Kogut, 1991)

One of the characteristics where the real option theory has benefitted the development of entry mode theory is that it does not only see uncertainty as a negative factor. Uncertainty, according to the real option theory, can also be associated with future opportunities. Firms can benefit from this uncertainty and maintain flexibility to new information by creating a real option. (J. Li & Rugman, 2007) The real option theory literature has divided uncertainties into two broad categories: endogenous and exogenous uncertainty. Endogenous uncertainties are uncertainties that the firm themselves can resolve. An example here can be how hierarchically an organization is in a specific country. This can be resolved if the company studies it in great detail. Exogenous uncertainties on the other hand are factors that the firm themselves cannot resolve. These can include economic uncertainty and local institutions uncertainty. (Cuypers & Martin, 2010)

According to a study by Cuypers and Martin on the practical implementation of the real option theory on joint ventures, they found support that exogenous uncertainties, namely economic uncertainty, local institutional uncertainty and exchange rate uncertainty negatively impact a firm's desire to own a share in an international joint venture. Within the endogenous uncertainties, they found no support for any of the different uncertainties investigated within the real options predictions. This makes sense since endogenous uncertainties can be solved by the firm by for example, undertaking a sequential investment strategy to resolve the endogenous uncertainties. Research from Folta & Miller (2002) suggests that technology firms should take a minority stake in the partner firms as part of a greater investment plan rather than buying the whole company upfront. This will give the firm the needed information about projects and allow the firm to gain an advantage towards outsiders. Specific for endogenous uncertainties is that they cannot be resolved if the company does not take action, e.g. learning a host-country's cultural differences by just studying it is difficult, it has to be experienced. This differs from how companies traditionally have expanded by protecting IP and adopting economies of scale to gain an upper hand, instead real option theory states that learning the local context is equally important. Similarly, in order to reduce exogenous uncertainties, firms do not have to invest but can reduce the uncertainties by observing the target country. The factors affecting exogenous uncertainties can be observed by everyone and a firm can wait to the right time to invest without having to infer any costs. (Ahsan & Musteen, 2011)

To summarize, real options theory states that companies that want to expand in a country with high exogenous uncertainties should choose a low-investment choice such as exporting or licensing. Faced with endogenous uncertainties, the firms should choose to expand by using an option approach, basically a joint venture with the ability to acquire the venture when or if the uncertainties decline. The real option approach has been criticized for being too singular focused on the idea of using a joint venture as the sole mean of creating a real option, thus underemphasizing other entry modes. (Ahsan & Musteen, 2011)

3.3 Concluding theory

3.3.1 Previous studies exclusively on soft service companies

For soft service companies, the inseparability of production and consumption implies that the producer and receiver must be geographically close to each other. This type of service cannot be exported and requires local presence entry modes. These being contractual entry modes such as licensing, franchising and joint venture or foreign direct investments such as wholly owned subsidiaries or M&A. A result of this is that soft service companies must face the risk of entering a foreign market and face clients from the first day without the incremental first step that exporting provides (Ekeledo & Sivakumar, 1998).

There have been a few studies on soft-service firms and the factors that influence their decision of entry mode. In a study by Blomstermo, Deo Sharma, & Sallis (2006), they found support for two of their hypothesis of factors influencing the choice of entry mode. Firstly, they found support that soft service companies are more likely to choose a high-control entry mode than hard services. This is motivated by the need for these companies to have a more buyer-seller interaction. This higher control will allow soft service firms to build competencies and thereby increase perceived service quality. The second factor they found support for was that the greater the cultural distance, the more likely soft service firms are to choose a higher control entry mode than a low control one. This is justified by the need and desire to learn about the cultural and institutional factors of different countries and hence increase the firm's knowledge base. (Blomstermo et al., 2006) Erramilli (1991) found some support for the idea of a "U-shaped" relationship between experience and desire for control. Service firms with little and no international experience and firms with a lot of experience tend to behave similarly with demand for greater control. An explanation for this "U-shaped" relationship has been suggested that the more internationally experienced a service company becomes, the less culturally similar are countries they expand to. When entering a cultural distant country, the desire for control re-emerges, echoing the results of Blomstermo et al. (2006). Another explanation is that the more experience a firm gets, the more confident they become in their ability to cope with the risks of sole ownership.

Erramilli & Rao (1993) found support in their study looking at transaction cost specific factors, concluding that there is a negative relationship between service firms with a high level of firm-specific assets and shared control entry modes. This result was stronger when looking at service firms with inseparability of production and consumption, namely soft service firms. This means that the more specific a firm's asset becomes, the less it tends to want to enter shared-control entry modes. A reason for this might be that the inseparability criterion escalates market transaction costs and makes control more important. In a study by Pla-Barber, León-Darder, & Villar (2011) of Spanish hotel chains, they found that the hotels, a typical example of a soft service firm, tend to choose a contractual mode of entry when the market shows high potential.

This result is explained by a market with high potential usually has high competition, rendering low return on investment, transfer of know-how and intellectual property is easy and low adaption costs and lastly, legal protectionism is high.

As a final note, the research into this field is by no means finished and there is a large variation in definitions. The split between hard and soft services applied in this thesis is not always used in reports which might limit the reach of insights generated from studies. There are also contradicting views if studies on manufacturing firms are applicable for service firms as well as the reliability of the data supporting the results. (Ekeledo & Sivakumar, 1998).

3.3.2 Summary of factors identified

Entry mode research has investigated a broad range of industries, in a wide range of home countries, using both primary and secondary data. There are a wide variety of variables (previously often mentioned as factors) studied in various settings. Most studies have chosen to test the relationship of primary variables and dependent variables empirically, using logistic regression. (Canabal & White, 2008) Canabal & White (2008) studied various entry mode research conducted in 1980-2006 and identified 200 different variables. They also listed the 10 most common variables which can be seen in table 2.

Table 2: Top ten variables found in entry mode studies 1980-2006 (Canabal & White, 2008)

VARIABLE	NUMBER OF STUDIES
MNE/INTERNATIONAL EXPERIENCE	46
CULTURAL DISTANCE	43
RISK	41
FIRM SIZE	40
HOST RESTRICTIONS, HOST POLICIES	39
R&D INTENSITY	37
HOST COUNTRY EXPERIENCE	36
INDUSTRY COMPETITION/CONCENTRATION	29
SIZE OF OPERATION/SCALE	27
ADVERTISING INTENSITY	26

After reviewing past literature on internationalization with a focus on literature considering entry modes, factors identified have been summarized in table 3. The factors below are not specifically for soft service firms, instead the factors that are considered to affect entry mode are listed.

Table 3: Summary of factors identified in theory

INTERNATIONALIZATION MODEL	FACTORS IMPACTING CHOICE OF ENTRY MODE
UPPSALA MODEL	• A firm should adopt a sequential entering strategy. Starting with export and gradually, when knowledge and experience increase, increase their presence. • Cost of being an outsider, with no knowledge of the relevant supplier and customer networks introduced in updated versions.
TRANSACTION COST THEORY	• Firm-specific assets • Uncertainty • Opportunism If these factors are high for an asset, companies prefer entry modes with high control. If low, firms adopt a lower control mode
TRANSACTION COST THEORY FOR SERVICE FIRMS	• Firm-specific assets • Uncertainty • Opportunism If these factors are high for an asset, companies prefer entry modes with high control. If low, firms adopt a lower control mode. Connection is stronger for soft service companies and if the company is small.
REAL OPTIONS APPROACH	• Endogenous uncertainty: Can be resolved by the company themselves and a company should adopt a sequential entry mode approach or create a joint venture • Exogenous uncertainty: economic uncertainty, local institutional uncertainty, and exchange rate uncertainty. If there is high exogenous uncertainty, a firm should consider holding off their commitment before making an irreversible investment • Time frame
ECLECTIC PARADIGM APPROACH	• Ownership advantage: Firm size, multinational experience & Product differentiation • Location advantage: Market potential & Investment risk • Internationalization advantage: Market imperfection such as contractual risks

MONOPOLISTIC ADVANTAGE THEORY	• Market imperfection, if unacceptably high, firms prefer entering through foreing direct investments. • Otherwise, a contractual arrangement is preferred.
INTERNATIONAL PRODUCT LIFE CYCLE THEORY	• Product life cycle. Early on, exporting and a gradual move towards foreign direct investments when the product is at its peak.
RESOURCE BASED THEORY	Resources specific to the firm in relation to the opportunity of the market

FRAMEWORK BASED ON RESOURCE BASED THEORY	• Resources specific to the firm
	    • Business experience
	    • Proprietary technology
	    • Reputation
	
	• Factors of the home country
	• Factors of the host country
	• The products nature, goods versus services
	• Business sector
	• What degree of control the firm wants

CONTINGENCY THEORY	• Firm-specific resources
	• Management attitudes
	• Firms market position
	• Entry market characteristics
	• Environmental factors (not under a firms control)
	    • Trade barriers
	    • Economic infrastructure
	    • Political and socio-cultural factors
	• Organizational factors (under the control of the firm)
	    • Organizational culture
	    • Corporate goals and objectives
	    • Corporate strengths and weaknesses
	• Early clients
	• Product classification (goods vs services)
	• Degree of control
	• Resource commitment
	• Relational variables

3.3.3 Proposed conceptual model of the internationalization of firms by Andersen et al. (2014)

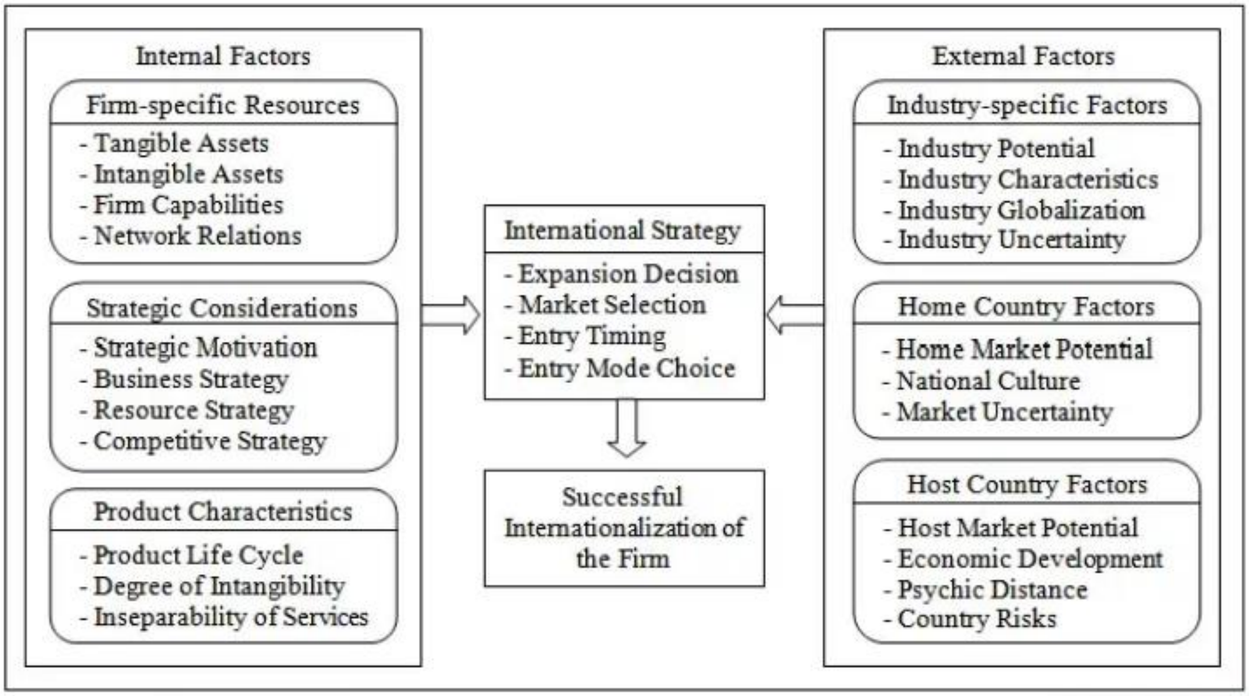


Figure 5: A proposed conceptual model developed by Andersen et al. (2014)

The study by Andersen et al. (2014) reviewed literature regarding theories of internationalization and intends to demonstrate what factors affect the decision concerning market selection, international expansion, entry timing and choice of entry mode. The study proposed a model which is said to incorporate all significant factors mentioned in previous studies and literature, that determine the international expansion of firms. As this is a conceptual framework, it has no support from empirical studies which is needed to validate it. (Andersen et al., 2014)

The parts of the model have specified variables and every variable consists of factors. For example, regarding "firm-specific resources" tangible assets could involve financial strength, profitability and firm size. Examples of intangible assets would be brand name, firm reputation and organizational culture. Factors in firm capability are market knowledge, international business experience, tacit know-how, proprietary technology and management skills. Network relations comprise of government links, social networks and business networks. Regarding strategic considerations, business strategy is split into global versus multi-domestic strategy. The strategic motivation for going abroad varies, firms could seek new markets, follow clients abroad, look for complementary resources or choose to take advantage of their resources in foreign markets. Looking at a firm's competitive strategy they can reduce costs, differentiate products or have a focus strategy. Factors in product characteristics are product life cycle, intangibility degree of products but also the inseparability of consumption and production (an important factor differentiating soft service organizations concerning entry mode). (Andersen et al., 2014)

External factors comprise of industry-specific, home country, and host country factors. Looking at industry potential, a part of industry-specific factors, it considers industry demand, growth and size. The industry structure (i.e. labor versus capital intensive) and competition intensity among organizations relate to the category industry characteristics. The speed and degree of globalization of an industry can affect entry mode. The uncertainty of the industry is dependent on demand uncertainty and obstacles, which decreases flexibility and increases the investment risk. The role of home market potential and size as well as national culture on international expansion has been emphasized in previous research. Political instability has also been identified to potentially cause uncertainty in the home market which in turn affects the choice of entry mode. (Andersen et al., 2014)

Looking at host country factors, market potential concerns growth, demand and size of the target market which could gain interest from foreign investors. Another factor is economic development, it is based on average income, infrastructure, economic growth, labor force, technology advancements and availability of raw materials in the host market. Distance between host and home country is referred to as psychic distance, which includes cultural distance, geographic distance, language dissimilarity, and dissimilarities in business practices as well as in economic systems that affect the choice of entry mode, market selection and entry timing. Country risks refer to tariffs, government restrictions, political instability, ineffective legal systems and corruption. (Andersen et al., 2014)

3.4 Conceptual framework

Looking at previous models and theories as well as reviews of current literature, certain common ground is evident. By using this common ground as a starting point, cherry-picking factors and ideas from highly regarded papers within the area and finally adding our key take-aways from these papers, a conceptual framework could be established, see figure 6. When designing the framework only factors affecting soft service firms where included.

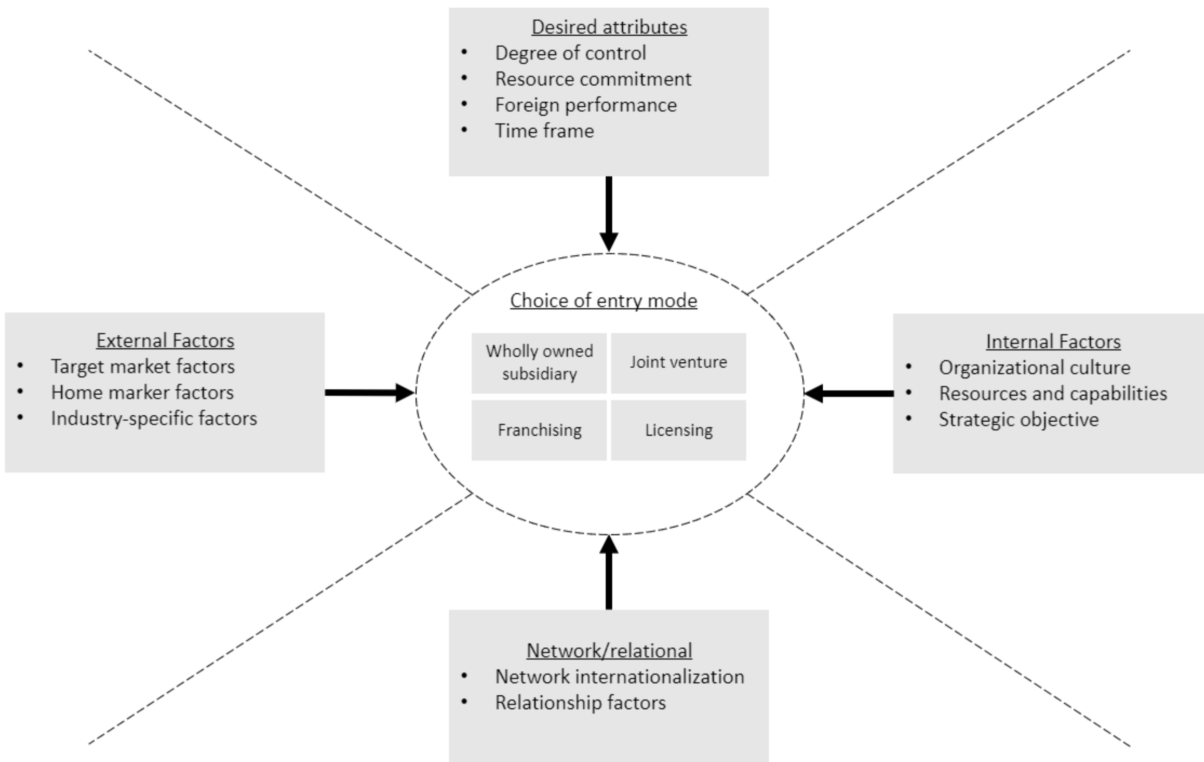


Figure 6: Conceptual framework based on theory

3.4.1 Internal and external factors

Dividing factors into external and internal has been done by multiple studies, for example by Gao (2004) in an extensive study. This segmentation was also done by Andersen et.al (2014) when they established a conceptual framework after reviewing past theories of internationalization and entry mode. Their thorough review and conceptual framework were a good starting point for the categorizing and sub-categorizing of internal and external factors, where we saw little to gain by redoing, but instead tried to further elaborate on.

3.4.2 Desired attributes

When studying past theories and models on foreign entry modes, a certain lack of firms' desires can be found. One can argue that it could be placed under strategy within internal factors, but since it is a critical element for the choice of entry mode it is important to highlight it, instead of it being hidden under a subcategory of internal factors. With this part of the model it is intended to put light on the human and management factors at play that can be hard to capture with internal factors. Previous studies have lacked in including theoretical approaches that consider various risk preferences and managerial experiences (Surdu & Mellahi, 2016). Having desired attributes separate from internal and external factors was inspired by the Gao (2004) where a modified contingency model of entry choice was presented.

3.4.3 Network/Relational factors

Gao (2004) had relational variables separate from internal and external environment variables as a part of antecedent factors. From this as well as network theory this fourth and final part of our model was built on called, Network/relational factors. As the derived model is focused on service firms, it further supports the large role network and relational factors play during the internationalization of a firm.

4 Case studies

In this section, six interviews conducted by the authors will be presented. Interviews were made by phone with five companies; Max Burgers, Espresso House, BrewDog, Nordic Choice Hotels and O'Learys. Each company will have its own section which will be concluded with a sub-section on key findings, where the reader will get the most important takeaways from the interview.

4.1 Max Burgers

4.1.1 About Max Burgers

Max Burgers AB is a Swedish family-owned fast-food hamburger chain founded in 1968. The company started in the northern Swedish town of Gällivare and has since expanded throughout Sweden and has to date 153 restaurants in Sweden and abroad with a revenue of 3.8 Bn SEK. All restaurants in Sweden are operated and owned by Max, except for a few restaurants located at airports, where Max uses a franchisor specialized in airport operations. The international expansion started more recently and their first restaurant outside Sweden opened in May 2011 in Norway. Since then six more restaurants have opened in Norway as well as three restaurants in Denmark and eight in Poland. (MAX Burgers, 2020) They also had a short-lived venture in the United Arab Emirates from 2012-2018 (MAX Burgers, 2019). The most recent addition is seven restaurants in Egypt. (MAX Burgers, 2020)

4.1.2 The internationalization of Max Burgers (based on the interview with Johan Ståhl, Head of Max Burgers International)

Johan Ståhl is responsible for all of Max international markets, that is, all markets outside Max's stated home market of Sweden. In his job, he is responsible for finding new franchisors, but also to make sure that the restaurants outside of Sweden operate as the ones in the home market. The strategy Max has decided on is to expand through franchises outside of Sweden. Their preferred way is for a franchisor to cover an entire country, a master franchisor, a quite usual solution in the business. The strategy is harder in practice though, and Ståhl admits that it has been hard to find suitable master franchisors in the markets Max deem promising. One of the reasons is that the master franchisor needs to have the financial muscles to open several restaurants at a fast pace to get scale, another is that they need to be committed and commit adequate management time on the restaurants. In some larger markets, e.g. France and Germany they consider regional partners since the size makes it almost impossible to find a partner with the resources necessary to scale up in the whole country.

Two examples where Max did not follow their pre-decided strategy of franchising is in Norway and Poland. In Norway, Max signed a franchisor that was supposed to run their Norwegian business. However, after a couple of years, and five restaurants (two restaurants in Norway are based on airports and are therefore run by the same franchisor that run their Swedish airport restaurants) the franchisor lacked the commitment to continue the push, which led to poor financial performance and the franchisor and Max decided together that Max should buy back the restaurants. In Poland, a country where Max saw great potential partly due to competitor's increasing presence there, they could not find a suitable master franchisor. With the large potential of the market, Max did not want to miss out and decided to expand in the country by themselves. They are, however, still looking for a franchisor to take over this market but in the meantime, they have grand visions for Poland and want to operate close to 100 restaurants there in a couple of years.

The two countries where Max strategy of a Master franchisor has been adhered to is in Denmark and Egypt. In both, an experienced franchisor contacted Max and wanted to open restaurants in Max's name in each respective country. Ståhl said that this has worked quite well and that they have a good relationship. Even though Max did not actively search for a partner in Egypt, and frankly did not consider the market, the franchisor operated over 60 restaurants under different brands and had the experience and drive. Therefore, Max gave them the go-ahead to add new units under Max's brand. In Denmark, a strategic market for Max, an experienced franchisor contacted them and fit the profile, so there was not much to talk about, Ståhl explained.

When discussing different forms of entry mode, Ståhl concluded that both licensing and joint ventures had been considered, but later disregarded. The reason that joint venture was disregarded was due to the limited benefits it had for Max. It gave them an initial lower investment cost, but in the end, it would require almost equal management time as a wholly owned subsidiary and Max would bear the majority of the burden for setting up the business and provide the necessary know-how for the business to run smoothly. As Ståhl put it, "no one knows Max but Max*"* and they want it to be done in the right way according to them. A similar argument was made for licensing and they considered the risk that the business was not run in the way they wanted, outweighed the additional revenue.

When discussing the proposed model, Ståhl was quite positive to the layout. External factors were one of the main reasons Max decided to enter the Polish market with a wholly owned subsidiary. Another reason was industry-specific, with competitors entering there affecting their choice. They felt that they could not afford to wait for a good master franchisor to appear, but rather wanted to tap the growing market as soon as possible. Internal factors were also seen as important, with the strategic focus being dominant when it comes to deciding the right entry mode. Ståhl stressed that when a strategy was set, it was important to look at the financial situation to conclude how to make it possible. Max has chosen a fast-growth strategy, they want to double the revenue in the coming 5-7 years, and to sustain that with limited financial muscles, the most viable option was to go with franchisors. As an example, in the Polish market, Max has an office that oversees the operations, whilst in Denmark that is not necessary since the franchisor handles those issues. This shows the additional costs associated with entering a market with a wholly owned subsidiary. When asked if Max felt that they lost control by entering a market with a franchise, Ståhl did not see that as a problem. He explained that in their franchise contract, they have routine check-ups and help their franchisors adhere to the high standards that Max has put on themselves. Network factors were considered to be important as well, especially how international your network is, since that can determine if you will be able to find a suitable master franchisor in a market.

4.1.3 Key findings

- Max has a strategy to expand by using franchises outside of Sweden, however, not always adhered to.
- Strategy, the most important factor in internal factors.
- The financial factor is important and is closely linked to the execution of the strategy.
- Target market factors can change their strategy of entry mode, as shown by their decision to enter in Poland with a wholly owned subsidiary.
- Additional overhead when entering a foreign market with wholly owned subsidiary makes it less desirable to choose that as entry mode.
- Problem finding the right franchisors to handle their operations in a new market, which makes an international network important.

4.2 Espresso House

4.2.1 About Espresso House

Espresso House was founded in Lund 1996 by Charles and Elisabet Asker. It is now the leading coffee chain in the Nordics with 460 coffee shops (October 2019) and is owned by JAB Holding. In October 2018 Espresso House opened its first coffee shop in Germany, making them present in five countries: Sweden, Norway, Finland, Denmark, and Germany. On Esspresso House's homepage, it is described how being in control is important and therefore not believing in franchising. It is also stated that they do not believe in outsourcing recruiting or buying finished goods from suppliers, that is why they have their own bakery. (Espresso House, 2020) Although this is true for the time being after talking to Tobias Larsson, Head of Outside Coffee Shop Sales, a slightly different view upon franchising is described.

4.2.2 The internationalization of Espresso House (based on the interview with Tobias Larsson Head of Outside Coffee Shop Sales)

Tobias Larsson is responsible for two different areas within Espresso House, one of them being within business development. One of the business development areas Larsson is responsible for is within partnership and franchise, making him a prime candidate for the interview.

Espresso House considers Sweden, Norway, Finland, Denmark, and Germany to be their core market, even though the way of entering these international markets differed they all fell under the same entry mode, namely wholly owned subsidiary. Espresso House entered Finland by a so-called greenfield investment that would fall under the category of wholly owned subsidiary. Today Espresso House operates around 55 stores in Finland. When entering Denmark, Espresso House bought a company called Baresso, this would also be categorized under wholly owned subsidiary. Baresso is now fully integrated and rebranded into the Espresso House brand. In Germany the same strategy was applied where they in 2017 bought Alzac who operated about 45 coffee shops in Hamburg and Berlin, at the time of the interview 15 of these had been converted to Espresso House coffee shops. When entering Norway Espresso House opened three coffee shops in Oslo through a greenfield investment and within six months bought seven more locations from United Bakeries Holding AS, also in Oslo (Flåskjer, 2014). According to Larsson there are two main reasons for buying a company abroad and then integrating it into your own business in the coffee shop world. Firstly, in the coffee shop business locations are of great importance, in what cities but also on what streets. Secondly, it enables the buyer to quickly gain an organization with a built-up structure and administration such as district and/or regional managers.

Looking to future markets, Espresso House is considering franchising since these markets will not be a part of their core market. But Larsson explained that if they have the ability to expand into new countries with their capital they will most likely do so, since it is more profitable. Espresso House continuously gets requests about franchising in foreign countries, for example in southern Europe, but it is important for them to find the correct partner who will manage the brand well. Another factor affecting the choice of entry mode is how the new market can be integrated into their supply chain, Larsson emphasizes the importance of logistics and that their potential partner should buy products from them, such as their coffee and pastries.

Larsson described how Espresso House now are of substantial size, meaning that there is no point in opening 1-3 stores in a foreign market, the costs would outweigh the benefits. Instead they would like to find a market where they can open 10-20 stores annually over at least a few years, which could be through franchising if the right partner is found. A reason for Espresso House not pushing expansions in foreign countries is that they have plenty to do in current markets, with good growth rates in these markets as well.

Ownership was also discussed by Larsson, he pointed out that it is important how the owners want to manage, affecting the decision regarding them investing in a wholly owned subsidiary or something less capital intensive. On the other hand, Larsson explained how the most important thing for the owners is to increase the value of the company and the aspect that would affect entry mode the most is if the owners want to withdraw or inject capital into the company.

When going through the proposed conceptual model with Larsson he agreed with all factors except two on affecting entry mode, he also highlighted the importance of relationship factors, especially when concerning a potential partner. If they know the potential partner from prior partnerships or through connections experience with them, therefore inducing trust for them, they are more inclined to enter into a partnership, for example franchise. The two factors which Larsson was more uncertain about, regarding their effect (not ruling them out), were market internationalization and foreign performance. Larsson argued market internationalization could be seen as a moot point for Espresso House since in almost all markets there are people who drink coffee or tea. The other factor not so important for Espresso House was foreign performance, this is due to their core market being the most important and where their focus will be.

4.2.3 Key findings

- Factors found affecting Espresso House's choice of entry mode
    - Availability of good franchisees
    - Relationship factors regarding finding and trusting potential partners
    - Integration in supply chain
    - Ownership structure and owners
    - Strategy to divide markets into core and non-core markets
    - Certain industry-specific characteristics, for example, locations being important for coffee shops leading to an entry mode often being buying a local player to gain access to attractive locations
    - Network internationalization not as important for certain industries

4.3 O'Learys

4.3.1 About O'Learys

O'Learys was founded after its founder, Jonas Reinholdsson, moved back to Gothenburg after living outside of Boston for a period. In Boston, Reinholdsson saw potential in Europe for the American sports bar atmosphere. Upon returning back home, he opened the first O'Learys in 1988, named after his first wife's last name. (O'Learys, 2019a) Currently, the chain has ~130 restaurants across roughly 20 countries with three main concepts; Travel, Classic and Event Centers. Travel is a smaller unit located at travel locations such as hotels, airports and sometimes arenas. Classic is a larger restaurant with a small entertainment concept whilst Event Centers are the largest, with a variety of entertainments available, such as, bowling and shuffleboard. In 2018, the Stockholm based private equity firm, Altor, bought a controlling stake in O'Learys. Revenues for 2018 were approximately €230m. (Altor, 2019; O'Learys, 2019b)

4.3.2 The internationalization of O’Learys (based on the interview with Greg Buckley, International Expansion Manager at O’Learys)

Buckley, international expansion manager at O’Learys, is responsible for finding new partners for further internationalization of O’Learys and is based in Stockholm, making him a knowledgable candidate to interview. He started off the interview by pointing out that O’Learys do not have a single way of expanding. Rather, he stressed that if there is a sufficiently strong business case for opening a new unit, it will be discussed. Buckley used an expression for this commonly used at O’Learys; “Money in and money out”, not entirely surprising given that the company is owned by a private equity firm. Even though O’Learys have a presence in a wide range of countries, they do not have a standardized way to open a new store. There were, however, some modes that were wider used than others. Firstly, franchising was done at different levels. As an example, it is common that a franchisor wants to open a few units in a country. Then a major player steps in and wants the master franchise in the same country. In these situations, O’Learys transfer the minor franchisor under the umbrella of the master franchisors, making them responsible for the ongoing quality control and service of the smaller franchisors for a percentage of the franchising fee. This benefits both franchisors, according to Buckley, where economy of scale helps the minor franchisors lower their supply costs and the master franchisors gain an additional revenue stream.

Another common way for O’Learys to expand is through partnerships. Westfield, the major shopping center operator, reached out to O’Learys when they were about to open a new shopping center in the Netherlands, a continuation of the partnership that had taken place in Mall of Scandinavia in Stockholm. Furthermore, O’Learys has partnerships with hotel chains that want a branded sports bar at their sites. All these requests have to be balanced and there is an extensive work for O’Learys to find skilled operators or franchise takers that want to open at these locations.

Wholly owned subsidiaries are something that O’Learys shies away from. However, it does happen. Here Buckley referred to a unit in the Netherlands that prior management had signed a deal to operate, something that would not have been done now if given the alternative. O’Learys is in a good growth period at the moment, and given the number of requests they get, it would seem unlikely, according to Buckley, that a wholly owned unit would give a better return on investment. Instead of owning the stores, O’Learys tries to find operators that can run the units for them. Buckley meant that this is one of the trickier parts of their international expansion, finding skilled operators that know the market and wants to open a unit with them. Buckley said that it is easy to spend money to open in a new country but harder to find a good operator that can run the stores. O’Learys then prefers to invest together with a local partner, in a sort of joint venture, than go in by themselves. The reason is that it opens up a wider network of distributors that the local operator knows and that O’Learys does not have to set up local administration and other supportive operations in the new market.

When discussing the different aspects of the model, Buckley was quite clear that the most important factor considered for O'Learys was financial. This might be due to the ownership, that O'Learys is owned by a private equity company. It could also be a result of the organizational culture within the firm or a combination of both. Continuing on desired attributes, the degree of control was not that important, since they felt that they got enough control by using franchise and licensing was not an option. When asked if they felt that switching from franchise to joint venture gave them additional control, Buckley said that this was necessarily not true and oftentimes it did not change the amount of control considerably. Time frame is an important aspect, but it would not change their decision from one entry mode to another, rather they have a solid pipeline and some projects take longer time by nature. Discussing external factors, Buckley's answers were more targeted towards the economics of the target market and if they spend enough money on food and beverage to support opening a store there. The legal aspect, however, could change their entry mode. An example here was the combination of domestic aversion and legal restrictions on alcohol in some middle eastern countries, most notably UAE. Buckley said that they would never open their own store in the country, but when a franchisor approached them and made a sufficiently strong argument, they agreed to let them open there. Home market factors did not matter when choosing entry mode, whilst industry-specific factors were interesting to the extent if there are any distribution networks for food and alcohol that O'Learys could use when entering the market.

Internal factors had some implications for the choice of entry mode for O'Learys. Their strategy is to grow the brand and it could strain the financial muscles of the company which in turn emphasizes lower equity entry modes such as franchising. However, Buckley stated that the benefit of being owned by a private equity company gives O'Learys the financial resources to enter more flexibly. However, finding the right capabilities in a target market is harder, and could sway them to enter in one way or the other. Buckley gave an example that they sometimes take an equity stake in a franchisor in order to help them expand at a more rapid pace, in reality forming a joint venture. The organizational culture at the firm had shifted with the recent ownership change but did not change their thought of entering in one way or the other. Among the last group factors, network, the most important for O'Learys were relationships and Buckley stated the importance and difficulty of finding the right competence to operate in a new market, consistent with previous statements regarding capabilities. Relationships were also important when finding a good location to open in a new market, with their relationship with Westfield and larger hotel chains giving them access to prime locations.

4.3.3 Key findings

- Not a clear strategy for how to enter a new market but rather a case-by-case decision.
- Financial being the overall most important factor when deciding on entry mode.
- Control not necessarily too important, they get enough control by franchising.

- Finding a good operator in a target country is imperative and not particularly easy, important with an international network.
- Partnership and a wide network of property owners help O'Learys expand.
- Strategic factors important when entering a new market.
- Ownership has been important since the private equity owner of O'Learys gives them the financial strength to expand.

4.4 Nordic Choice

4.4.1 About Nordic Choice

Nordic Choice is a Nordic hotel chain that both operates and franchises out hotels in the Nordics. They are the master franchise of Choice international, one of the world's largest hotel franchisors with 7 021 hotels as of 2018. Nordic Choice operates on an exclusive basis in Norway, Denmark and Sweden and on a non-exclusive basis in Latvia, Lithuania and Finland. (Choice Hotels International, 2019) As of last quarter 2018, Nordic choice had 194 hotels across the Nordics and Baltics, with a bit less than half of them being franchise driven. Full-year 2018, Nordic Choice had sales of 10bn NOK. They currently operate four different concepts:

- Comfort Hotel – Budget concept
- Quality Hotel – Mid-range hotel concept
- Clarion Hotel – The more premium concept
- Nordic Hotels and Resorts – Independent hotels with their own unique niche

(Nordic Choice, 2019)

4.4.2 The internationalization of Nordic Choice (based on the interview with Daniel Stenbäck, Chief Development Officer, Nordic Choice Group)

Daniel Stenbäck is a part of Nordic Choice's management team and is one of the people involved in making the decisions on further expansion in the company. He is, in his own words, responsible for signing the contract for a new product up until the point where the operations start. Nordic Choice has been an impressive engine of growth in the Nordic hotel industry that has seen them grow from launch in 1996 when its founder, Petter Stordalen, bought a group of hotels in Norway, until today where the company has roughly 200 hotels spread across the Nordic region. The chain is preparing to grow rapidly in the future as well, with hotel signings and development that will increase revenues and rooms by 50% in the upcoming three years. According to Stenbäck, the company does not necessarily see just Norway as their home market, but all of the Nordics including the Baltic states. The Nordic Choice company falls under the Strawberry Group umbrella, where Stordalen has investments in adjacent businesses, such as long stay, and more recently, the acquisition of Thomas Cook Nordic, known as Ving. Under this umbrella, they also own a range of properties where strategic hotels are located. This property ownership is linked to how they have decided to manage their group. They have three different levels of control that they decide on when opening a new hotel. These three levels are; Property, operations and brand. On the highest level, they do all of the three by themselves. These hotels are usually based in strategic areas where they want to have a close presence. The second level, brand and operations, is pursued when they want to take less risk, a new city or a non-strategic location. The third step, where they just franchise out the brand, is usually done in areas or cities where they would not want to enter by themselves.

When expanding into new markets, Nordic Choice does not have one standardized way of doing it. The most recent new entries they had are the Baltic states of Lithuania and Latvia, as well as Finland and Denmark. In Finland, they entered by acquiring a company that was operating ten high profile hotels in Helsinki. The decision to enter by acquisition was not an easy one, they first thought about growing organically but to get the market share the acquisition gave them would have taken 7-10 years, including fiercer competition on the market. Stenbäck explained that they normally do not like to buy their way in, and thus paying a premium. An example of this is their broad portfolio of hotels under construction (25 at this point). The decision was in the end based on a range of factors, and most importantly was in the end the time frame of getting to the same scale as well as competition. A further reason was that in the acquisition they got some prestigious hotels that would have been out of reach if they entered organically.

Denmark has been a hard nut to crack for Nordic Choice. The first time they tried to enter, they went in too aggressively and without sufficient knowledge of the market. This resulted in a loss of 1 bn NOK, and a prestige loss for the company. Stenbäck meant that they had not fully understood the extent of the cultural difference between Norway and Sweden versus Denmark. The “Danish Way” made it hard for them to operate the hotels in the way they wanted. This together with a fiercely competitive hotel market in Copenhagen, led them to withdraw from the country. The second time they entered, they did it more sequentially, with a few minor acquisitions and some developed by themselves. At the moment, Copenhagen is their only active market in Denmark and Nordic Choice does not have any plans to enter any other cities. For their Baltic expansion, they only have an interest in the capitals where they have opened one hotel in Riga and one in Vilnius, with plans for a second in Vilnius. They operated the hotels themselves and have no interest in franchise. The reason for that is according to Stenbäck, that the costs outweigh the benefits. The overhead required to support only a few franchise takers in the region would be too expensive. Combined with local legal differences and a lack of economics of scale, they decided not to pursue it.

Discussing the model, Stenbäck agreed on the internal factors as relevant and raised the strategic and organizational culture as the most important. Their unique culture at Nordic Choice was cited as one of the reasons that the company shies away from using joint ventures as an entry mode, the owner, Stordalen, took it private due to the same reason. However, they have used joint ventures on rare occasions. One of those was when they entered Finland and bought a majority share in the

Finnish operator to see if they could operate successfully in that country. With this as an example, Stenbäck highlighted a few other factors. The first one being target market factors. Both legal concerns and language barriers made them more unsure of the feasibility of entering in Finland. The last factor that was mentioned in this example is degree of control. The reason they did not start their entry in Finland with the more economically safer option of franchising, was because they wanted the exposure to the market themselves and control how things were done. They had local people that helped them with specific knowledge, but they wanted most of the exposure themselves. Legal is a paramount factor in the hotel business as rules and restrictions limit how a company can operate in certain countries. Here Stenbäck pointed towards differences between Nordic countries and other European and cited that as a reason to why the company has decided not to expand further outside the Nordics and the Baltic states.

Network factors were important to a certain extent but could not shift the entry mode decision. Local experts as a part of their network helps them understand the fundamentals of the country and can also be a way to scout for potential new franchisors. Two factors that Stenbäck felt that the model lacked were ownership and customer network/partnership and how that affects this decision. The energetic ownership of Petter Stordalen shapes much of the decision making at the firm and the characteristics and strategic goals of the owner could impact more companies than just Nordic choice. Another factor that is important for Nordic Choice is their network of customers. By partnering up with large corporations in particular in Sweden and Denmark, they try to give them a wide enough scope of hotels to fulfill their need. The recent addition of Finnish companies into this network has made them look at opening a new branch in Estonia, where Finnish companies have a large presence.

4.4.3 Key findings

- The entry mode decision is embedded in their strategy on how to enter bigger cities and hence not significantly changed just because it happens to be a new country.
- Control is vital for them understanding a new market, they prefer high control entry modes in strategic locations and franchise less strategic areas.
- Internal factors are important, in particular organizational culture and strategy.
- Within external factors, the most important is target market factors. Legal should be more visible in the model.
- Ownership is an important factor that affects Nordic Choice when deciding on an entry mode.
- Customer network affects where they decide to locate new sites.

4.5 BrewDog

4.5.1 About BrewDog

BrewDog was founded in northeast Scotland by James Watt and Martin Dickie in 2007. (Brewdog, 2020). Growing from 37 employees (3.3MEUR in revenue) in 2010 to 1 247 employees (172MEUR in revenue) in 2018, BrewDog has grown rapidly over the last decade with more than 50% revenue growth each year. BrewDog is active in a large number of international markets, 60 export markets globally as well as 75 active BrewDog bars whereof 47 in the UK, 21 in Europe, 4 in the US and 3 in the rest of the world. BrewDog's four key international markets are Germany, France, Italy and Spain. In these four key markets BrewDog has a total of six bars but is planning to open 20 new bars. (Brewdog, 2019) BrewDog started focusing more on its international markets as recent as 2017 and has increased its focus on the international market since, even though the UK market is still the main one with about 75% of sales. (Interview 1 BrewDog)

4.5.2 The Internationalization of BrewDog (based on two interviews with Alan Moore, International sales director, and Lisa Paton International growth director)

Moore, International Sales Director, explained how BrewDog in 2017 had excess capacity in production which lead to the start of their international expansion, they started by partnering with small distributors abroad. In addition to export, BrewDog also opened bars abroad, one reason for doing this was to get a market presence as well as a marketing tool.

Paton is the International Growth Director of BrewDog and has worked there for about 15 months with prior experience within internationalization among service firms from working at Pizza Hut and Yum. Her main role is to grow the bar business but also to grow the microbreweries and the hotel assets.

BrewDog started the international journey of their bars with licensing, it all started when they were opportunistically approached from certain markets, e.g. Finland, Italy, and Estonia, to operate under the BrewDog brand. As BrewDog didn’t have a franchise model in place, they went with licensing, they constructed an IP-deal with regulatory control for the licensees. In retrospect they do not consider this a good approach since the brand is handed over to someone outside the company with BrewDog having little control. This in combination with BrewDogs immature state of their retail business with no experience or capabilities to manage a licensing business, which led to great challenges. The reasons for choosing to license can be boiled down to BrewDog wanting to grow quickly, inexperienced managers who did not see to the long term as well as BrewDog's opportunistic approach towards gaining market awareness in new markets.

When licensing proved to be challenging BrewDog chose entry modes in the opposite spectra of control i.e. wholly owned subsidiary and joint venture. The move to joint venture and wholly owned subsidiary was a reaction against the poor efforts surrounding licensing. At the time of the shift 10-15 licensed bars were not operating well or how BrewDog intended. As the contracts drafted with licensees where weak, they could not change them and force the licensees to meet BrewDog standards. The immediate reaction from the management team who did not understand franchising was to go in the opposite direction and be owners, so they got a lot more control over the bars. BrewDog then started a process to buy back licensed bars and where that was not possible, joint ventures was the compromise. In addition to the buybacks BrewDog opened a wholly owned bar in Berlin which started of challenging but has come with a lot of success, which increased management's confidence in opening wholly owned bars. Paton explains how there are a few major challenges with wholly owned subsidiaries; large capital investment required, large resource commitment (time and human capital) and growth is easily restricted due to these aforementioned factors. The remote management required in foreign countries far from the UK is demanding.

BrewDog entered the Asian market through a joint venture in South Korea, which was due to the Asian marketing being challenging for BrewDog to manage themselves as well as legal complexities. Paton sees joint ventures as difficult and for it to be successful it must be managed very carefully and sensitively. BrewDog has one joint venture currently and will actively avoid more. After learning from the other entry modes and hiring people with experience within franchising, BrewDog's default entry mode and current growth strategy is by franchising. Paton argued that they still could enter markets using wholly owned subsidiary depending on two factors, if there is strategic value in managing the bar themselves or if they are unable to find a suitable franchise partner. Having said that Paton also said they will try to avoid wholly owned subsidiaries and "push ahead with franchise". Regarding finding a franchisee, BrewDog has a multi-unit or a regional franchise strategy, meaning that they will try to find regional franchisees who can manage multiple locations but not necessarily ones who would manage all the franchises for one country (often a so-called master franchise). BrewDog had an interesting approach here where they would look at private equity funds and what brands they are working with, this greatly assisted in finding franchise partners.

When discussing the model both Moore and Paton were positive. Paton agreed with all headers and subheaders except for industry-specific factors and home market factors. Regarding industry-specific factors she did not see how that would have an impact on BrewDog choice of entry mode. When discussing the Home market factors, she agreed with them affecting BrewDog, but was more uncertain in what subfactors and how they had affected, highlighting the performance of the home market as a subfactor. Paton emphasized how vital legal factors could be for choice of entry mode and would like to see it highlighted in the model. Examples of its importance being various countries franchising law, affecting how challenging it is for companies to establish franchises and possibly ruling franchising as an entry mode out for certain countries. Paton also clarified that several European countries are looking to change their franchising laws, making it less profitable and more complicated for foreign companies to enter using franchising. Moore highlighted return on equity as one of the most important factors while Paton saw capital and resource availability as the most important factor, arguing that if you have the capital and resources to go abroad yourself, the risk will often be worth the reward.

4.5.3 Key findings

- Factors affecting the choice of entry mode for BrewDog.
    - International experience was found to be very important. Since they lacked this at the beginning of their international expansion entry modes were chosen without careful consideration and the application was not optimal.
    - High control is important, but they see franchising as high enough control, if done in the right way.
    - Capabilities, competence within international expansion and entry modes.
    - Strategy, BrewDog's desire to grow quickly, short/long term approach, master franchise strategy and strategic locations.
    - Resources available, financial but also time and human capital.
    - Legal aspects, especially franchising law.
    - Inability to find good franchise partners.
- Uncertain of the effect of industry-specific factors on entry mode.

4.6 Summary of interview findings

Table 4: Summary of interview findings

Factors		Max	Esspresso House	O'Learys	Nordic choice	Brewdog
Internal factors	Organizational culture	Agree	Agree	Agree	Strongly agree	Agree
	Resources and capabilities	Strongly agree	Strongly agree	Strongly agree	Strongly agree	Strongly agree
	Strategic objective	Strongly agree	Strongly agree	Strongly agree	Agree	Strongly agree
Network /relational	Network internationalization	Strongly agree	Agree	Strongly agree	Agree	Agree
	Relationship factors	Agree	Agree	Strongly agree	Agree	Agree
External factors	Target market factors	Agree	No opinion	No opinion	Strongly agree	Strongly agree
	Home market factors	No opinion	No opinion	Disagree	No opinion	Agree
	Industry specific factors	Agree	Agree	Agree	Agree	Disagree
Desired attributes	Degree of Control	Agree	Strongly agree	No opinion	Strongly agree	Strongly agree
	Resource commitment	Strongly agree	Strongly agree	Strongly agree	Strongly agree	Strongly agree
	Foreign performance	No opinion	No opinion	No opinion	Agree	Agree
	Time frame	Strongly agree	Agree	No opinion	Agree	Strongly agree

Strongly agree | Agree | No opinion | Disagree | Strongly disagree

5 Analysis and framework revision

This chapter of the report will be divided into six sub-sections. The first four will handle the four parts of the previously presented framework, namely the factors. The fifth section will be a discussion and summarization of implications for the framework and how it will be expanded and/or revised to take into account the findings in the empirical chapter. The sixth and final chapter will present the revised framework and a discussion on how to implement it.

5.1 Internal factors

5.1.1 Organizational culture

Organizational culture has been a topic that was mentioned by our panel of interviewees as important, but rarely as the deciding factor and rather a consideration worth investigating when deciding on entry mode. Nordic Choice, however, cited it as highly important for how they conduct their business. The fast-paced culture at the firm was, according to Stenbäck, established and influenced by the energetic owner Petter Stordalen. It perplexes the collaboration with others in joint ventures, or other forms of partnerships, where they felt that the risk of adding a second party might hinder their creative thinking and slow their growth. Instead, they prefer to use wholly owned subsidiary when they have sufficient interest in the project, else they use franchising for non-important projects. This goes in line with previous studies done by Francioni & Musso (2009), who found that companies with a high organizational culture favor higher control entry modes. O'Learys illustrate another type of organizational culture, where the deciding factor for which entry mode to choose is instead based on financials. This could be seen as influenced by their ownership of the private equity firm Altor. It is hard to extrapolate if this is relevant for a broader population of soft service firms, due to the more lackluster responses regarding the factor among the other respondents. It has support as an important factor looking at previous theoretical frameworks like Andersen et al. (2014) and Ekeledo & Siakumar (2004) both mentioning it as an important factor, although a significant relevance could not be proven.

Another way of viewing organizational culture is in the context of the factor group desired attributes and as an influential factor to consider when deciding upon these. If control is taken as an example, described most notably by BrewDog, the organizational culture and the desire for the companies to get that culture out to all parts of the organization, had an impact on their decision on entry mode. When they started their expansion by using licensing, they felt that the business was conducted in a way that was not in line with how they wanted it to be managed, influencing BrewDog's decision to buy back the bars and instead operate them as wholly owned subsidiaries. By looking at organizational culture from this angle, the factor strikes as more relevant to a broader array of soft-service firms. If a company has a specific appeal as their selling point, based either on company staff or how they interact with the customer, this special culture created might be a more crucial deciding factor for the choice of level of control or other desired attributes when deciding entry mode.

5.1.2 Resources and capabilities

Resources and capabilities were a factor that our panel of interviewees unilaterally thought was important. The category is quite broad and there are at least two sub-factors within, that raised discussion. The first one is financial resources and its implications for the company's options in their international expansion. When a company decides on its strategy it boils down to how the financial resources should be allocated. A strategy of rapid and wide international expansion without sufficient financial resources limits the possible entry modes to franchising and licensing, whilst a concentrated, more organic expansion in selected markets can be achieved even with limited resources if the time frame is considered to be of less importance. How the implementation of e.g. rapid growth, given the financial resources that are possessed at the time of expansion, is a consideration that was raised by several interviewees. This was exemplified by both Espresso House and O'Learys. Espresso House, with its owner being JAB holding (a global consumer goods and franchise company) had the financial strength to grow rapidly without losing control over their businesses. This rapid organic growth, paired with several smaller acquisitions to gain a foothold in strategic locations, was based mainly on the combination of a long-term strategy and financial possibilities. O'Learys on the other hand, with an owner that seeks greater short-term benefits, given the nature of the private equity landscape, uses "*Money in and money out"* as their mantra according to Buckley. This emphasizes projects with a payback time that is considerably shorter than e.g. Espresso House's investments. Both examples give a better understanding of the importance of financials as a factor to consider when choosing entry mode.

Another consideration that was frequently raised as important within resources and capabilities was international experience. This observation was not particularly surprising, given its considerable emphasis in theoretical papers, namely the Uppsala model which raises it as the most important factor. International experience can be summarized as the amount of experience the organization has of running international operations collectively. A lack of this experience can lead to decisions that would not have been made if the experience within the organization was higher. An example here was how BrewDog handled their international expansion. When they first were approached by a potential partner that wanted to use their brand, they did not know how to best handle that request. The decision to license out the brand had the consequence that it was not run as they wanted and instead, they decided to take full control of the licensed businesses that were not run properly. This was not an optimal solution since it would inhibit their potential growth and brand awareness due to a lack of funds to expand. After having added an experienced international director, the process of how to handle the internationalization was standardized and more well-reasoned, resulting in them expanding in a more prosperous way given their situation. Looking at this example and comparing it with the study from Erramilli

(1991), we can see some similarities. Even though the U-shaped relationship between international experience and degree of control could not be seen, the idea that increased international experience affects the desired degree of control could be motivated.

Both financial resources and international experience show the importance of resources and capabilities as a deciding factor when choosing the most appropriate entry mode for going international. International experience is also mentioned as important in theory by Canabal & White (2008) who lists international experience as the number one factor in their study. Additionally, the Uppsala model ranks international experience as their main factor. Given the theoretical support and by the cases presented, the factor should apply to all soft-service companies.

5.1.3 Strategic objective

Strategic objective is a broad factor and the discussion with the interviewees circled mostly around internationalization strategy, which was considered to be one of the most important factors. The internationalization strategy was stressed as a deciding factor for how the company chooses its entry mode. Oftentimes, the companies had an internationalization strategy which included a preferred entry mode, a sort of default entry mode that they would enter with under normal circumstances. This echoes that these companies see strategy through the universal approach as discussed in contingency theory. However, this was not so for all companies and others e.g. Max burgers deviated from their pre-decided strategy of entering by using a master franchisor in Poland. Two companies with a clear internationalization strategy that they followed was Nordic Choice and Espresso House. Both these companies followed their internationalization strategy and did not deviate from it, which dictated their choice of entry mode when entering a new market. Entering a new market with a pre-determined entry mode, which is decided without regard to the country, could entail greater risk, although it should be mentioned that the expansion of these companies are in northern Europe, a group of countries that could be seen as quite homogenous on multiple factors.

Two companies with more of an adaptable internationalization strategy, were BrewDog and O'Learys. They differed from the others by not having a default entry mode but rather choosing entry mode depending on the situation. The latter (O'Learys) expands into more diverse countries, having an adaptable strategy without pre-determining which entry mode that should be chosen might be a sensible choice, given the number of factors that might differ from country to country. This could be seen as the situation-specific approach and goes well in line with what was discussed in the contingency theory section of the study. Once again, BrewDog is an interesting case. As a young company, they did not have a clear strategy on how to internationalize when they got their first requests, but rather chose the entry mode that would induce the lowest possible costs. The company then got a more structured strategy with the arrival of an experienced director for international growth. This observation could be used as an illustration of the importance have a thought-out strategy for internationalization before starting the international journey as well as the importance of experience within the company to enable a thought-out strategy.

When deciding on strategy, the companies in the study had a growth target to consider as well. This emphasis on growth put some limitations on the entry modes, as discussed in the previous section on resources and capabilities. This linkage between financial resources and internationalization strategy is important to highlight as it has clear implications for the possible choices when it comes to entry mode. A company has to understand that a high growth strategy with limited financial resources will lead to an entry mode where the control will be transferred to some extent to outside partners, either through a franchise contract or licensing. However, this did not seem like a problem, as O’Learys, Max and BrewDog, the companies that used franchising to the largest extent, perceived that they had enough control.

In the conceptual framework by Andersen et al. (2014) they had an array of strategic considerations as important factors, including strategic motivation and business strategy. In this study, it was not obvious that those factors were relevant. However, this is not a dismissal since these more niche strategic factors might have fallen under the broader definition of strategic objective during the interviews. It should also be mentioned that the companies in their internationalization strategy did not have an isolated answer for entry mode, but this question was to some degree intertwined with the decision on which country to enter. This is interesting as it shows that some of the companies we studied put more emphasis on where to enter rather than how to enter, even though it is shown in studies that the decision on how to enter has a great impact on the company’s long-term results of their foreign performance.

5.1.4 Additional internal

A factor that was frequently cited as important, although not fully present in our framework, was the influence ownership had on the choice of entry mode in the different companies. This observation was not suggested in theory, although it was quite visible that the interviewees thought of it as important. Nordic choice, O’Learys, Espresso House and Max Burgers were examples of where the owner had a great influence when it came to entry mode. O’Learys, for example, are owned by a private equity firm and it would be reasonable to assume that they want the company to grow as much as possible without sinking too much money in the project. Therefore, they mostly expand with franchise, and shy away from more capital-intensive entries such as wholly owned subsidiaries. This aligns well with the international strategy that O’Learys are pursuing. Max Burgers on the other hand is still owned by the founding family, and their long-term approach to the company enables Max to make entry mode decisions that are associated with a longer payback time, a clear illustration of this being when they entered Poland by themselves instead of franchising.

Espresso House's owner is a global player with deep pockets and a large presence in the US, but still limited presence in Europe, in particular Northern Europe. Through that lens, Espresso House seems to be a strategic investment giving JAB Holdings access to a growth area in a mature market where they lack exposure. Given Espresso House's rapid growth through wholly owned subsidiaries, the owner seems to let them grow without a too short payback time, enabling such an expansion strategy. Looking instead at Nordic Choice, with their charismatic owner Petter Stordalen, one can see the direct influence his ownership has over strategic decisions. An example is that they do not have a board, (on paper they have but merely due to legal requirements), but it is instead Stordalen together with the senior management team that makes decisions regarding expansion. While Nordic Choice might not be representative for a broader population of soft service companies, the idea that ownership is important and a factor worth assessing before deciding on an entry mode is motivated.

An interesting note, that not necessarily affects the choice of entry mode, but highlights the importance of owners in these decisions, is BrewDog. When discussing with Moore, he stated that they wanted to open a new unit in Dubai, but their shareholders rejected the proposals due to human rights violations in the country.

5.2 Network and relationship factors

All the interviewees agreed that network and relational factors affect the mode of entry to some extent which was in line with theory. An issue most of the companies experienced was concerning finding a suitable franchise partner which had an impact on their choice of entry mode. It was evident that relationships, an extensive network and the internationalization of the network had a palpable effect on this.

5.2.1 Network internationalization

In addition to network internationalization affecting the choice of entry mode, a conclusion regarding the size and reach of the network also affecting entry mode can be drawn from the interviews. As shortly discussed above, a common problem among the interviewed companies was the issue with finding a good franchise partner, in fact all interviewed companies encountered this in some form. Finding a good partner was a concern for the companies looking for master franchisers as well as for the ones looking for single franchisees. It can be concluded that having an internationalized network as well as an extensive network, eases the process of finding a suitable partner which in turn could be franchised, licensed or entered into a joint venture with. This conclusion is logical as having a wider and more international network enables more connections with possible partners and therefore eases the process of finding as well as communicating with possible partners. In turn this translates to enabling choosing an entry mode with less control, e.g. franchising, if the company has an internationalized and extensive network. On the contrary, if the company has a smaller and less internationalized network it will be harder for them to find and communicate with a potential partner, therefore pushing the company towards a higher control entry mode like a wholly owned subsidiary.

That internationalization and size of a network impact entry mode choice can be seen in previous literature. The effect on soft service firms, especially the ones looking for growth through franchising, is not widely written about. It stands to reason that its impact on entry mode choice is larger for soft service firms since they do not have the option to export as a starting point and need to partner with another party, if not wholly owned subsidiary is chosen. From the conducted interviews a clear pattern of it affecting entry mode choice for soft service firms can be seen and a quantitative study to verify its extensivity would be of great interest.

5.2.2 Relationship factors

As Larsson from Espresso House expressed, a relationship with possible franchisees or partners enables a prior basis of trust which increases the likelihood of a successful and straightforward partnership. Trust is an important component when entering a market with a low control entry mode. If the company has a great deal of trust for its partner, the need for supporting functions decreases and thereof the cost as well. An example of bad practice within this area is when BrewDog entered into licensing agreements to open bars at the beginning of its international expansion. BrewDog had no prior relationship with these license takers but decided to trust them anyway. This resulted in the bars not being operated in the way BrewDog intended which ended in a costly endeavor where BrewDog decided to buy back a majority of the licensed bars in order to gain control. This could have been avoided if they entered into licensing agreements with partners they had prior a relationship with and trusted. When organizations decide upon an entry mode, it is important to take relationships with possible partners in consideration to ensure that the best-suited entry mode is chosen, which the contingency theory also emphasizes. The configuration of the chosen entry mode should also be taken into consideration if there is no prior relationship or trust between the organization and the partner. It is important that the chosen entry mode has clear rules and is legally sound for the organization to more easily take action if the partnership does not work out as intended.

Theory suggests that relationships with socio-political actors are important for a company's internationalization process. This was neither supported nor demented after conducting the interviews. No connections with actors of a socio-political position and its impact on entry mode choice was found. It is possible that this connection would have revealed itself with deeper or further interviews or it could be that such connections have a greater impact on exporting companies. It is noteworthy that four out of five interviewed companies mainly expanded into similar countries, which could stem from greater network reach and more relationships within adjacent countries.

5.3 External factors

External factors is an often-cited factor-group and is probably the category with the most subcategories when looking at previous studies. In this study, it was chosen not to include all of these subcategories in the interviews, but instead discuss the three main categories within external factors by giving some examples of the subcategories. It is noteworthy that even though it is commonly mentioned in literature in addition to having a wide range of subfactors, the interviewees did not indicate that it plays a large role when choosing entry mode. This might be since soft service firms are not as easily affected by external factors, which for example manufacturing companies choosing to export are. It could also be due to the interviewees having an easier time talking about their company and therefore internal factors as well, making it harder for them to see connections between the company and external factors.

5.3.1 Target market factors

One of the target market factors that was lifted, even if not mentioned by us to the interviewees, was the impact of local rules and legislation. Laws could be a potential make or break when deciding on an entry mode. An example of this is the US law not allowing bars serving alcohol to be franchised, which was encountered by BrewDog when looking at the US market. Another example could be the abundance of laws needed to be taken into consideration when entering China (Broadman, 2019). Legislation and other legal factors are a reoccurring factor when looking at entry mode theory, although its importance and possible large impact is often overlooked. There are only a handful of other factors that could rule out certain entry modes, legal factors being one, why it needs to be emphasized more in theory.

With a slight overlap with network and relational factors, a target market's availability of good partners could fall under this category, even though it is highly dependent on the organization's current relationships and network. Looking at when Max entered Egypt, they got an easy way to enter and grow quickly by entering an agreement with a master franchiser to operate the area. If Egypt would not have had a large and proven master franchiser Max would probably have considered other entry modes leading to a slower growth, or possibly not have entered the Egyptian market at all. This new subfactor could be called; availability of partners in the target market for example. More often than not, it would probably refer to the availability of good franchise takers when looking at soft service companies. A factor like this has not been encountered when reading entry mode theory, it plays a small, albeit significant role when choosing entry mode.

Even though target market factors impact the choice of entry mode, a clear pattern based on the interviews can be seen that these factors primarily affect the choice of entering a certain market or not and often have a smaller impact on entry mode choice. This conclusion is perhaps most applicable to soft service companies since they do not have the option of "testing" the market by exporting first.

5.3.2 Home market factors

When discussing home market factors with the interviewees a general pattern of them not considering it to be an important factor affecting entry mode choice is seen, instead, it mostly affects the choice of entering the market or not, but the consensus was that it most likely had some form of impact. Paton from BrewDog highlighted how a strong growth in the home market would increase their ability to attract partners abroad. This in turn will affect the choice of entry mode, as discussed above the availability of good and reliable partners can steer organizations towards or away from certain entry modes. This will again most likely have a larger impact on soft service firms since they are more reliant on entry modes with partners than manufacturing companies with the option to export are. Andersen et. al. (2014) had various aspects of home market factors in their conceptual model, support for these during the interviews was lacking.

5.3.3 Industry-specific factors

When mentioned during the interviews, most agreed upon industry-specific factors affecting entry mode except for Paton who was ambivalent but leaned towards disagreeing. Both Espresso House and Nordic choice explained how industry-specific factors affected their choice of entry mode. For Espresso House and the coffee shop market, locations are very important. In order to acquire good locations in a new market it is common to buy the coffee shops at the desired locations. A similar approach was seen by Nordic Choice as they were often inclined to enter with wholly owned subsidiary by buying local actors, partly for the locations but also to gain a certain presence in the new market, as could be seen with their entry in Finland.

That industry-specific factors impact choice of entry mode was found in multiple theories, most interviewees agreed that industry-specific factors affected entry modes, although they had a hard time concretizing how and why it impacted the choice of entry mode. The reason for this could be that the effect of industry-specific factors is more often studied in a quantitative study and not a qualitative one. This type of factor could be hard to see the impact of when looking from inside a company whilst when studying multiple organizations from an outer perspective they could become clearer. Another explanation could be that when conducting the interviews, a good enough job was not done of giving examples of subcategories and aspects of industry-specific factors. A further explanation could be that during the interviews possibly not enough emphasis was put on it, leading to the interviewees moving on from to another subject.

5.4 Desired attributes

Certain aspects of desired attributes can be hard to clearly distinguish from other factors. The main purpose of this subcategory was to accentuate the importance of looking to the future and knowing what the company wants to achieve with their international expansion. Most of the discussion in this topic will have clear links to the discussion in internal factors, the angle is different which highlights other aspects of a seemingly similar factor.

5.4.1 Degree of control

Control was a quite controversial topic when discussing with the interviewees. It was clear that it had some relevance, all companies discarded licensing (at the time being) as too uncertain since it gives too little control to the company. It was also the factor with the greatest support in previous models, who all gave it some relevance. However, Max, O'Learys and BrewDog all emphasized that the level of control given to the company under a franchising agreement was at a high level and enough for the company to feel that they had control over the most important aspects of the business. This was quite surprising, since franchising is categorized as a low control entry mode and thus, the initial hypothesis had been that the level of control was not satisfactory. The interviewees were quite consistent in denudating this hypothesis. An argument that was brought up regarding this, raised by O'Learys and Max, was that their contracts were rigid and well-designed enough for them to take action if a franchisor mismanaged their brand. Most studies simplify the argument and emphasize that more control is always better. However, it seems from the interviews that this argument is not always true but instead above a certain point, control is deemed unnecessary.

Espresso House and Nordic Choice both stressed the importance of control, and that it could change their entry mode when entering a foreign market. Nordic choice has a clear strategy of entering foreign markets without partners, they feel that both joint venture and franchising tie them up with a potential partner that they do not necessarily want to collaborate with, which in turn might hinder their continued expansion. When entering a new market, they want to gain as much experience of the market as possible, as could be seen in their entry into Finland. They would only get this experience to a lesser extent if they entered through lower control entry modes. This could be seen in the context of the real options approach, which states that learning the local context is vital for a successful international expansion. Espresso House on the other hand, felt like they would compete against themselves if they franchised out stores, in addition to this they want to have complete control over their business in the core markets. In their non-core markets, a business area they have not entered yet, franchising was seen as an alternative. This argument was also raised by Nordic Choice, cities that were non-core for them, they gladly franchised out. This distinction of using high-control entry modes in core areas and using low-control in non-core areas is an interesting but highly logical observation.

If control is an aspect worth considering when choosing entry mode seems to be divided into two groups. However, the arguments for its relevance outweigh the opposite and is seemingly an important question to raise. The categorical rejection from all the interviewed companies of licensing proves that it has some importance. It might be binary for some, where a fixed level of control is good enough and additional control is rather redundant. While for others more control is always better. This gives a more nuanced picture of the situation than previous models, whom all have attributed large significance to control without considering the situation. This could be since most models are formed looking at manufacturing firms where control could be argued to be of greater importance than for soft service firms.

5.4.2 Resource commitment

Resource commitment in the framework intended to capture the combined effort by the company and their willingness to commit resources. Resource commitment being financial resources invested, but also other forms of resources such as human capital. Discussing this with our panel of companies, this combination was able to pick up some situations that straight up looking at financial resources would not. Nordic Choice mentioned that they shy away from opening franchise hotels in the Baltic countries with the motivation that it would cost more, both in terms of management time and money, than its added benefit to the company. They prefer to enter the country by themselves, even in smaller towns where they normally would use franchising, just to avoid using franchising as an entry mode. Max had a similar scenario where they would not consider joint ventures as lucrative, even though they would save money in the upfront investment. The issue is them having to bear the majority of the management commitment as they know how to operate a successful store.

Knowing how big of a commitment, both in terms of financial and management resources, a firm wants to invest in an international expansion can sharply reduce the available entry mode alternatives. A counter-argument to this comes from Sharma & Johanson (1987) who in their study of Swedish technical consultancies only saw minor significances attributed to resource commitment. It is closely intertwined with both the strategic objective and resource factors, but further emphasizes the combined cost. This can be illustrated by an example from O'Learys, where Buckley's tasks range from managing the establishment of single outlets in Sweden, to master franchises in Australia. It might be important for the company to look at this holistically, if it is worth it to just handle single openings or if it might cost more in total costs than it brings back to the organization.

5.4.3 Foreign performance

The desire of companies to have a successful international expansion is a given, but how important foreign performance is for the organization varies widely. If foreign performance is a very small part of the organization's revenue and profit the decision of entry mode will not be as important. This will lead to fewer resources committed, as well as the likelihood of the entry mode decision being taken more lightly increases. This was the case for BrewDog, with almost all of their revenue coming from the UK, and a small part of that being from bars, a very small part would be coming from international bars. It is reasonable to presume that the foreign performance of the bars was not a top priority for management leading to decisions surrounding it not given the appropriate resources and contemplation. However, the companies interviewed as a part of this study did not quite understand what was meant by the factor and hence gave limited feedback to how they viewed it. Additionally, the factors are not particularly prominent in theory. Therefore, the possibility to draw extensive conclusions from this factor is limited.

5.4.4 Time frame

A time frame is something that every company has to consider. However, its effect on entry mode can be debatable. In entry mode choice theory, timing is essential in the real option approach and cited as a vital factor by Andersen et al. (2014) in their study of important factors. During the interviews, it became clear that it can have some implications and that some companies had shifted their entry mode decision due to it. The straightforward example was Max's expansion into Poland. Their original expansion was planned to be through a master franchise. However, when they failed to find a suitable franchisee, and felt that the opportunity was too good to miss out on, they decided to enter through a wholly owned subsidiary. It is apparent that time played an important part in this decision and the change of entry mode.

In other cases, it is less obvious but still an important factor to consider. When deciding on a suitable strategy for their international expansion, there is commonly a time aspect to it. How many outlets should be opened within a certain period etc. are questions that could arise in these discussions. This question might in turn decide how this can be made possible, providing a few suitable entry modes. Therefore, time frame is considered to be a suitable factor to keep in the framework, since it highlights an important aspect of the decision-making process of choice of entry mode. Growth and time frame are important parts of an organization's strategy, why it can be argued this factor is covered by the internal factor strategic objective.

5.5 Summary of analysis

5.5.1 Internal factors

Having conducted the interviews, it became clear that the most important factors to consider when deciding on entry mode were situated in this category. However, the factors within this category did have a difference in relative importance. Organizational culture is an example of a factor with less relevance. The interviews suggested that to get the culture of the company to each international unit, a certain level of control was needed. The degree of control needed was lower than anticipated, and most companies emphasized that franchising was sufficient for them to implement their culture, making this factor lose some of its importance in the decision, since all entry modes but licensing remains viable options. Organizational culture on a higher level, affecting the top tier of the company, is more related to strategy and hence is better suited within that factor.

Resources and capabilities is a factor that the interviewees mentioned as the most relevant. The two most significant parts of this factor is financial resources and international experience. The importance of financial resources is understandable since without resources a company has limited options for its international expansion. Limited resources can have the effect of excluding some of the more capital-intensive entry modes, such as wholly owned subsidiary. Financial resources also affect payback time. If a firm has the financial resources necessary, a longer payback time can make some alternatives more viable, whilst other entry modes with more short-term benefits are left out of the discussion. In accordance with the aforementioned reasons, financial resources will be considered one of the most important factors. The significance of international experience was concluded by the interviewees which resonated with the broad support it had in academic theory, with the Uppsala Model listing it as the most influential factor. Its importance stems from more operational grounds, where a company faces internal difficulties to handle an international expansion without it. It also has strategic implications, whereas a company possessing more international experience is more likely to have a well thought-out international strategy. This need and effect, of international experience, as exemplified by BrewDog's journey from licensing to wholly owned subsidiary to franchising. These two initial steps could have been avoided if sufficient experience in the field had been present from the start.

Strategic objective was a factor that all our interviewees weighed as influential. It is the guiding star of how a company should conduct its business and outlines targets the company should achieve. Strategic objective was considered to be closely related to financial resources, but it reveals a further depth to the discussion with more intangible goals and priorities as well. The broad considerations that the factor adds, like time frame, made it a candidate to the most important in the revision of the framework. Another factor that came up during the interviews, that had not been covered previously by literature, was the importance of ownership. The factor was discussed in all interviews and highlighted an angle to the ongoing discussion of influencing factors in an interesting way. Its importance stems from how an influential owner can impact the decision on how to enter the market. It was most notably seen in context in the discussion of Nordic Choice. However, its binary nature, either it is highly influential or negligible, does not qualify it as one of the most important factors to consider.

5.5.2 Network and relationship factors

Network internationalization was seen as playing an influential role in the choice of entry mode for most interviewed companies. Its importance was conveyed when organizations look for partners in foreign countries, especially when looking for franchisers. In addition to the internationalization, the size and reach of the network where shown to be significant in relation to finding a viable partner and therefore affecting entry mode decision. Relational factors were also found to influence the choice of entry mode, mostly in regards to enabling what type of partnership that was chosen in terms of low to high-control entry modes. A central part was trust and how that could change the level of control of the entry mode chosen depending on the level of trust between the organization and the concerned partner.

5.5.3 External factors

With external factors being the most extensive category in terms of the number of subfactors in previous studies, a large impact on the choice of entry mode is expected. Quite the contrary was found, external factors seem to play a lesser role regarding entry mode for soft service firms. On the other hand, there is one subfactor within target market factors that could potentially play a vital role when deciding on entry mode, this being legal factors of the target market. If the chosen market to enter has certain regulations and laws regarding foreign companies this could critically affect the choice of entry mode. As Paton explained numerous European countries are looking at revising franchising laws which would impact soft service firms greatly, as this entry mode is commonly used by soft service firms. A conclusion regarding home market factors mostly affecting where to enter and not how to enter could be drawn. Industry-specific factors had a palpable effect on entry modes, certain industries, e.g. coffee shops or hotels, are reliant on locations which in some cases only can be acquired by acquisitions.

5.5.4 Desired attributes

The primary hypothesis for desired factors was that it would add a further dimension to certain aspects of entry mode choice and consequently be legitimized as its own category. Antithetical to this thesis it was more intertwined with other categories, primarily internal factors. Degree of control intended to highlight what the people of the organization desired regarding control of foreign operations. The interviews instead showed it is tightly connected with the organization’s strategy, it can also be seen as a result of the other factors, at least to some extent. For soft service companies a desire for high control does not necessarily translate to a high control entry mode as several interviewees pointed out. A well-written franchise contract with a good partner enables high control. It can also be argued that resource commitment should fall under the categories, resources and capabilities and to some degree strategy (as this is how resources and capabilities should be utilized). The two main parts of resource commitment are financial resources and human capital which could be highlighted within resources and capabilities instead of being a separate category within desired attributes.

Foreign performance as a factor, was hard for the interviewees to grasp, leading to the conclusions that could be drawn from it are limited. It is noteworthy that partners might look at organizations previous foreign performance when entering partnerships and it stands to reason this could affect entry mode. Regarding the organization's previous foreign performance impacting its choice of entry mode, it is covered by the factor international experience, leading to overlap. The time frame has a distinct connection with the organization’s strategy. What growth rate is set, expected return on investment and how quickly they need to enter the market are all examples of considerations made when deciding upon a strategy. Therefore, it is suitable to integrate the time frame with the internal factor strategy.

In conclusion all subcategories of desired attributes impact the choice of entry mode, but the need for a separation was overstated. By integrating these factors into the other categories, their contribution to the model will be clearer and there will be less overlap.

5.6 Final framework

When analyzing the results from the interviews, the conclusion was drawn that the preferred way to categorize factors is not by listing them as part of factor groups, as done in the previous framework. Instead, by using a relative approach where further emphasis is brought to the factors that have the most relative importance, as a result of the interviews. The factor group approach is not entirely abandoned, the factors stated in the final framework are kept intentionally broad in order to encompass a wide range of sub-factors within them and are clearly mirrored from the factors in the initial framework. This approach has the benefit of being more easily implemented, companies get a better sense of what matters the most, instead of putting an equal amount of time on all factors. The interviews proved the interactions between factors to be very complex, factors could impact many other factors and in various ways. The intricacy of causality for factors on entry mode was also shown. By not trying to map the factors impact on one another and their direct impact on entry mode a more applicable framework could be developed. As the factors are often broad and not clear cut, the mutual exclusiveness and collective exhaustiveness of the framework can be discussed. As this was taken into consideration when developing the model the extensiveness of the issue should be limited. This has resulted in a three-tiered framework, with the factors in the inner circle representing the most important ones, with relative importance decreasing in the secondary and tertiary tier. In the tertiary tier, factors with limited importance in the interviews but with support in theory are placed.

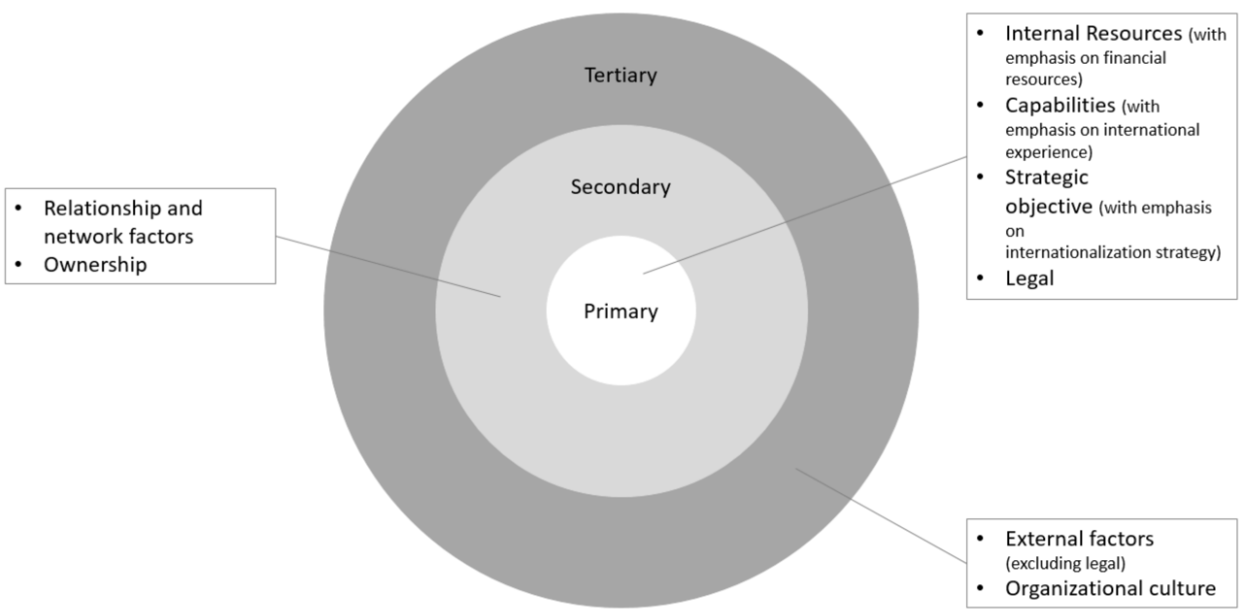


Figure 7: Revised framework

5.6.1 Primary factors

The factors in this category were considered to have a large impact on the decision of entry mode in a plurality of the interviews conducted. They cover the most important considerations a soft-service company has to evaluate when deciding on entry mode for international expansion.

5.6.2 Secondary factors

The factors in the secondary group constitute those that should be considered after evaluating the primary factors, as they did not have as extensive impact on entry mode decision. The group should be thought of as important, however not core components as the primary group of factors.

5.6.3 Tertiary factors

The group of tertiary factors was considered less important during the interviews, slightly or potentially impacting entry mode decisions. This category includes factors with relative importance, most likely only impacting sub-set of the population of companies. Therefore, they serve as additional factors to consider when the primary and secondary factors have been evaluated.

5.6.4 Final remarks

It is important to stress that the developed framework is a guidance on what factors to prioritize when choosing entry mode, helping the organization with the question “How?” to enter a foreign market. The framework does not cover the two other important questions regarding internationalization, the “Where?” and “When?” to enter a market. The framework does not include a complete list of subfactors instead focuses on larger categorizations of factors as well as highlighting certain standout factors. It is also noteworthy that the framework is based on theory, but also on a small population of qualitative interviews. Therefore, to fine-tune as well as confirm or deny factors and their prioritization a more quantitative study is needed.

6 Conclusion

6.1 Factors affecting the choice of entry mode for soft service firms

After reviewing the theory on entry mode decisions and conducting interviews for a deeper understanding as well as gaining a different angle on factors' importance and impact on entry mode, a framework was developed. This framework highlighted three levels of factors that have been seen both by theory and in interviews to impact entry mode decisions of soft service firms. By accentuating the presented factors among a large number of factors available, organizations can focus on the ones seen to have considerable impact. The framework also eases the process by prioritization, enabling organizations to save time and resources by focusing on the factors seen to have the most impact. The factors identified to have the greatest impact are:

- Internal resources (with emphasis on financial resources)
- Capabilities (with emphasis on international experience)
- Strategic objective (with emphasis on internationalization strategy)
- Legal

6.2 Applicability of the framework

Soft service companies have a clear distinction from manufacturing, and to an extent service companies when choosing entry mode. Manufacturing companies have the alternative to start off by exporting into new countries which is a common entry mode, although this is not an alternative for soft service companies. The developed framework is for soft service companies but is most likely useful for service companies in general and the factors presented impact manufacturing companies as well. This being said it is important to note that especially the prioritization and emphasis on certain aspects are aimed towards soft service companies, albeit the factors are important for a broad range of companies but to a varying degree.

Even though the basis of the framework is from a thorough literature study portraying the main theories within entry mode research, few of these were aimed towards service companies and a fraction of them looked at soft service companies. With the current number of studies within entry mode choice for soft service companies being limited, the developed framework is mainly based on research within choice of entry mode, emphasizing research regarding service companies, and greatly influenced by the interviews conducted. As a qualitative approach was taken, studies with a larger population and with a more quantitative approach should be taken to validate the framework and its implications.

6.3 Practical implications of the framework

The main purpose of the framework is to guide soft service companies when entailed with the decision of entry mode. Previous frameworks and theory in general have failed to show the complexity of the interactions between factors as well as the intricacy of how scoring on a certain factor will impact the choice of entry mode. It may be that this complexity is greater for soft service companies, but in general theory seems to underestimate it. The presented framework does not map the interactions among factors and the direct impact factors have on the choice of entry mode, as this is complicated. The approach taken is instead for the framework to show what factors have been seen to greatly impact entry mode choice but does not clarify how scoring on a certain factor leads to choosing a certain entry mode. This was intentional, as scoring on a certain aspect could lead to a certain entry mode but scoring differently on another factor could turn the entry mode decision in a different direction. No clear connections could be established between scoring on a factor and a specific entry mode. For example, if a company had access to a vast amount of financial resources a connection leading to it entering with wholly owned subsidiary could not be seen. It is therefore important to know what factors to consider, in what order to consider them, and lastly for the organization to weigh everything together for their specific situation when deciding on an entry mode. The order in which to consider factors is based on companies having limited time and resources to take entry mode decision, therefore a prioritization of which factors to take into account is needed. Previous research has used the distinction of different levels of entry modes using a scale based on the level of control. This was not the case for most of the interviewees as they felt high control could be achieved with entry modes considered to be of low control. In summary, it is not possible to design a decision tree or a framework where inputting certain variables leads to a certain entry mode as the decision is a complex one with factors interacting in intricate ways.

6.4 Thesis validity

The validity of the thesis is mostly challenged by the credibility and conformability of the interviews as well as the transferability of the findings. By being aware of these challenges preventative measures an actions could be taken to ensure the validity. By preparing well for the interviews and activily avoiding bias, the participants of the interviews should not have been affected by views and perspectives of the interviewers. By validating responses from the interviews, credibility could be ensured. Lastly the transferability is supported by detailed descriptions of the interviewees' responses. It can be argued that due to the small population of cases and industries within soft services the transferability is affected, this was mitigated by substantiating claims with theory.

6.5 Theoretical implications

6.5.1 Contribution to academia

This study has conducted a thorough literature review of the different models of entry mode research as well as developed a conceptual framework of important factors for soft service firms. Past research on choice of entry mode has focused on manufacturing companies but in recent years there has been an increase in publications regarding service companies, but there is still a small amount of research on soft service firms' choice of entry mode. This thesis and the developed framework can be seen as a starting point and basis for hypotheses for future research.

6.5.2 Further research

As discussed above this thesis has merely started to uncover the tip of the iceberg regarding entry mode decisions for soft service companies. To continue this path of discovery a larger population needs to be studied as well as a more quantitative approach should be taken to draw further conclusions of factors affecting entry mode as well as causality between factors. To be able to draw statistically significant conclusions a larger population is needed as well. Even though we covered several industries in our study, most companies were based in the Nordics. To ensure the validity of the conclusions, all industries considered to be a part of soft services should be present as well as a wider geographical distribution.

Appendix – Interview Questions

Intro

We can start by introducing ourselves. My name is Per and with me I have Carl. We are in our last year of studying industrial engineering and management. We are currently writing our master thesis on what factors affect the choice of entry modes for service firms. Entry modes for service firms are usually categorized into four different groups:

- Wholly owned subsidiary
- Joint venture
- Franchising
- Licensing

1. As [Company] is a manufacturing company as well (not applicable to all interviewed companies), we are mostly interested in the service part of the company.
2. What is your role at [Company]?
3. Could you talk a bit about [Company] international journey and their internationalization strategy?

Internationalization strategy

4. Are the current [Company] (hotels, bars, restaurants) you have a franchise or are they owned by you?
5. How did you choose that entry mode (where there any certain factors that affected the decision)?
6. Do you use any different approaches depending on the country?
7. If yes, why do you use a different one for those countries?
8. Do you know if any academic theory went into those decisions?
9. Did [Company] ever consider the other options (licensing, joint venture, wholly owned subsidiary, franchising)? What made you decide to not go with the other ones?
10. Have you had any problems as it is now (that might have led to a change in entry mode strategy)?
11. If you could choose again, would you choose to change the entry mode?

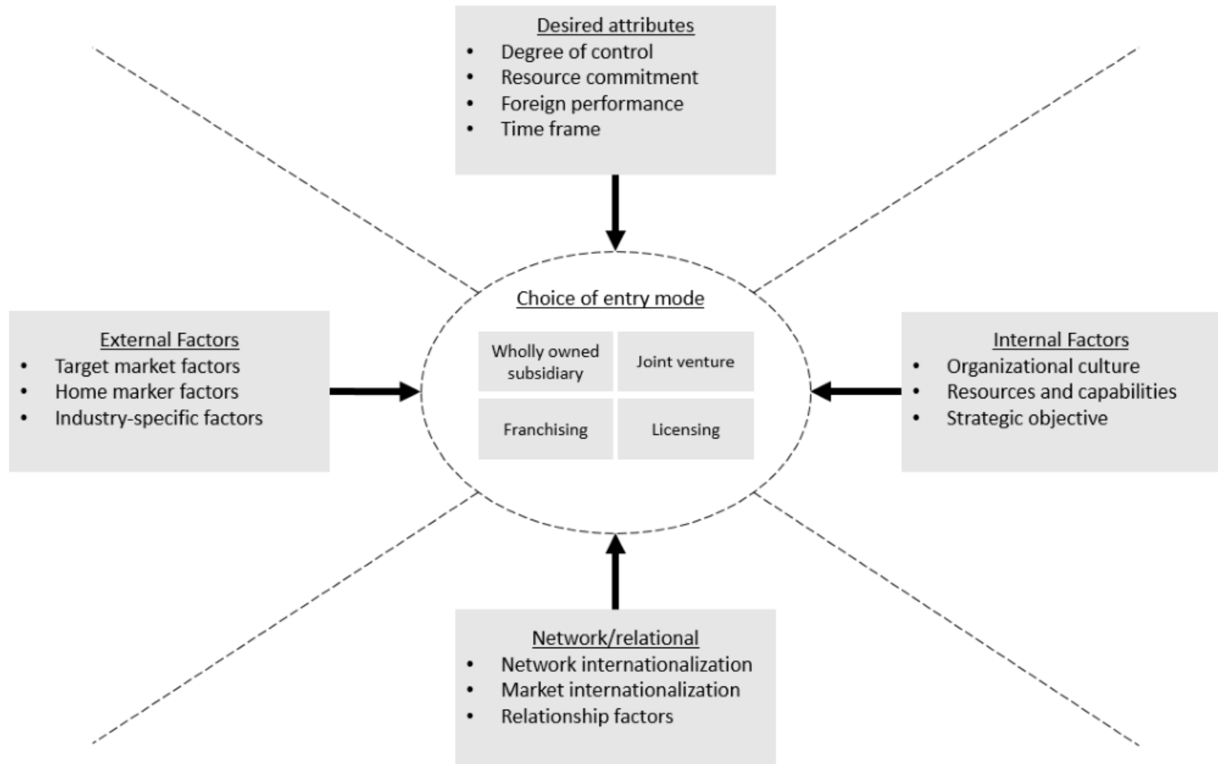
Factors affecting entry mode

12. Where/are there any specific factors you take into consideration when choosing entry mode?
13. (Where/are there any specific factors you take into consideration when entering a new Country?)
14. We have identified organizational culture as an important factor when choosing entry mode, what are your thoughts on this?

15. If you could choose again, would you choose to change the entry mode?

Model

Looking at this model, do you think that this model accurately addresses factors when deciding on the choice of entry mode?



16. Would you like to add anything?
17. Would you like to substitute anything?
18. Is there anything missing?
19. The most important factor?

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