The Motives and Determinants for Foreign Market Servicing

A Survey of Norwegian Foreign Direct Investment

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Table of Contents

Abstract

This study outlines a conceptual model of foreign market servicing, or involvement, that seeks to explain the level of foreign market resource commitment, foreign market equity involvement, and foreign production. We are particularly analyzing the use of foreign direct investment versus alternative market servicing modes, such as exporting, sales subsidiaries, or strategic alliances. The model is based on previous research drawn from the perspectives of market power (industrial organization), internalization (transaction costs), the internationalization process (behavioral theory), network theory, location theory, and the resource-based perspective on strategic management. A distinguishing contribution of this study is the simultaneous focus on market servicing determinants *and* strategic motives. Finally, this study tests the model on a sample of divisions of Norwegian manufacturing companies.

List of Tables

List of Figures

Figure: Page

1. Introduction

1.1. Background

During the period of 1983-1989 the world FDI (Foreign Direct Investment) outflows have increased by an astonishing compound annual rate of 29% per year; that is three times the growth rate of world trade (9.4%) and four times the rate of world output (7.8%) (UNCTC, 1992a)[1]. Slower economic growth in the developed countries produced a temporary slowdown in the growth of FDI outflows during 1991 and 1992, with annual changes of -17% and -11%, respectively (UNCTAD, 1994). However, in 1993 the FDI outflows bounced back to an annual growth rate of 11%[2]. By the end of 1993 the estimated total *stock* of FDI amounted to $ 2125 billion. This compares to the largest multinational Norwegian company, Norsk Hydro, which had $ 4.5 billion in foreign assets at the end of 1992.

The unparalleled growth of FDI during the last part of the 1980s may in part be explained by the considerable recovery of the world economy during this period, including the improved performance of a number of developing countries with recent debt-servicing problems. The growth of FDI was also attributed to a strong growth of outward investments from a larger number of developed countries (formerly dominated by United Kingdom and United States), such as Japan and the Nordic countries. From 1985 to 1989 Japanese multinational enterprises (MNE) represented the largest proportion of increase as Japanese FDI grew at an annual compound rate of

[1] The UNCTC numbers are in current prices.
[2] Includes only France, Germany, the United Kingdom and the United States, which together account for about two-thirds of worldwide outflows.

62% (UNCTC, 1992a). The growth of Japanese investments was driven in particular by the appreciation of the yen *vis-a-vis* other currencies, as well as a high current account surplus and a strategic move to ease protectionistic pressure in certain export markets. Since 1985 the gap between the growth of export and that of FDI has widened significantly. This dramatic shift spurred DeAnne Julius to suggest that *"as a means of international economic integration, foreign direct investment is in its take-off phase; perhaps in a position comparable to world trade at the end of the 1940s"* (1990: 36).

During the second half of the 1980s the annual average growth of Norwegian FDI abroad was an impressive 35.8% per year (Karlsen, 1991; Central Bureau of Statistics of Norway, 1992). The increase was not unique to the Norwegian economy, as other Nordic countries experienced similar growth patterns. The comparable annual growth figure was 48% for Finland, 55.2% for Denmark, and 37.8% for Sweden. In 1982 the net outflow of Norwegian FDI was NOK 1.9 billion. The same figure had increased to NOK 8.8 billion by 1989, after a peaking at NOK 11.9 billion in 1986. The gross FDI flow (stocks and long-term loans to affiliates) continued to increase throughout the period 1986-1991. Due to larger deinvestments from Norwegian foreign affiliates during the same period, the net FDI figures levelled off (net outward FDI of NOK 5.5-9.5 billion per year). The United Nation Conference on Trade and Development (UNCTAD) estimated that in 1992 the total book value of world FDI was approximately $ 1,932 billion of which the Norwegian stock was NOK 81.5 billion[3], or only 0.6%[4]. At the end of the

[3] The Norwegian FDI stock figures are based on tax information from *all* foreign companies with a Norwegian ownership share of at least 10%. Since the figures are used for tax purposes there are incentives to provide estimates as low as legally possible. Another indication that the FDI number is somewhat low is that the cumulative volume of net outward FDI from Norway during 1982-1989 amounted to NOK 56 billion.

[4] Numbers provided by Norges Bank.

1980s the size of Norwegian FDI relative to the economy was 4.8% (FDI stock/GDP)[5]. This number has increased to as much as 11.6% by the end of 1992. Certain smaller outward directed economics have considerably higher numbers, such as the Netherlands (42.3%) and Sweden (24.7%). The Norwegian position is comparable to counties such as Denmark (10.9%) and Finland (8.1%).

FDI in production implies that a firm emphasises internal growth rather than external growth through market channels (e.g. upstream subcontracting or downstream export sale). *The Economist* (1993) points out how FDI growth indirectly contradicts the dominating management recommendations of the 1980s. FDI has increased despite the focus on subcontracting, decomposing the value chain, and reliance on "core competencies" (e.g. Itami, 1987). One aim of this study is to attempt to answer why FDI is such a prevalent mode of servicing a foreign market.

Stonehill's (1965) Ph.D. dissertation on the "Foreign Ownership in Norwegian Enterprises" provides a comprehensive analysis of *inward* FDI to Norway up until 1962. This is also recently discussed by Meyer & Reve (1993). Hodne's (1993) historical account of the development of Norwegian multinational companies and some of their major outward FDIs provides another important in-depth background for this study. Karlsen & Randøy's (1991) research on the largest 25 companies in Norway during the period of 1980-1989 is the only known account covering a substantial proportion of recent outward Norwegian FDIs. In order to explain and understand FDI we need to go beyond mere statistically significant relationships based on secondary data sources. This research is an attempt to build a better micro-

[5] The 1989 figure does not include indirect ownership, which in 1990 accounted for as much as NOK 24. 3 billion.

level model of international market servicing, thus contributing to the theory of the international firm. In building such a conceptual model, we specifically look at the effect of strategic motives at the divisional- or firm-level of analysis.

1.2. The Research Problem

The dependent variable: Foreign market servicing

"Entry mode" is the initial mode used by a company to service a new foreign market. We choose to analyze *market servicing* mode rather than mere *entry* mode. Foreign market servicing mode, or involvement, is a broader concept than entry model. We are considering how the firm/division is now serving a particular market, irrespective of whether this is the initial or the subsequent servicing mode. We like to consider market service mode rather than entry mode for two reasons. First, Forsgren´s (1989) research on the behavior of Swedish MNEs reveals that only a small fraction of these firm´s commitment of new resources went towards *new* market entries. Most of the resources went towards strengthening of existing foreign subsidiaries. Second, we expect that the present mode of market servicing reflects a more efficient choice than the one at the time of entry. This is so because of the accumulation of corporate experience in relation to a specific market and the competitive pressure toward efficiency, i.e., eventually, companies with inefficient market involvements will be forced to go out of business. Irreversible investments can, however, make it inefficient to switch service mode, even though this could have been the *ex post* best solution. We attempt to address this problem in this study.

This study is focusing on the ongoing foreign market servicing of manufacturing companies from Norway. We are using three complementary measures for the dependent variable; namely (1) the possible equity share in the foreign venture, (2) the possible existence of foreign production, and (3) the level of foreign market resource commitment. Based on the two first measures we identify four distinctly different market servicing modes that are displayed in Table 1.1. By using such a simple two-by-two matrix we get the categories of (A) majority owned FDI, (B) strategic alliances, (C) sales subsidiaries, and (D) direct export, including minority involvement in sales subsidiaries. Each of these four involvement modes varies on two dimensions: equity control (or ownership) and foreign production. We have chosen to use a simple binomial classification of each these dimensions, e.g. equity involvement with more or less than 50% equity, and involvements with or without foreign production. However, this is, of course, a simplification as each dimension really represents a continuum.

Table 1.1: Four generic modes of foreign market servicing: using two of the measures for the dependent variable.

		Foreign equity share	
		At least 50% equity	Less than 50% equity
Location of production	Foreign production	A. Majority owned FDI.	B. Strategic alliances: such as licensing, minority joint venture in production, or other forms of strategic alliances
	Domestic production	C. Sales subsidiary	D. Direct export, including minority involvement in sales subsidiaries

Previous research has particularly discussed the fact that an FDI represents a considerable commitment of both tangible and intangible assets (e.g. Dunning, 1993a; Oxelheim, 1993, UNCTC, 1992a). Our last measure for the dependent variable, namely foreign market resource commitment, captures

this aspect. By using a direct measure for the level of resource commitment, we are able to use this as a complementary operationalization for FDI. We measure "resource commitment" as an index of three measures of a firm's resource commitment in a foreign country. *A priori* we assume that resource commitment and FDI is correlated, which is in fact the case for our data set. An FDI, combination A in Table 1.1, represents the highest degree of resource commitment. The ranking of the two intermediate groups, sales subsidiaries (C) and strategic alliances[6] (B), depends on each specific involvement. Direct export (D) represents the foreign market involvement with the lowest level of resource commitment.

Purpose of the study

The first purpose of this study is to develop a conceptual model of international market servicing, or involvement. This model should be able discriminate between FDI and alternative market involvements. This addresses both practical and theoretical challenges. The theoretical problem is to craft an appropriate model of firm/division-level choice of foreign market servicing. This model needs to be based on sound theoretical arguments as well as the available empirical studies. The practical challenge is to provide a better model that can enhance the decision-making capacity of international managers.

We attempt to built a fairly comprehensive model of foreign market servicing and foreign market resource commitment. Another important point is that we seek to built a model that explains *firm / divisional* level decision-making. Most literature on FDI and foreign market servicing tends to emphasize the economic aspect of these investments. This research will focus on how the

[6] Here we refer to strategic alliances as licensing agreements, minority joint ventures in production, or other forms of long-term agreements.

rationale for choice of foreign market servicing can be described in both economic and strategic management terminology, as has been recently suggested by Dunning (1993a)[7].

We attempt to develop better measures for the concepts, both for the independent and the dependent variables. Another characteristic of this project is the cross-disciplinary nature of the approach, which is a research avenue suggested by Dunning (1993b), among others. The proposed model integrates determinants of international market servicing as suggested by the perspectives of market power (industrial organization), internalization (transaction cost), the internationalization process (behavioral theory), network theory, and the resource-based perspective on strategic management.

Strategic motives have only been partly covered by previous research. To our knowledge, Kim & Hwang (1992) is the only study that incorporates the role of such motives. Their discussion of strategic motives is, however, limited to the *motive* of "global strategic motivation". In the present study we analyze whether a broader category of strategic motives enhance the explanatory power of our international market servicing model. Identifying and operationalizing strategic motives are the main focus of the three case studies discussed in Section 2.2.

The second purpose of this study is, on basis of the conceptual model (see Figure 2.2), to conduct an empirical test of this model. We look at the relationship between the independent variables (strategic motives, firm-specific factors, transaction-specific factors, location-specific factors) and the

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[7] According to Dunning (1993a: 93) the *"future modelling of MNE activity must also pay more attention to strategic-related variables. .. The full incorporation of strategic-related variables into a general theory or paradigm of MNE has yet to be accomplished."*

dependent variable of international market servicing. These relationships are being empirically tested in a field setting by using a cross-sectional data set of the divisions of Norwegian manufacturing companies. The data also contains some elements of longitudinal factors. Chapter four provides a further discussion of the choice of research design.

A number of previous studies of foreign market involvement has used single-item measurement for the both the dependent and the independent variables. Root (1987) points out that common measures for the dependent variable have been foreign assets, foreign sales, foreign earnings, or foreign employment, as a percentage of the firm's total assets, sales, earnings, employment, respectively. A number of scholars have questioned the reliability and validity of such measures (Churchill 1979, Cook & Campbell 1979, Peter 1979).

Scope of this study

This research is limited to non-financial companies incorporated in Norway, whose main activity in Norway is manufacturing. In order to decrease the complexity of the research task we do not include service companies, although Boddewyn, Halbrich & Perry (1986) suggest that with due precautions and modifications, theories of international production can also be used in relation to international services.

We are only testing the model on the divisions of the 50 largest Norwegian exporters for three reasons. First, the export figure includes subsidiary sales *and* other revenues from abroad. Second, the phenomena of FDI is in particular related to large size companies. In 1989 the 15 largest Norwegian companies controlled approximately 65% of all FDI from Norway (Hansen & Wamli 1991). By covering the 50 largest exporters we are probably covering

something like 80-90% of all FDI from Norway. Third, most of the theories on the issue have been built on the empirical experience of large or medium size companies. In an international context the Norwegian large and medium size companies are rather small. Only two Norwegian companies (Statoil and Norsk Hydro) are among the 500 largest in the world, by turnover. Fourth, reliable information about the population list of larger exporting companies makes it easier to identify a higher share of larger than smaller companies.

Level of analysis

In order to build a better theory of international market servicing our recommendation is that we have to consider the micro- or firm-level of analysis. Traditional models of trade and international competition have focused on macro-level or country-level differences in factor prices and factor abundance (Hymer, 1960). These factors have been used to explain the configuration of international trade and investment. However, most of the world´s trade and FDIs take place *between* rather similar developed nations (UNCTC, 1991; UNCTAD, 1994). Thus, one of the major shortcomings of the traditional theories (such as the Hechscher-Ohlin-Samuelson theory) relates to their inability to explain flows between industrial economies with similar factor prices and factor endowments.

The unit of analysis

The effects of firm-related factors have been well documented, giving support to the use of the firm or division as the unit of analysis. Research on international marketing servicing has identified individual product-market effects within a firm (Boddewyn, 1985; Gencturk, 1990). Our unit of analysis is the international market servicing of a particular division (or, alternatively, major business units) in relation to a specific market. For

example, the activities of Aker are divided into the cement and building materials division, and the oil- and gas technology division. Divisions within one concern might be separate legal companies, as in the case of Jotun. Our choice of unit of analysis reflects, therefore, a trade-off between the advantages of analyzing product group effects (commonly with one division) versus the advantages of analyzing unique effects associated with individual products. Our position is that most of these effects can be captured by focusing on divisions. For homogeneous one-division companies we use the firm as the unit of analysis.

We are limiting our analysis to cover the division's foreign market servicing in seven countries, namely: Sweden, Germany, the United Kingdom, Spain, Poland, the United States, and Japan. We chose to focus on these countries because they represent a high degree of variation in terms of their cultural and physical distance to Norway. These countries are also among the major recipients of FDI outflows from Norway. A more detailed argument for why we choose these countries will be given in Chapter four.

In official statistics, information about divisions, or even firms, only exists at the aggregate level of industries, thus providing limited information for understanding of the micro-level processes leading to FDI. We are not restricting the analysis to one industry, contrary to most previous firm-level empirical studies. Anderson & Coughlan (1987) analyzed the semiconductor industry; Agarwal & Ramaswami (1992) focused on the leasing industry, and Kim & Hwang (1992) looked at manufacturing in general. By focusing on multiple industries we achieve more variation in the data, but, of course, also more complexity. Since a few industry-specific studies have been conducted on related research problems, we consider it appropriate to

broaden the scope of this study. This also reflects a maturing of the conceptual knowledge of FDI and foreign market servicing in general.

Organization of this study

In order to accomplish the purpose and contribution above, this dissertation is organized into five remaining chapters. In the next chapter, we propose a conceptual model of foreign market servicing. This chapter also provides an in-depth review of the literature, which is the basis for the conceptual model. In particular we discuss the contributions from the theoretical perspectives of market power, internalization, internationalization process, networks, and the resource based perspective on strategic management. In chapter three, an integrated model of foreign market involvement is operationalized into testable hypotheses. We also discuss some definitions of key concepts. We are testing the effects of firm-specific, location-specific, transaction-specific, and strategic motives. Rationale for the specific research hypotheses is based on conceptual and empirical evidence of past research. In the fourth chapter we discuss the choice of research design and the collected sample. This chapter also describes the operationalized definitions of the key concepts. Chapter five analyzes our proposed model on our sample data. The estimation of the model parameters is provided in the same chapter. The final chapter discuss the conclusions, limitations, as well as theoretical and practical implications of this study.

2. Basic Concepts and Review of Literature

In this chapter we seek to identify factors that might effect the choice of foreign market servicing. Our discussion of theoretical perspectives in Section 2.1 reveals that a considerable amount research has been performed. The five discussed perspectives on foreign market servicing represent the *foundation* for our conceptual model. We discuss both complementary and competing theoretical perspectives. This provides us with a number of possible *factors* that can effect the choice of foreign market servicing. We discuss each perspective as it relates to underlying economic or behavioral theories, to the implied unit of analysis, to underlying assumptions, and as it relates to implicit limitations. Our discussion is also summarized in Table 2.2 at the end of Section 2.1. In Section 2.2 we complement the theoretical discussion of Section 2.1 with three case studies. These studies particularly address the effect of strategic motives on choice of foreign market servicing. In Section 2.3 we discuss previous modelling of foreign market servicing. The focus of this section is to discuss the *relationships* between the independent variables identified in Section 2.1 and 2.2.

2.1. Theoretical Perspectives on FDI

Our choice of reviewed literature is particularly based on three issues. First, we seek to identify and discuss literature that has been presented the last 35 years. In example, one of the first *specific* theories on FDI was presented by Hymer in 1960. Second, our analysis is focusing on the firm- or divisional level of analysis. This implies that we review literature that is relevant to

this our level of analysis. Third, we emphasize research which has been presented in recognized journals or with well known publishers.

The theories of FDIs, MNEs and alternative transactional modes represent a considerable body of literature. This can be shown by the amount of literature reviewed for the UNCTC (1992) survey on *"The Determinants of Foreign Direct Investment."* The main perspectives reviewed here are considered to be individual research traditions. We also include an emerging theory or perspective: the strategic management theory of resource-based strategies of internationalization.

There are at least three good reasons why one single theory cannot capture all aspects of the phenomena of FDI. First, international production is carried out for a number of reasons and motives. One theory might be appropriate for one motive, but useless in relation to other motives. One purpose of this study is to identify how different theories and explanations need to be addressed in relation to the various strategic motives. Second, the different theories address different aspects of the international firm. Cantwell *et al.* (1986) point out how the economic theory of international production has capitalized on different branches of economic theory. Third, international production can be analyzed at three different levels: macroeconomic (addressing broad national and international trends), mesoeconomic (considering the interaction between the firm- and the industry-level), and the microeconomic (individual firms) theories. We focus the discussion on the micro-level theories, i.e. the internationalization patterns of individual firms, or even units within those firms (divisions). The meso-economic theories, such as the international product cycle theory, will only be briefly addressed. We are leaving out purely macro-based theories

such as the Hechscher-Ohlin-theory and the "Japanese" theories of FDI (e.g. Kojima 1973).

To put our discussion in perspective we briefly present how Buckley & Casson (1985:1-14) compared some of the major classes of multinational enterprise theory, as shown below.

1. The Hymer-Kindleberger theories
2. The MNE and the product cycle theory
3. The internalization theory
4. Diversification versus internationalization
5. Location theory applied to MNEs
6. Attempts to construct a general theory

Our discussion of the market power theory includes what Buckley & Casson label the Hymer-Kindleberger theories. The relationship between MNE and the product cycle theory is briefly discussed at the end of this section. The internalization theory is also extensively covered in this study. The diversification argument is not discussed here, as previous studies have shown the shortcomings of this perspective (e.g. Hymer, 1960). Location theory is briefly discussed. We have already presented Dunning´s general theory of MNE and FDI. The eclectic paradigm is by far the most popular general theory on internationalization. Recently, Buckley (1990:657) described the eclectic paradigm as the *"established theory of the multinational enterprise"*. Dunning´s eclectic paradigm is more of a multi-level framework than a theory, in our opinion. The eclectic paradigm is essentially a synthesis of the perspectives of market power (industrial organization), internalization (transaction cost) and location theory.
In a recent Swedish doctoral dissertation Ågren (1990) points out how methodological differences among studies on FDI motives are probably one important reason for discrepancies between FDI theories. Conclusions drawn have varied according to the overall approach, which typically use statistical

secondary data analysis as opposed to survey approaches. It is also likely that in-depth personal interviews will generate different results from those based on a mailed questionnaire. The sample selections also vary considerably with the different surveys. Conclusions have been made without proper reference to the effects of factors such as home country origin (e.g. the fact that most studies have been done on U.S. or U.K. companies), the size of company (e.g. the fact that most studies have focused on very large companies), and the time period of the survey.

Investigating the strategic motives is particularly interesting for three reasons. First, the Norwegian economy represents a new chance to test the established "truth" of FDI and MNEs (which is particularly based on research on U.S. and U.K companies). Second, studies conducted in the 1970s and 1980s may not be appropriate for choice of foreign market servicing in the 1990s. The structure of the world economy has changed so significantly during the past two decades that it is likely that market servicing motives have changed as well. The increased emphasis on global competition (UNCTC, 1991) during the 1980s is one such important change. Third, the previous studies on FDI motives provide a good starting point for further research. With this research we seek to identify the most important strategic motives related to choice of foreign market involvement. We also want to test for the importance of these motives in relation to the market servicing model.

In Search for Strategic Motives

Strategic management represents a considerable stream of research focusing on how organizations (usually business enterprises) allocate resources within the context of a competitive environment. A recent working definition of the field of strategic management is that it consists of the study of the direction of organizations (Rumelt, Schendel & Teece, 1991). This project is, however, not an attempt to single out the "essence" of the discipline of strategy as it relates to international issues. We limit ourselves to two challenges. First, we discuss strategic *motives*, such as seeking global synergy, pursuing national adaptation, and seeking process or product technology, i.e. advantage seeking. Our discussion focus on how strategic motives have been presented in the international business literature. Second, we center on one emerging model of strategic management, namely resource-based strategies (e.g. Reed & DeFillippi, 1990; Tallman, 1991; Collis, 1991).

Dunning´s eclectic paradigm more or less ignores the issue of strategy. As an economist, Dunning´s implicit position is that strategy is merely the economics of long-term equilibrium. Dunning (1993a) discusses the role of strategy, as it affects the choice of strategic alliances or other "intermediate" governance structures (i.e., intermediate markets and hierarchies). The firm- (or owner-) specific advantages of the eclectic paradigm recognize that certain factors can be of a strategic nature, such as global oligopolistic advantages and global synergy. Our position is that strategic motives both apply and extend the economic factors.

Strategic motives

> *"An investment [FDI] is rarely undertaken for a single motive. Moreover, the decision is not an instantaneous one, but is the result of a process delineated below. The firm's objectives will have a great bearing on the motives for an investment...",*
> Buckley & Brooke (1992: 16).

A number of scholars points to the fact that FDIs are made for a number of different reasons. There are two theoretical routes to uncover motives and determinants of FDI. This study is an attempt to benefit from using both routes to uncover such motives and determinants. One direction is to identify characteristics of firms, industries, or even countries involved in FDI, which reveals implicit strategic motives. The other direction is to uncover motives for FDI by interviewing company managers. The first route creates less of a problem with instrument biases, whereas this approach does not produce any firm-level strategic information. The second approach can particularly be weak as response errors can be created through post-rationalization, wishful thinking, and lack of "objective" measures. Our approach is an attempt to bridge the two approaches by using established measures for the firm-, location, and transaction-specific factors, and then develop new measures for the strategic variables. Even though attempts have been made to identify "objective" measures for strategic variables, such as global industry concentration by Kim & Hwang (1992), we believe that strategic motives need to be identified directly (not as contingent upon some other external or internal factor). Aharoni (1966) made one of the first significant studies focusing on the motives, or objectives, for FDI. The studies in the internationalization *process* tradition has particularly identified the importance of strategic motives.

As pointed out by Ågren: (1990: 67) *"the reasons for the decision of one particular firm to make a FDI, as expressed by company executives, need not correspond with the general determinants of FDI as discussed in the theories of MNE. .. Motives for investments may be much more subtle than will be apparent from crude statistical data (and not all investments undertaken need necessarily fulfil the criteria of rationality that underlie MNE theory)."* Ågren identifies some important challenges for this thesis. First, the motives for FDI or alternative service modes can be expressed in several ways. The same "underlying" motive may be accurately described in economic, strategic, or behavioral terms. Second, the behavioral motives (such as pointed out by Aharoni, 1966) do not necessary fulfill the preconditions of rational behavior. FDI can be made for reasons that are irrational, from an economic point of view. We find it pertinent to discuss to what extent the different internationalization theories presuppose rational behavior. Third, using a questionnaire to identify market servicing motives produces a number of methodological weaknesses, i.e., the respondents are exposed to selective memory and they have the "opportunity" to use hindsight.

Eiteman, Stonehill & Moffett (1992) point out that choice of market servicing, and particularly FDI, is usually a complex decision process involving strategic, behavioral, and economic considerations. The model of international market servicing will cover all three classes of factors. Strategic motives are particularly covered in relation to the market power perspective and the strategic management perspective. The economic considerations of firm-specific factors and transaction-specific factors will be discussed in particular in relation to the market power perspective and to internationalization theory. The behavioral considerations related to location- and firm-specific factors will specifically capitalize on the internationalization process theory.

Table 2.1 provides a comparison of different classifications of FDI motives as they relate to the market servicing model (column one). The table also represents a potentially complete list of FDI motives, as it relates to previous research. An actual motive for FDI would, in most cases, be a combination of motives. Eiteman, Stonehill & Moffett (1992) point out that a number of surveys and case studies indicate that the motives for FDI can be grouped into five types of considerations, as presented in column two in Table 2.1. Cantwell (1991) points to four sets of motives for FDI, arguing from a position of economics: [natural] resource based, import substitution, export platform and global integration.

We find the classification of Eiteman, Stonehill & Moffett (1992) particularly interesting as it centers on strategic *motivation* rather than the *ex post* strategy (such as import substitution, export platform etc.). Cantwell´s motives are presented in column two and directly discussed in relation to Eiteman, Stonehill & Moffett´s five motives. Another interesting classification has been made by Hedlund & Kverneland (1984). They identified the following motives: advantage exploiting investments, advantage seeking investments, strategically motivated investments, and trial and opportunistic investments. The motives that Hedlund & Kverneland identified are also compared to Eiteman, Stonehill & Moffett´s five motives. The remainder of this section will address the different classifications for FDI motives.

Table 2.1: A comparison of motives for FDI and the market servicing model.

Relation to the market servicing model (Figure 2.2.)	Eiteman, Stonehill & Moffett, 1992[8]	Hedlund & Kverneland 1984	Cantwell, 1991	Dunning 1993a	Other contributions
Firm-specific factors	Market seekers	Advantage exploiting investments	Import substituting	Market seekers	
Firm-specific and strategic motives	Knowledge seekers	Advantage seeking investments	Export platform or global integration	Strategic assets and capability seekers	
Firm-specific factors		Strategically motivated investments		Strategic assets and capability seekers	Exchange of threats, Graham (1984) and Knickerbocker (1973).
Location-specific factors	Raw material seekers	Advantage seeking investments	Resource based	Raw material seekers	
Transaction-specific and strategic motives	Production efficiency seekers	Advantage seeking investments	Export platform, import substitution or global integration	Efficiency seekers	
Strategic motives	Political safety seekers				
Strategic motives		Trial and opportunistic investments			
Strategic motives			Global integration		Global integration, Kim & Hwang, 1992.

Market seekers pursue FDI in order to serve local demand or export to third countries. This motive is in line with the firm-specific factor of the market servicing model. E.g. Norsk Hydro's investments in the European fertilizer industry were a prerequisite for growth, as transportation costs

[8] Eiteman, Stonehill & Moffett (1992) points out that the first four classifications were suggested in W.Dickerson Hogue, "The Foreign Investment Decision Making Process", Association for Education in International Business Proceedings, December 29, 1967. These points were also contained in Lee Nehrt and W.Dickerson Hogue, "The Foreign Investment Decision Process", *Quarterly Journal of AISEC International*, February/April 1968, pp. 43-48.

limited the efficiency of export. The motive of market seeking is equivalent to Hedlund & Kverneland's concept of advantage exploiting investments. An advantage exploiting investment relates to an investment that is undertaken to utilize firm-specific advantages. These advantages are based on access to unique capabilities and resources in the home country, both natural and created resources. A firm-specific resource could also be an unique (differentiated) product market position. In Cantwell's framework the motive of market seeking corresponds to the motive of import substitution.

Raw material seekers pursue FDI to undertake upstream investments. To extract raw materials as a basis for market servicing is in line with the location-specific factors. One such example is the considerable French and American investments in the offshore oil and gas industries in the North Sea. Hedlund & Kverneland's advantage seeking investments do not include upstream integration into raw materials. Cantwell's resource based motive is consistent with a raw material seeking investment.

Production efficiency seekers locate themselves in countries where factor prices are low relative to their productivity. These motives relate to both the firm-specific factors and the strategic motives of the market servicing model. Most commonly, such investments have been in labor-intensive operations. The production efficiency argument is similar to Hedlund & Kverneland's advantage seeking motives. Hedlund & Kverneland did not distinguish between those investments connected to knowledge seeking versus ones associated with production efficiency seeking. Some of the international investments in the Norwegian shipping industry have been motivated by the desire to reduce the cost of capital (as well as political safety seeking) by establishing companies in "tax havens." Since the Second World War the Norwegian shipping industry has had special tax privileges compared to

other domestic industries. During the 1980´s the Norwegian government started to dismantle these advantages (Hodne, 1993). This was one of the reasons shipping constituted 31.6% of the flow of Norwegian FDIs in the period of 1986-1988.

Knowledge seekers are particularly concerned about access to technology and management expertise. The motive of knowledge seeking can relate to both the firm-specific factors and the strategic motives of the market servicing model. Hafslund Nycomed´s acquisition of Saluatar Inc. of California is one such example. With this acquisition, the company was able to strengthen its position in the field of pharmaceutical diagnosis. A knowledge seeking investment is by nature an advantage seeking investment as well. In Cantwell´s discussion, knowledge seeking investments are performed to utilize either an export platform and/or global integration. Franko (1976) analyzed European investments in the U.S. (based on data from the Harvard Comparative Multinational Enterprise Project) and identified one motive related to knowledge seeking. *"Exceptionally, the desire to learn from the stimuli of the high-wage, high-income U.S. market provided the motivation for some spectacular adventures (and misadventures) into American manufacturing"* (Franko 1976:162). Franko´s findings were very much tied in with the technological and competitive situation of the 1970s, when the U.S. had a stronger relative technological and competitive position than today. Servan-Schreiber´s (1967) well-known book, *The American Challenge*, is one example of how FDI was perceived in the 1960s.

Hedlund & Kverneland (1984) point out the importance of **strategically motivated investments**, which is defined as a strategic motive in our model. Aharoni (1966) was among the first scholars to identify a pattern of

"band-wagon effect" as a motive for FDI. This kind of strategic motive relates to an FDI that is made in response, or pre-emptively, to the actions of competitive rivals. A similar argument has later been presented by Graham (1974), Knickerbocker (1973) and Davidson (1980). Franko (1976) did not find support for a general "follow-the-leader" behavior behind European and Canadian investments in the U.S., although he found support for such investment motives in industries such as chemicals and synthetic fibers. This kind of phenomena has also been discussed in relation to institutional theories of organizations, where organizations imitate each other.

Hedlund & Kverneland (1984: 49) also classified **"trial and opportunistic investments"** as a separate motive for FDI, which we define as a strategic motive.

> *"Investments, quite modest in terms of invested capital, but often numerous ... often carried out by smaller companies ... (they) support local agents with products and marketing knowledge, collect information about the development of the market, and keep an eye on competitors".*

Trial and opportunistic investments have been given little attention in the literature, but we find them to be an interesting phenomena worth exploring. Randøy's (1992) work on the European cement industry shows how Euroc's investments in the Baltic states features such characteristics. The expressed motive for these investments have been to develop a position in a *potentially* attractive market without taking too much of a commercial and political risk.

The motive of global integration goes beyond the motive of production efficiency, as it focuses on the international strategic motives related to production. To benefit from global integration is to capture advantages

created by the MNE as a *network* of interrelated activities. Such advantages will typically be related to global scale and/or global scope. One of the major strategic motives behind Norsk Hydro´s considerable acquisitions in the fertilizer industry (Nielsen & Randøy, 1992) was to gain a regional/global advantage based on its integrated production system.

Strategic management models of resource-based strategies

The essence of the resource-based perspective of strategic management is that companies generate competitive advantages based on their ability over time to *create* firm-specific skills and capabilities. These capabilities and competencies are products of organizational learning processes. An interesting presentation of this perspective is given by e.g. Jacobson (1992) and Barney (1986, 1989).

We find this perspective interesting for particular two reasons. First, this perspective addresses some of the weaknesses of the market power (or industrial organization) theory of FDI. These limitations are particularly associated with the singular emphasis on product market position. It should be pointed out that industry position is an outcome, not an independent variable subject to company control. The resource-based perspective is more focused on the firm´s ability to create capabilities, rather than the ability to capture or exploit assets or other resources. Contrary to the market power perspective, this implies that a competitive advantage is *not* a consequence of "limiting" competition through the existence of entry barriers (Porter, 1980 1985), but rather through the creation of unique company resources (Rumelt, 1984; Dosi, Teece & Winter 1990; Teece & Winter, 1990; Kogut, 1989). This latter perspective focuses on firm-specific capabilities such as

tacit knowledge, path or history dependency, and cumulative learning. The market power and the resource-based perspectives can be put along the conventional structure-conduct-performance paradigm. Arguing from a position of market power, Porter (1980) emphasized how an oligopolistic market structure *precedes* company behavior (conduct), whereas the resource-based strategic management perspective points out how these capabilities are necessary in order to develop any kind of market power.

Second, transaction cost theory is a static analysis of the boundaries of the firm. In real-life, choice of foreign market involvement is affected by factors such as managerial discretion and strategic intent, which is clearly beyond the scope of the transaction cost model. A resource-based perspective is important because strategy, not a static analysis of efficiency, is the basis for choice of foreign market servicing mode. However, the market power and the resource-based perspective should be considered complementary rather than incompatible (Dosi, Teece & Winter 1990).

The resource-based perceptive of strategic management is particularly well suited to understand the strategic motives of global integration, market seeking and advantage seeking. There has been a considerable research effort on the issue of FDI in relation to the market power, internalization, and the internationalization process perspectives, but a rather limited effort in relation to the resource-based perspective. The resource-based perspective on strategy uses a *dynamic* model of competition. Tallman (1991) points out that this model answers some of the weaknesses of analyzing FDI based on industrial organization theory (a market imperfection consideration) and transaction cost theory (a market failure consideration).

Tallman (1991), Collis (1991), and Kogut & Zander (1993) applied the concept of resource-based strategy to the issue of FDIs. *"The strategic management model suggests that the MNE will evaluate its unique skills and assets to develop a firm-specific strategy for any particular host country" (Tallman, 1991:71).* When an MNE chooses a particular market servicing, it selects an institutional form that will support its strategy. The strategic management perspective also points out how strategic choice, defined as commitment of firm-specific resources, is constrained by the historical evolution of the firm. These tacit invisible assets (Itami 1987) or the "strategic core" of intangibles (Reve 1990), as they can also be labelled, have been shown to affect the choice of entry mode (Kim & Hwang 1992). The tacitness of a particular firm-specific capability makes it difficult to *articulate* these advantages. It is important to point out that the difficulty of transferring tacit capabilities cannot solely be blamed on contractual costs. Even in a transfer situation where parties are not constrained by opportunism, a certain know-how might be difficult to transfer (still limited by bounded rationality).

In contrast to the transaction cost model (Teece 1986), the strategic perspective implies that strategy *precedes* the issue of governance structure. Whereas the transaction cost model more or less ignores the issue of strategic behavior or intent, the strategic management model provides a dynamic perspective by emphasizing managerial discretion (Tallman 1991). This perspective still leaves room for the role of structural efficiency as a source of competitive advantage.

Bartlett and Ghoshal (1989) point out how administrative heritage, both cultural and physical, constrains strategic decision-making. The argument is that inertial mechanisms constrain the speed and direction of the intended

strategic change (Quinn 1980). Another "limitation" of the strategic management perspective is its sole focus on the non-transferability of resources. The perspective does not provide a clear direction on choice of intermediate forms of transfers, such as licensing and sales subsidiaries.

The strategic management perspective is not intended to be another complete theory of FDI, unlike the next three presented perspectives. Dunning (1993a: 93) points out how *"strategic choice then becomes a 'dynamized add-on' variable ... "* In our perspective strategic motives represent such a dynamic add-on factor.

The market power perspective

With reference to Dunning's eclectic theory, the market power perspective explores firm- or owner-specific factors. The market power perspective also contributes to the understanding of transaction-related advantages, although the internalization perspective represents the major contribution. Contrary to the eclectic theory, the market power perspective considers firm-specific and market-specific advantages to be sufficient explanations for FDI. Although the contribution of the theory is significant, it does not convey a general theory of international investments as initially intended by Hymer (1960).

The market power perspective implicitly recognizes the market servicing motives of market seeking and global integration. According to this perspective, market seeking investments are considered important means by which a firm's competitive advantage can be utilized. The motive of global integration concerns particular advantages of MNEs, such as global

sourcing, global differentiation, and/or the reduction of taxes through transfer pricing. Global integration is also a method to achieve multi-country oligopolistic advantages. The market power perspective assumes that there is a close linkage, or interaction, of FDI motives and the determinants for such investments. For example, the motive of market seeking can be expected to be based on the profit potential from a differentiated product or a firm-specific unique technology. The motive for strategic investments would likewise be linked to the possession of oligopolistic market power. This perspective assumes that the organization is a rational and intentional decision maker. When the market power theory is used to explain market collusion, this implies rational and intentional behavior on the industry or strategic group level (synonymous with the arguments of Marxist organizational theory).

Within the market power perspective, the literature identifies two major areas of product and factor market imperfection. The two areas of considerations are: anti-competitive strategic behavior and structural market imperfection.

The first consideration, anti-competitive strategic behavior, was explored by Hymer (1960, published in 1976) . He argued that international production could primarily be explained by the underlying economic theory of market power and industry collusion. The firm was conceived as an active agent of collusion and market power. Hymer's research was built on the theoretical tradition of industrial organization focusing on barriers to entry (Bain, 1956).

The second area of market imperfection was explored by Kindleberger (1969). He extended Hymer's research by emphasizing the importance of

industry structure. Kindleberger's main argument was that a firm's competitive advantage was the ability to utilize inherent imperfections of international product and factor markets. Dunning (1988) points out how ownership advantages might be both monopolistic and non-monopolistic. Strategic behavior of the international firm can help the company achieve both monopolistic market power (most often due to proprietary information) and non-monopolistic cost advantages due to scale, scope, or learning.

Casson (1987) points out Hymer's failure to clearly distinguish between *structural* market imperfection and *transactional* market imperfection. Hymer focused on the structural aspects of concentration among buyers and sellers. He also focused on the strategic interplay between oligopolistic firms which creates an opportunity for monopolistic profit. Hymer did not discuss how uncertainty affected transaction costs and he did not relate his discussion of transaction costs phenomena to the classic works of Coase (1937). According to the resource-based strategic management perspective, the trade-off between possible licensing agreements and FDI is particularly affected by imperfections in the market for knowledge. The effect is that a licensing agreement might not accrue the full potential of the firm-specific advantage, as later discussed in relation to the subsequent internalization perspective.

Some critical remarks

The market power approach reveals that the orthodox theory of international trade (Hechscher-Ohlin-Samuelson trade theory) and the theory of capital movements do not provide an adequate explanation for the existence of FDI. Since indigenous firms possess natural advantages, such as knowledge of local businesses and the political environment, the MNE has to compensate for these disadvantages in order to be competitive. Hymer's

answer was that the international firm was able to create an oligopolistic market, i.e. an anti-competitive market. Kindleberger on the other hand emphasizes the structure-conduct-performance model from industrial organization theory, i.e. performance follows conduct and conduct follows structure. The sources of these competitive advantages are factors such as exclusive technology, differentiable brand names or goods, favorable access to financing, unique access to distribution, or economies of scale.

The market power theory, as presented by Hymer-Kindleberger, centers on how companies become MNEs rather than how companies maintain and further strengthen their monopolistic power. There are three main reasons why many scholars were not satisfied with the market power theory and thus developed an alternative theory , the internalization theory. First, the market power theory does provide some reasons why companies should choose FDI rather than alternative transactional modes; however, these reasons are somewhat weak in terms of operational clarity. The second point refers to the necessity of firm-specific advantages, which can be questioned. The established MNE has a host of experience in tailoring products, processes, and marketing to local market needs. The result is that the advantages of local firms can often be discounted in advance by the experienced multinational firm. Third, Buckley (1983) questions the whole concept of firm-specific advantages, as it represents a time-specific snapshot (an equilibrium model of imperfect competition) of a dynamic process which relates to (1) the diffusion of technology and marketing know-how, (2) the comparative advantage of firms in particular locations, and (3) the existence of particular types of economies of scale. By using industrial organization theory the market power perspective on FDI implies a static perspective of time.

The limitations of the market power perspective relate closely to the mere consideration of rational processes in organizational decision-making and the non-transferability of resources. The existence of franchising agreements in brand-name based markets does not fit well with this perspective. Another point is that the stability of oligopolistic competition implies a high degree of industry level co-ordinated (implicitly or explicitly) behavior. Innovation and free-riding are very potent threats to the sustainability of oligopolistic competition. The market power perspective tends to focus solely on FDI, rather than on alternatives such as licensing or joint ventures. A number of scholars have recognized that the possession of firm-specific advantages, created by structural market imperfections, is a necessary but not sufficient explanation of international market servicing (e.g. Calvet 1981, Root 1985, Boddewyn 1985).

Internalization or the transaction-cost based perspective

With reference to the market servicing model, the internalization perspective centers on the transaction-related factors. In many respects this perspective has many similarities to the resource-based perspective on strategy, see i.e. Reve (1990). The internalization theory also recognizes how firm-specific factors, such as economies of scale and scope, represent important determinants for choice of market servicing. Dunning´s eclectic paradigm has capitalized extensively on the transaction-cost theory.

The internalization perspective is built on a theory of the firm derived from the works of Coase (1937) and further developed by Williamson (1975, 1981, 1985). The emphasis of this approach is on efficiency in the organization of transactions between different value-adding activities. The internalization

perspective seeks to explain why companies choose to operate their own subsidiaries rather than buy or lease their firm-specific advantages to a national entrepreneur. The concept "internalization" was first used by Buckley & Casson (1976) as they applied the transaction cost theory to the case of international production. Unlike the market power approach, the unit of analysis of the internalization perspective is the transfer of goods or services between individuals and groups of individuals (i.e. firms). The internalization advocates (Buckley & Casson 1976, 1985; Casson, 1985, 1987; Rugman 1981) consider the transaction cost or the internalization approach to be *the* major explanation for the existence of FDI. More recently, however, some of these scholars have downplayed the appropriateness of the internalization theory as a general and complete theory of FDI (Buckley, 1990).

According to the internalization perspective, market imperfections are not considered the by-product of the existence of MNEs, but rather an inherent attribute of international markets. These natural imperfections are due to the fact that the implicit neo-classical assumptions of perfect information and perfect enforcement are not realized (Teece, 1986; Dunning & Rugman, 1985; Hennart, 1991). The argument is, therefore, that markets have various degrees of inefficiencies limiting the scope of arms-length transactional modes, such as exporting or licensing. These market failures relate to costs associated with information gathering and processing, enforcement of legal rights, and bargaining (Hennart, 1991). The true value of an ownership advantage cannot be perfectly measured in the market because of human bounded rationality. The measurement problem becomes even more evident when it is combined with the potential existence of opportunism on both sides of the transaction.

The internalization perspective focuses primarily on the FDI motive of production efficiency. This perspective also discusses how companies need to align the boundaries of the firm in response to motives such as market seeking, raw material seeking, or global integration.

The transaction-cost theory (e.g. Williamson 1975, 1985) considers market transactions to be the default case, i.e., without market failure the theory predicts that all international transactions take place in the marketplace. In line with the argument of Williamson (1975), the MNE is an organizer of non-market activities. The governing mechanism of MNEs is authority through hierarchical control, rather than the price mechanisms used in markets. Williamson focused primarily on the boundaries of the firm, whereas internalization theorists tend to broaden the discussion to include alternative modes of market servicing (e.g. Buckley 1983, Buckley & Casson 1985). There are various degrees of control associated with market and administrative co-ordination. Bradach & Eccles (1989) point out that the governing mechanisms of authority (hierarchies) *and* price (markets) are independent, but that they can be used in combination with each other ("hybrids" in the language of Williamson). Eccles & White (1988) conclude that alternative transactional modes, both internal and external, can be assessed on the relative use of price and authority governing mechanisms. An MNE can exercise control over its contractual partners without using internalization. Common alternative transactional modes with some degree of control are franchising, licensing, joint ventures, and strategic alliances.

Some critical remarks

Internalization theory implies a strong belief in the "contractual man" (Williamson, 1985). The underlying assumption is one of a high degree of individual as well as group-level rationality. In line with the argument of

Simon (1957), concerning bounded rationality, the transaction cost approach considers the human limitations to rational behavior. Consistency of preferences is limited by the human memory and processing capacity. The actors are believed to have the intention, but not the full capability of stable, precise, and consistent preferences. Rationality is further limited by the cognitive capacity of humans[9].

The internalization perspective considers alternative service modes, such as licensing versus FDI. It has also been used on intermediate forms of commitment and control, often associated with joint ventures or strategic alliances (e.g. Casson, 1987; Hennart 1988). The internalization, or transaction cost perspective, tends to overlook trust as an important source of control.

Another considerable limitation of the internalization perspective is the negligence of internal managerial processes. First, the goals and decisions made by management are considered to be fully in line with those of the owners. Second, management's strategic motivation, related to goals and expectations, are not considered an issue. The internalization perspective is much too concerned with how companies minimize costs (finding the "perfect" fit to the environment), rather than how they can create and enhance the value of the firm through various modes of foreign market servicing.

[9] A more detailed discussion of rationality and the transaction cost approach is provided by Randøy (1992).

The internationalization process perspective

The internationalization process perspective is only partly covered by Dunning's eclectic paradigm. To a large extent the internationalization process perspective represents a competing theory of FDI. This theory gives much less emphasis to the rational aspects of decision making and instead considers behavioral patterns of individuals, groups and firms. The internationalization process perspective is concerned with the dynamics of companies expanding abroad. Contrary to the first two perspectives, the dependent variable of the theory is the various *stages* of internationalization, ranging from exports from the home country to FDIs. The expanding firm is characterized by various levels of international experience and commitment, which produce a particular pattern of international growth. The relationship discussed is primarily related to four independent variables: (1) a firm's level of international experience, (2) cultural distance to the host country, (3) resource commitment based on management's expectations, and (4) firm size (a proxy for company-specific resources). Luostarinen & Welch (1988) suggest that the stages process is not limited to the dependent variable (international market servicing) but also relates to choice of country of activity, choice of strategy, and choice of structure of organization.

Daniels (1971) conducted one of the first empirical studies that discussed the internationalization *process* of firms. He looked at the foreign market involvement patterns of forty companies investing into the United States. In Scandinavia the internationalization process perspective was initially associated with the Uppsala scholars Johanson and Wiedersheim-Paul (1975). Their basis for the "stages model" was found in four case studies of Swedish firms. Their work has been further refined by Johanson and Vahlne in 1977 and 1990. Bilkey (1978) and Cavusgil (1980) have also developed

similar models on the same foundation of the behavioral theory of the firm (Cyert & March, 1963). In terms of operational mode, the expanding firm is assumed to go through four successive stages of international commitment. The sequence of stages appears in relation to a specific market.

Stage 1: No regular export activities
Stage 2: Export via independent representatives (agent)
Stage 3: Establishment of overseas sales subsidiary
Stage 4: Overseas production

The accumulation of firm-specific experience is one of the main explanatory variables for this pattern of internationalization. The theory focuses on the incremental characteristics of internationalization and is thus a dynamic theory. The stage of one period is an important factor determining the appropriate stage in the next period. The internationalization process perspective makes a linkage between each period through two sets of factors: one static, resource commitment, and one dynamic, market-specific knowledge. Resource commitment reflects the amount of deployed resources, such as assets and personnel, and the specificity of these resources. Market-specific knowledge assumes that the firm is able to foresee problems and opportunities in a given market. The theory postulates that the constant drive for expansion is pushed by the desire to increase long-term profit at a moderate level of risk. The risk level is kept low by adjusting the degree of commitment to (1) the level of market specific experience and (2) the cultural distance to the host environment.

The main relationships in the process theory are behaviorally based, although it also reflects an underlying economic theory. Inefficiencies in markets for information and knowledge make it necessary to possess firm-specific competencies in relation to a particular country. In a perfectly efficient labor market these skills would be available "off the shelf", thus

making internal development of such skills redundant. The process theory also assumes that the firm will gradually increase its commitment from sporadic export to direct investment. On the other hand, in a perfectly efficient capital market sufficient funds, either equity or debt, would be "instantaneously" available to finance the most efficient mode of transferring the firm-specific resources. Because this perspective assumes that there are inefficiencies in the capital market, such expansion has to be financed by the company's own cash flow.

On the question of *which* market to select, the process theory suggests that firms would enter new markets according to their psychic distance. Psychic distance is defined as *"factors preventing or disturbing the flow of information between firm and markets .. including factors as differences in language, culture, political systems, level of education, level of industrial development, etc."* (Johanson & Vahlne, 1977:24). A learning experience in one culturally distant country produces a knowledge base for further expansion within the same cultural sphere. This line of reasoning is similar to the one of the resource-based strategic management.

The internationalization process perspective does not emphasize the importance of strategic motives. According to this perspective FDI is a result of an inevitable decision process quite independent from one of formal strategic decision-making, somewhat parallel to the decision making processes described by institutionalists in organizational theory (e.g. Burrel & Morgan 1979). The firm´s behavior, goals and expectations are driven by processes within the firm. Johanson and Vahlne (1990) discuss how increases in market commitment are made in incremental steps. However, there are three exceptions to such a pattern of expansion. First, when firms have large resources and the consequences of their commitments are

relatively limited, then the theory predicts that the firm will "leapfrog" some stages. Second, when market conditions are stable and homogeneous, we can expect that market knowledge can be easily acquired. Third, when country-specific differences are negligible, then experience in one market can be easily utilized in new markets.

Some critical remarks

The stages approach has been widely critiqued, mainly because of its lack of generalizable empirical support. The internationalization process theory seeks to explain internationalization with reference to organizational characteristics of the firm. Researchers have focused on (1) aspects of firm´s operations, including the nature of its competitive advantage, products, and markets (e.g. Porard & Bogart 1975), (2) demographic attributes of the firm including size, age, and ownership (Terpstra 1978; Kirplani & Macintosh 1980), and (3) managerial goals, expectations, and resource commitment (e.g. Hirsch & Baruch 1974; Reid 1981). The studies have received various degrees of empirical support. These studies have identified a number of potential determinants for the stage of internationalization, but differences in operationalization and measurement make generalization difficult. Since most of these studies have focused solely on the transition from non-export to export, the question is whether the identified organizational characteristics are equally important for a firm´s progression from export to other forms of market servicing.

Some of the limitations of the internationalization process perspective can be summarized in three points. First, the theory argues that a firm that expands abroad tends to focus on a market service mode that minimizes risk, with less emphasis on the possible pay-offs. This implies a strong deviation from the normative theory of capital markets. The normative theory

recommends high risk servicing, given a sufficient level of return. Second, the theory applies an almost deterministic view of the internationalization process. Previous studies have mostly focused on a single-stage process, lacking the necessary longitudinal design. The literature suggests several different patterns and stages, which does not provide a coherent framework. Third, the theory disregards external factors in the choice of market servicing. The theory does not address how host-country characteristics and host-market strategy affect the choice of market servicing (Reid 1983). This closed-system approach is particularly weak in relation to the diversified MNE, which commonly uses a number of different service modes at the same time.

The Network Perspective

The network perspective of international servicing is very much related to the previously discussed internationalization process perspective. The main critique of the former perspective concerns its insufficiency in explaining the investment patterns of well-experienced MNE, commonly with more than 50% of their employment, assets, and sales abroad. These very international companies might not encounter the costs of a "foreign environment" assumed by the internationalization process perspective. According to the network perspective one of the major determinants of market servicing is the quality of the firm´s links with customers, suppliers, complementary producers, competitors, etc. (e.g. Hallén *et al*, 1987). Unlike the previously discussed perspective, the network theory centers more on the chosen route of foreign market servicing (meaning acquisitions versus green-field investment), rather then the mode of market servicing (FDI, export, licensing etc.).

The network theory of internationalization is particularly associated with a group of Swedish scholars, including; Forsgren (1989), Hallén *et. al* (1987), Håkansson (1982), and Johanson and Mattson (1988). This perspective has particularly contributed to industrial marketing and interorganization theory.

The network perspective assumes that decision-making related to internationalization is a non-rational and political process, whereas the internationalization process perspective assumes a non-rational but hierarchically controlled process (Forsgren, 1989). The non-rational, or retrospective rational, aspects are based on the empirical evidence that decisions can emerge as a consequence of action, rather than guiding action (Pfeffer, 1981). Forsgren (1989) argues that the international firm should be viewed as a coalition of interests, thus making internationalization a political process. Such a point is also made by Hedlund (1986) who refers to the international firm as a "heterarchy". In his conception the subsidiary and its managers also play an important role in forming the strategy of the overall firm. Hedlund also downplays the separation of strategic action and strategic thinking. Similar to the strategic management theory of FDI, the network perspective assumes that an FDI is made in order to defend, or develop, a position within a foreign market. In contrast to the internalization perspective, the network theory provides a different prediction of how FDI is made. According to the network perspective multiple linkages to suppliers in the home market(s) are an integrated part of the firm´s competitive advantage. Thus, less internationally experienced company needs to grow through green-field investment. This would then give the home country relationships time to grow. One interesting assumption of this perspective is, of course, that relationships cannot be bought (through acquisitions), but rather need to be developed first hand. Forsgren (1989) argues that the

opposing predictions of the internationalization theory and the network theory relate to the point that the former emphasize the costs related to lack of understanding of foreign markets, versus the network theory which emphasizes the problems of moving intangible assets independent from "its roots" (p.38). He predicts that firms propensity to acquire foreign firms is: (1) positively related to the degree of internationalization of the firm, (2) positively related to the R&D intensity of the firm, and (3) positively related to the degree of diversification of the firm.

Forsgren´s (1989) research on larger experienced Swedish MNEs reveals that the established theory of FDI[10] is incapable of explaining "the twentieth or thirtieth investment in the same market" (p. 25). His research also shows that between 1975 to 1982, the 25 largest Swedish investors only used 3% of their total investments (including re- and new investments) to establish new subsidiaries. As much as 81% of the total investments was re-investment and 16% was spent on acquisitions. Hallén´s (1987) research on the international business relationships of 56 British, 102 Swedish and 79 German industrial marketers reveals that long-term information exchange and adaptation processes are important attributes of these customer and supplier relationships.

Some critical comments

To date the network perspective is mostly based on empirical observations of European MNEs, and then mostly Swedish cases. In our opinion the network theory of internationalization is richer in empirical observations then in theoretical sophistication. The theory is somewhat limited as a general theory of FDI, as it is tailor-made for well-established MNEs in industrial markets. The theory is also limited by its tendency to focus on the choice of

[10] Forsgren is here referring to the internalization and the market power perspective.

how FDI should be undertaken, rather than *whether* such an investment is preferred in relation to other alternatives (licensing, exporting etc.). This dimension of the network theory has limited interest in our study, since we do not attempt to distinguish between those FDIs based on mergers or acquisitions, versus those based on greenfield investments. We conclude that this perspective is therefore, mostly, complementary to the established theory of international market servicing and FDI.

Location theory

Location theory focuses on the supply side of markets, considering both cost issues and resource availability. According to Isard (1977: 159) trade theory and location theory are concerned with the same set of problems. However, location theory emphasizes the significance of transportation costs and other firm-level issues. Horstmann and Markusen (1987: 110) studied location cost differentials and argued that the optimal localization of production is determined by the trade-off between: (1) costs associated with firm-specific activities (that are affected by local factor prices) (2) tariff and/or transportation costs, versus the advantages of (3) plant specific scale economies (i.e. multi-plant scale economies). The two first factors create an incentive for FDI, versus the third factor which supports centralization of production, i.e. export. In our analysis we are looking at the location-specific factor of "foreign market attractiveness" and firm-specific advantages related to each country in question (which then indirectly reflects factor prices).

International trade theory

By relaxing the traditional assumptions of trade theory, attempts have been made to explain the phenomena of FDI[11]. Trade theory tends to focus on the

[11] The Heckscher-Ohlin theory assumes: (i) factors of production are mobile between sectors within the country but immobile between countries, (ii) final products or commodities are

macro-level of transactions between or amongst countries. FDI is primarily seen as an extension of international trade. By relaxing the assumptions of factor immobility, Hirsch (1976) argues that the profit-maximizing firm would use FDI over export if three conditions are satisfied. The trade-off is based on minimizing the present value of research and development costs, marketing costs, and control costs. Hirsch only focuses on the cost factors since he assumes that demand is a given. The cost trade-off is such that marketing costs are higher for exports than for FDI, and control costs are highest with FDI. He also argues that there is a positive correlation between R&D and marketing expenditures, and the same relationship exists between R&D and control costs, particularly for new products.

Another attempt to link the Heckscher-Ohlin theory to FDI has been made by Kojima (1978). His position is that FDI complements, rather than substitutes for, international trade. Kojima refers to Japanese-type FDI in contrast to American-type FDI. He argues that FDI should be made when an industry becomes disadvantaged in the home country and the investment has the potential of becoming competitive in a host country. The FDI becomes competitive because firms transfer a unique "package" of capital, managerial skills, and technical know-how. The basic argument is that the investing firm is forwarding a superior production function to replace inferior ones in the host country (particularly relevant for investments in LDCs where the industry might be non-existing).

International product-life-cycle theory

The international product-life-cycle theory (Vernon 1966, 1974) is an attempt to bridge monopolistic or oligopolistic advantages of international firms and

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mobile between countries, (iii) countries share the same scale economy functions, (iv) there are perfect markets, (v) free trade, and (vi) no transportation costs.

neo-technological trade theory. (Traditional trade theory is resource-based.) The advantages of the international firm are considered to be based on technological leadership and scale economies. Vernon (1966: 190) himself argues that his theory *"puts less emphasis upon comparative cost doctrine and more upon the timing of innovation, the effects of scale economies, and the role of ignorance and uncertainty in influencing trade patterns"*. The product-life-cycles theory is unique in the respect that it attempts to model the dynamic aspects of corporate evolution and FDI. There is considerable empirical evidence, focusing on U.S.-based FDI during 1945-1970, that supports the product-life-cycle propositions (e.g. Wells 1969, Stobaugh 1971). The nature of FDI has changed so considerably since the 1970s, that according to Giddy (1978) and Vernon (1979), the product-life-cycle theory has lost much of its original explanatory power. MNEs have started to build networks of overseas subsidiaries and use global strategies in order to develop a co-ordinated multi-country system. This implies that global firms often introduce new products overseas at the same time as in their home market. Our conclusion is that the international product-life-cycle theory was more appropriate for the initial stage of internationalization, which most companies in our sample went through in the 1970s or 1980s. This argument is supported by Forsgren´s (1989) research that reveals that only 3% of the international equity transfers of Swedish MNEs went towards new entries.

Summary

In Table 2.2 on the next page, we attempt to summarize the main result from our literature review. This summary also explicitly identifies the suggested independent variables in relation to our conceptual model. The literature commonly presents the perspectives of market power, internalization and the internationalization process as both competing and complementary theories on the issue of FDI. As shown in Table 2.2, the four perspectives vary in relation to the implicit primary motives of FDI. This indicates that each perspective captures different aspects of international market servicing decisions. Whereas the internalization perspective emphasizes the efficiency enhancing capabilities of FDI, the market power perspective points to the market imperfections created by MNEs through the means of FDI. The behavioral theory of the internationalization process is in some respects a competing perspective to the economic theories of market power and internalization. The resource-based theory of strategic management is also based on economic theory, but on an alternative economic theory based on the immobility of advanced factor markets, imperfect imitation and product market heterogeneity. The resource-based perspective on strategic management is a complementary viewpoint, particularly as it relates to the market power and the internalization perspectives.

Table 2.2: Key points of comparison and evaluation

	Market power perspective	Internalization perspective	Internationalization process perspective	Network perspective	Resource-based perspective on strategic management
Implicit primary motive for FDI	Market seeking/advantage exploiting, strategic motives and global integration	Production efficiency	Market seeking: growth of the firm	Advantage seeking, and localization.	Market seeking, advantage seeking, and global integration
Underlying economic or behavioral theory	Industrial organization theory	Transaction cost theory (which capitalizes on industrial organization theory, contract law and organization theory	The behavioral theory of the firm and location theory	Behavioral and strategic theory of the firm	The strategic theory of the firm: a critique of industrial organizational theory and transaction cost theory
Unit of analysis	Firm or industry	Internal and external transactions	Firm	Subsidiary	Firm
Dependent variable	Tendency to use FDI	FDI, licensing or export.	Mode of internationalization, choice of country, strategy and structure.	1. Extent of local subsidiary network 2. Method of investing; greenfield vs. acquisitions	Tendency to use FDI
Independent variables: The determinants as used in the conceptual model in Figure 2.2 and 3.1.	• Firm-specific ability to collude, or product differentiation • Access to unique technology • Access to competitively priced capital	• Firm-specific advantages • Host market attractiveness as it relates to asset specificity, opportunism and small number bargaining	• Size of organization • Firm specific international experience • Cultural distance • Resource commitment based on managerial goals and expectations	• Network creating capacity • R&D expenditure • Degree of firm-specific international experience	• Firm-specific commitment of resources • Tacitness of firm-specific capabilities
Perspective on time	Static	Static	Dynamic	Dynamic	Dynamic
Assumptions	• Rational and intentional organizational behavior • Seek to reduce risk with oligopolistic competition. • Uneven distribution of market power among firms	• Rational and intentional organizational behavior • Risk can be consistently evaluated by the firm • Uneven distribution of transaction-related factors, asset specificity	• Organizational behavior emerging and evolving • International servicing is risky • Uneven distribution of firm- and country-level factors, particularly international experience and cultural distance	• Firms and networks are heterogeneous • The importance of long-term relationships • Resource transfers between firms requires relationship-specific investments	• Organizational behavior partly rational and partly unintentional • Risk can not be consistently evaluated by the firm: path dependency • Uneven distribution of firm-specific resources, particularly know-how
Limitations	• Only focus on rational aspects of decision-making: within an open-system approach • In-transferability of resources	• Little attention to non-rational aspects of decision-making • Overlooks management's goals and expectations • Equates legal ownership with control • Overlooks intermediate service modes as joint ventures • Focuses on minimizing costs, rather then enhancing value	• Emphasizes risk without considering return • Applies an almost deterministic view on stage of internationalization • Disregard for external factors: a closed system approach	• Only relates to well established MNE • Not a stand-alone theory • Focuses on method of internationalization rather than entry mode or market servicing	• Bounded behavior focuses on history and path dependency. • Focuses on the in-transferability of resources

2.2. Identifying Strategic Motives

There is a fair amount of research focusing on how firm-specific, location-specific, and transaction-specific factors affect the foreign market involvement. This is indicated by the extensiveness of the discussion in the previous section. The literature review provides us with a number of well identified concepts and relationships (summarized in Table 2.2). However, the concepts that relate to strategic motives are much less developed than the one of firm-specific, location-specific, and transaction-specific factors. In order to address this weakness we have performed three extensive case studies. These studies specifically concern the strategic motives related to firm's choice of foreign market servicing.

Our three case studies of larger Norwegian firms/divisions were: (1) Hafslund Nycomed's contrast media division, (2) the fertilizer division of Norsk Hydro, and (3) the cement/building materials division of Aker[12]. In 1992 each of these divisions had revenues between NOK 3.9 billion and approximately NOK 28 billion (US$ 4 billion), of which at least 69% was generated abroad. As a baseline for our analysis we used Dunning's (1988) *"established theory of the multinational enterprise"* (Buckley 1990:657). We discovered that on the divisional level of analysis we missed out on important explanatory variables. Without considering strategic motives or strategic motives we obtained an incomplete understanding of foreign market involvement. In our three cases these strategic motives were complementary to the existence of ownership-, location-, and transaction-specific advantages, as previously suggested by Dunning.

[12] Extensively documented in Randøy (1992a), Nielsen and Randøy (1992) and Randøy (1992b), respectively.

In the case of the fertilizer division of Norsk Hydro, the main strategic motive was to construct an integrated network of subsidiaries across Europe, i.e. horizontal integration of FDIs. Rather than an owner-specific advantage based on its multinationality (as discussed by Dunning, 1993b), it was a specific strategic intention that determined Norsk Hydro´s choice of foreign market servicing. In the early 1980s the company sought to achieve cross-national synergy by acquiring a number of wholly owned companies across Europe. The strategic intention was that these acquisitions should then facilitate a restructuring of the European fertilizer industry and provide Norsk Hydro with international scale and scope advantages. These competitive advantages could only be achieved with considerable intra-subsidiary integration, which made joint ventures or strategic alliances an unattractive option.

The same advantages were also sought in the case of the cement/building materials division of Aker. In addition, another important motive was to preserve a pan-European oligopolistic market. One means for Aker to realize its new strategy was to strengthen the strategic alliance with the largest Swedish and Finnish cement producer, i.e. a horizontal integration of FDIs. Aker and Euroc, the Swedish producer, were able to take over a major British producer (Castle Cement) and then substantially increase their European market share. Hafslund Nycomed, a pharmaceutical firm, provides the third case. In order to strengthen the firm´s core competence in its highly successful contrast media image enhancements drugs, Hafslund Nycomed wanted to buy into emerging technologies as well as improve distribution access in foreign markets, i.e. a vertical integration FDI. From 1988 on Hafslund Nycomed acquired a number of wholly owned subsidiaries in Denmark, Austria, France and the US. Unlike the logic of Dunning´s eclectic paradigm, that emphasizes the need for capitalizing on a firm´s

existing firm-specific assets/skills, Hafslund Nycomed acquired these companies in order *create or enhance* such a competitive advantage. Transaction-cost reasons, as well as the tacitness of the acquired competence, made it necessary to buy these companies wholly. Neither licensing nor joint ventures provided the necessary organizational capacity to facilitate the desired resource transfer.

2.3. Models of Foreign Market Servicing

In this section we introduce a preliminary model of foreign market servicing (Figure 2.2). This model is further discuss in Chapter 3 (Figure 3.1) and then formulated in relation to specific hypotheses. The *factors* to be included in our conceptual model are taken from the theoretical perspectives (Section 2.1) and our discussion of strategic motives (Section 2.2). There are three primary inputs to the *relationships* of our conceptual model. These three inputs are (1) Dunning's eclectic paradigm, (2) recent modelling of foreign market entry mode decisions (such as Kim and Hwang, 1993), (3) and our three case studies. We are also capitalizing on our discussion of theoretical perspectives in order to identify possible relationships. However, these discussed perspectives tend to be more concerned about the effect of classes of factors, rather than a broader model of foreign market servicing.

Cantwell (1991) points out that during the 1970s and 1980s it became fashionable to search for general explanations for international equity controlled production[13], or FDI as we would label it. These contributions

[13] Dunning (1983, 1988) has made one of the most successful attempts to produce a general theory. Rugman (1980) presented internalization as a general theory of MNE/FDI and Aliber (1970,1971) made international currency valuation the basis for another such general theory.

attempted to encompass all prior significant research. However, these general theories eventually became too cumbersome to operationalize. Our discussion of the different perspective on FDI is contrasted to the eclectic paradigm of Dunning (1977, 1981, 1988, 1993a). Dunning´s paradigm is a rather useful framework for reference and comparison, but too general to explain *firm-level* FDI. On this issue, Dunning (1988: 1) himself states that *"precisely because of its generality, the eclectic paradigm has only limited power to explain or predict particular kinds of international production, and even less, the behaviour of individual enterprise."*

When Ricardo (1948) discussed the benefits of free trade, he implicitly focused on the exchange of goods across national borders. International trade within the context of multinational corporations differs from "classical" theory in at least two respects: first it involves international ownership, and second, it involves international location of production. Dunning´s eclectic paradigm seeks to answer how ownership and international production can be captured within one conceptual model.

Dunning (1981) explains how FDI should only occur if three sets of economic factors are satisfied: (1) *firm-* or *owner*-specific advantages, (2) *location*-specific variables and (3) *internalization incentive advantages* or what we label *transaction*-related factors. According to Dunning the paradigm can be used at three different levels. First, Dunning use the transaction cost theory[14] as he discusses the *institutional arrangements* of *transactions* within or between corporations. Second, the paradigm concerns the existence of *competitive advantages* of *individual firms*. Level one and two are the one most relevant to our study. Third, Dunning´s eclectic paradigm also

[14] In the context of international business the transaction cost theory is commonly referred to as the internalization theory.

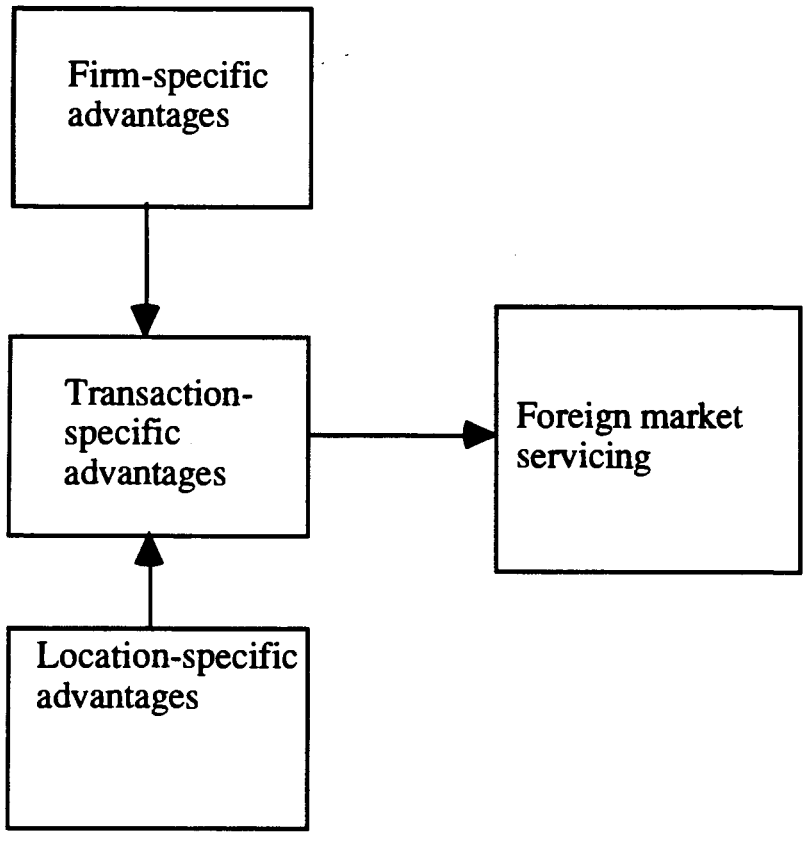
capitalizes on traditional trade theory as he focuses on location and *comparative advantages of nations*. These advantages are particularly associated with location theory and the international product life cycle. The principal hypothesis of the eclectic approach (1981: 79) is that a firm will engage in FDI if the following three conditions are satisfied:

(i) Possessing ***a net ownership-specific advantage*** (or firm-specific advantage as we refer to it) implies that a firm has a competitive advantage *vis-a-vis* domestic companies. This advantage must be greater than the disadvantages of operating in a foreign country. Bain´s (1956) classical work on industrial economics of barriers to entry, and used in an international context by Hymer (1960), explains the concept of ownership advantages. Dunning points out how these advantages originate from either *size (present or cumulative), monopolistic power*, and/or *better resource capabilities* (as exclusive resource possessions, trademarks, patents or unique skills). Porter (1980) uses the same industrial organizational perspective to identify a firm´s *sustainable competitive advantage*. In financial terms, a net ownership advantage conveys that a firm, in serving a particular market, can obtain a rate of return *above* the risk adjusted cost of capital derived from the capital market.

(ii) In classical economic terms, utilizing an ***internalization incentive advantage*** (or transaction-specific factors as we have label these factors) means either to actively or passively to exploit the existence of market failures. This advantage can help minimize *"the costs of running the economic system"* (Arrow, 1969). The question is how different *institutional arrangements*, such as wholly owned subsidiaries or sales subsidiaries, affect the efficiency of the economic activity. The multinational enterprise can circumvent market failure by internalizing markets for know-how, trade-names, management, or other specific skills.

(iii) ***Location-specific variables*** determine where, in space, the economic activity should be situated. Localization-related advantages stem from differences in national factor endowments and relative factor prices, as described by trade theory. Additional factors recently discussed by Porter (1990) are closeness to the market, the possible interaction with customers, suppliers, etc., and the quality of the national infrastructure. Other important factors affecting the optimal localization are transportation and other communication costs, initially pointed out by Weber (1929).

Figure 2.1: A micro-level model of foreign market servicing based on Dunning's eclectic framework.



Adopted from Dunning (1993a) page xv.

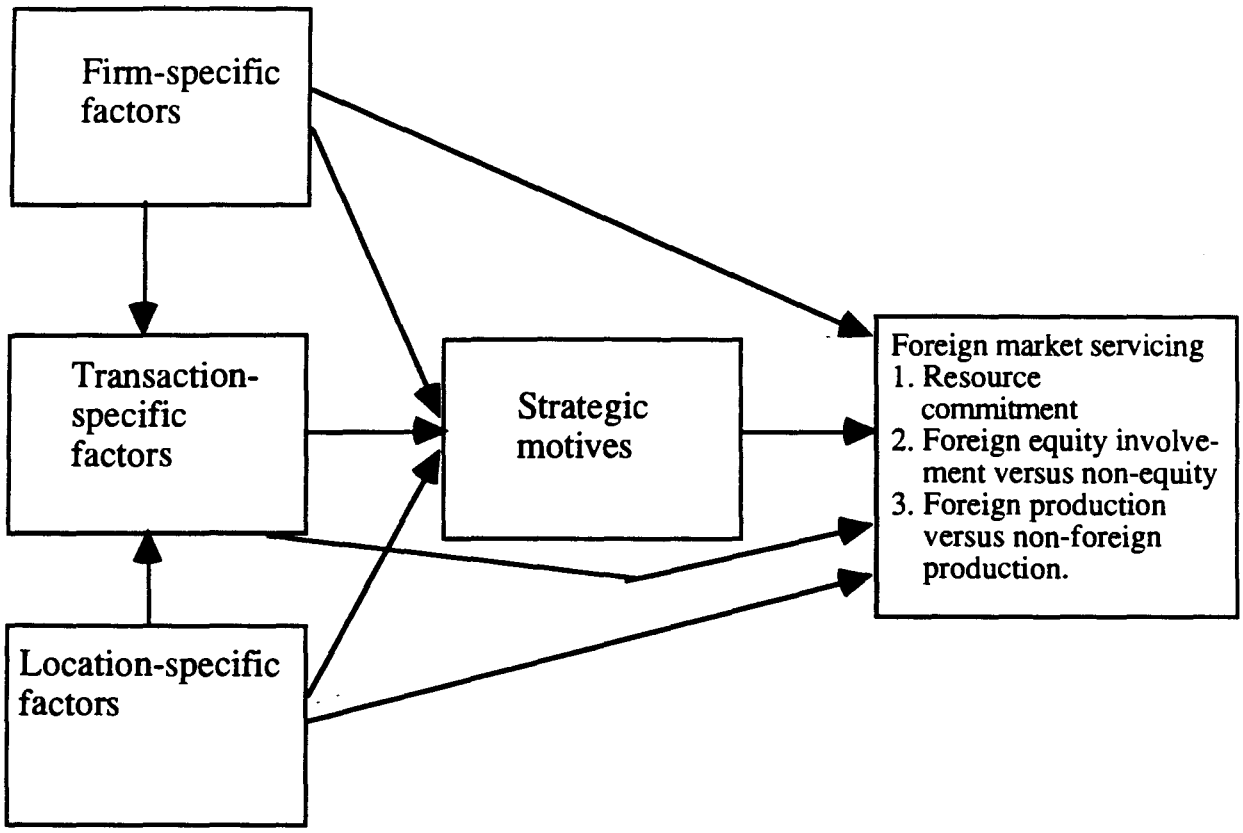
The eclectic paradigm does not provide a blueprint for firm-level empirical research. Based on Dunning´s paradigm, Figure 2.1 suggests how *we* interpret a micro-level model of foreign market involvement. The firm-specific advantages are externally given, as this is the competitive basis for the firm. Since Dunning´s paradigm is significantly influenced by industrial organization research, this implies that the basis for a firm-specific advantage is factors such as scale, scope and differentiation capacity. Other researcher refers to these factors as the "core competence" of the organization (Reve, 1990), then implying a wider set of advantages related to the learning capacity of the organization. The other externally given advantages is the location-specific factor. This factor is external to the model because it concerns the given national environment of the host country. Dunning clearly points out how transaction-specific factors provide the firm with possible "internalization incentives". However, these "incentives" are clearly presented as necessary but not sufficient conditions for FDI. Dunning´s own discussion of the phenomena does, however, strongly indicate the intermediate nature of the transaction-specific factors. Just a few studies on have used Dunning´s paradigm to test the choice of foreign market involvement or entry mode, such as Agarwal & Ramaswami (1992). However, their study was somewhat incomplete as they only consider direct or main effects. Previous studies have not considering the possible effect *between* factors, i.e. *intermediate* effects.

As shown by our conceptual model (Figure 2.2), we combine both direct, or main, and indirect effects. We agree with Dunning that we need to consider the indirect effects and the intermediate nature of transaction-cost variables. Recent empirical studies by Kim & Hwang (1992) and Gencturk (1990), address the effects from firm-specific and location-specific factors on the choice of foreign market servicing. The models tested by Kim & Hwang

(1992) and Gencturk (1990) resemble somewhat Dunning's eclectic framework, however, their models introduce one additional set of variables: strategic motives. Kim & Hwang (1992) consider firm-specific factors to be incorporated in the transaction-specific factors, which is in line with the transaction cost tradition. We believe a more appropriate model shows how firm-specific advantages are *enhancing* the *internalization* or transaction-specific advantages of the firm, i.e. a direct effect from firm-specific factors on transactions-specific factors.

Agarwal & Ramaswami (1992) operationalized Dunning's framework by proposing five main effects (direct) and six interaction effects. They used the framework to discuss choice of foreign market *entry*. Their results, based on empirical research from leasing companies, verified the existence of main effects. Two of the interaction effects were significant: one between contractual risk and product differentiation, and one between market potential and investment risk. As our conceptual model does not consider the investment risk, this leaves us with the interaction between market potential and contractual risk. We also benefit from Agarwal & Ramaswami's research by using some of their operational definitions.

Figure 2.2: Our conceptual model of foreign market servicing



The left part of the conceptual model is based on *our* interpretation of Dunning's eclectic paradigm, as displayed in Figure 2.1. This left part of the model consist of the location-specific, the firm-specific factors, and the intermediate transaction-specific factors. Dunning emphasize that the three different sets of factors are affecting each other. We use these proposed relationships as the starting point of our conceptual model. One unique feature of our model is the simultaneous modelling of direct and indirect effects. Recent modelling of entry mode decisions, such as Kim & Hwang's (1992), displays a model where the factors are not affecting each other, i.e. no interaction or indirect effects. Agarwal & Ramaswami (1992) also propose a model that consists of direct effects, however, they also add a few interaction effects to the model. The intermediate position of the strategic motives reflects that a strategic motive is a function of firm-specific, transaction-specific, location-specific factors, as well as other factors external to our

model. External factors that might affect a strategic motive could be the past strategy, the envisioned future strategy, and the past configuration of the firm-, location, and transaction-specific factors. In building a market servicing model we integrate, extend and modify the reviewed perspectives to fit the specific research problem. This integration, extension and modification is performed in Chapter 3.

The theoretical perspectives provide specific inputs to our model. We are utilizing the discussed perspectives because they individually represent significant, but not sufficient explanations for choice of international market servicing. The firm-specific factors are particularly associated with monopolistic/-oligopolistic competition. Our discussion of the market power perspective, network perspective, and the internationalization process perspective produces the main basis for the firm-specific factors. Transaction-specific factors are focusing on how bounded rationality and opportunism make economic transactions risky and costly. The discussion of the internalization perspective conveys the key elements of the transaction-specific factors. Location-specific factors relate to how physical and cultural distance affect costs of different international market servicing modes. The internationalization process perspective and location theory are both particularly important in defining the location-specific factors.

There are, in particular, three problems associated with using the discussed perspectives to build a consistent model. First, the conceptual and empirical research associated with the different theories does not exclusively focus on the micro-level (firm or division) of analysis. Thus, each perspective has to be modified to the appropriate level of analysis. Second, the perspectives only rarely provide satisfying conceptual and operational measures. Hence, unambiguous definitions and measures of each construct must be made.

Third, in order to capture accurately the true effect of strategic motives, it is necessary to evaluate these motives within a framework of determinants of international market servicing.

Strategic motives are not part of Dunning´s original eclectic framework. We use our three case studies, as well as the resource-based perspective on strategic management, to identify such factors. Strategic motives concern how the goals and long-term objectives of divisions affect the choice of market involvement. We are explicitly making these strategies contingent upon the other three factors, since there is no time dimension involved. We assume that today´s strategy is a product of the configuration of the present firm-specific, transaction-specific, and location-specific factors. In addition to these three factors, the past strategy, the envisioned future strategy, as well as the historic configuration of the firm-specific, location-specific, and transaction-specific factors, have an important effect on the current strategy[15]. However, these factors are beyond our current model specification, which would require a time-series research design.

[15] As i.e. emphasized by the resource-based perspective on strategy as well as other recent writtings of Dunning (1993).

3. Models and Hypotheses

3.1. Definition of Key Concepts

As previously discussed in Table 1.1, we are distinguishing between four generic modes of foreign market servicing, namely, majority FDI, strategic alliances, sales subsidiaries, and direct export. In this section we provide a further discussion of each of these market service modes, as well as the concept of multi-national enterprise (MNE).

Foreign Direct Investment (FDI)

According to Buckley & Casson's (1985) typology, FDI is an equity based, internal transfer of resources and rights, that is unlimited in time. Dunning (1993a:5) refers to FDI as investments *"outside the home country of the investing company, but inside the investing company"*. He also emphasizes that an FDI consists of a *"package of assets and intermediate products, such as capital, technology, management skills, access to markets and entrepreneurship"*. This definition suggests that a typical sales subsidiary is something less than an FDI. The IMF (1993) defines FDI as *"investments that involve a long-term relationship reflecting a lasting interest of a resident entity in an economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy"*. This definition clearly reflects the fact that an FDI concerns a large degree of ownership control. Unfortunately, there is no consensus as to the minimum required equity stake for an investment to be classified as an FDI. Most countries set the lower limit between 10% (as

in the case of Norway) and 25% of the total equity of the firm. International investments below this thresholds are considered portfolio investments. International as well as Norwegian statistics do not distinguish between majority owned FDIs and minority investments, commonly referred to as joint-ventures in the literature. In our empirical analysis we define an FDI as one where the parent company has at least 50% ownership. Further, we are distinguish between two classes of international investments. A sales subsidiary is a foreign corporate involvement where the subsidiary is not engaged in local production, whereas a regular FDI involves both marketing and production activities.

Sales subsidiary

In the official statistics a sales/marketing subsidiary would be considered an FDI, as long as the firm has an equity position of at last 10-25% (depending on the nationality of the statistics). However, conceptually the resource commitment of a sales subsidiary is typically something in-between direct export and FDI. The assets and unique competencies of a sales subsidiary would in most cases be rather limited, such that the "investment" aspect of such an FDI would not be satisfied. With a sales subsidiary the firm keeps ownership control over the marketing activities abroad. However, the ability to take advantage of local production is limited. In terms of risk and commitment of resources a sale subsidiary represents an intermediate mode of foreign market servicing. In terms of ownership control this servicing mode is similar to an FDI. However, for the reasons above we will consider a sales subsidiary to be an non-FDI involvement.

Strategic alliances

We are considering a number of foreign market servicing modes that can be labelled "strategic alliances". Examples of these kinds of involvements are licensing agreements, minority joint ventures, and long-term cooperative agreements. The common feature of these involvements are that they include a certain amount of foreign production and no or less than 50% equity ownership. We are in particular discussing licensing and joint ventures in this section.

Licensing can be both an equity and a non-equity arrangement. Daniels & Radebaugh (1992: 544) provide a definition of a typical non-equity licensing agreement where: *"under a licensing agreement a firm (the licenser) grants rights on intangible property to another firm (the licensee) for a specified period of time, and the licensee pays a royalty to the licenser in exchange."* The licensing agreement provides the licensee with a limited range of resources and rights, in accordance with a *market* transaction (i.e., a contract).

Licensing can, on the other hand, also involve a combination of governing mechanisms. A more broad definition of licensing is provided by Buckley, Pass & Prescott (1992:63-64): *"Licensing is a generic term which covers a variety of non-direct investment in production operations involving arms-length co-operation with an external agency (or agencies). Some elements of market transfer are included in this packaged sale of assets and services. A spectrum of relationships is possible ranging from (the rare) simple sale of embodied knowledge or assets (brand name, patent) through franchising, turnkey operations, contract manufacturing, management contracts, etc."*. Even though we find the above definition to be too broad, it highlights some interesting points. We find the phrase "arms-length co-operation" somewhat

contradictory. However, we can conclude that a licensing agreement can take many forms. A possible licensing agreement might blend a pure market contract (e.g. transfers of technology fees), an in-house arrangement (transfer of personnel), and a certain degree of trust (as transaction are not solely governed by a specific contracts). Two Norwegian companies, Jotun and DYNO, have successfully used minority equity ownership and licensing in a number of markets.

Licensing is often used as a transitory mode, providing the firm with a learning experience in an unfamiliar market. Only a small number of firms uses licensing as the main and preferred mode of international market servicing (Buckley, Pass & Prescott, 1992), which is also the case of our sample of Norwegian companies. Only 7 of our 129 market involvements showed licensing as the main mode of servicing a particular country. Use of licensing can be motivated by extraneous eventualities, such as government restrictions. Licensing can be used as a means to avoid head-on competition (Buckley & Casson, 1987).

Dunning (1993a: 145) refers to three studies on the trade-off between licensing and FDI that identified factors favoring FDI (and disfavoring licensing). Important factors disfavoring licensing were "difficulty of guaranteeing quality control" (Dunning, 1986), *"desire to replace poorly performing local marketing and distribution agents"* (Buckley & Mathew 1979), and *"inability to provide the benefits from integration between foreign and domestic activities"* (Dunning & Norman 1987). However, these studies did not identify any specific factors not captured by the firm-specific, location-specific and, in particular, the transaction-specific advantages. Our conclusion is, therefore, that the advantages and disadvantages of licensing can be covered by the suggested factors.

Dunning (1993a: 237) defines equity joint ventures as *".. any long-term alliance which falls short of a merger and in which two or more economic entities own a sufficiently large proportion of the equity capital to give each of them some degree of control or influence over key areas of decision taking"*. A joint venture will in particular vary according to the division of the equity stakes (minority versus majority ventures) and according to the active participation of each of the equity partners. *"Joint ventures will be preferred to non-equity arrangements for exactly the same reasons as will fully-owned subsidiaries, viz to reduce the production or transaction costs and advance the strategic objective of participating firms"* (Dunning 1993a: 239). Our proposed conceptual model captures these aspects of production costs (related to firm-specific advantages) and transactions costs (transaction specific advantages). Concerning the strategic motives of joint ventures, Tallman & Schenkar (1990) point out the significance of strategic asset seeking. Other motives of long-term importance (i.e. a strategic motive) for joint ventures are related to creating (global) organizational synergy.

The distinction between FDI and joint venture is not clear from either theory or official use. Conceptually any equity involvement between more then 0 and less then 100% can be labelled a joint venture. E.g. a 25% equity investment can be categorized as *both* a FDI and a joint venture. However, since our focus is on the managerial aspects on foreign market involvement, we find it useful to make a distinction between majority owned FDI (>50%) and minority owned FDI (<50%). We refer to the majority investments as "FDI" and the minority joint ventures as group in the "strategic alliance" category. If the main focus of this study was to analyze joint ventures, we would have defined intermediate categories with different levels of equity positions. The typical joint venture (JV) is an equity investment, unlimited in time, but often limited to a specific technological or geographical area. The

transfer of resources and rights is made within an internal market, although the joint venture often involves certain elements of an arms-length contract.

Vertically focused joint ventures can be one device to get a higher degree of foreign market resource commitment, and thus a better profit potential. One common approach is to replacing export or subcontracts with a joint venture in up-stream activities such as component production, or down-stream activities such as distribution and service. High transaction costs, related to transfers of goods and capabilities, can make a long-term agreement a more efficient way of interacting with a foreign contractual partner.

Horizontally focused joint ventures might capture cross-border economies of scale and scope. In example, an internationally known brand-name provides such an advantage of scale economy, however, the foreign firm might not have the time to develop its own distribution system, suggesting a synergy can be produced by combining the two party's resources in a joint venture. A joint venture might provide the licenser with firm-specific advantages, such as a local distribution system, not accessible to a sole venture. In our conceptual model, we are discussing these issues in relation to the firm-specific advantages and strategic motives.

Direct export

Exporting represents one of the major alternatives to a FDI. Some of the characteristics of exporting as a market servicing mode is that it is always non-equity, and time limited transfers of pre-specified goods or services in an open market. "In-house" deliveries between subsidiaries in different countries are commonly outside the regular definition of export. Exporting concerns both indirect export through agents such as distributors, merchant houses, trading companies and a variety of other intermediates, and the direct export of goods and services. Exporting, as described by the internationalization process theory, is seen as the first step in a gradual process towards greater degree of control and commitment. Recent research on international trade has pointed out how exporting commonly is a complementary mode of market servicing, used in connection with direct investments, joint ventures or licensing agreements. With reference to the market servicing model, the advantages of exporting would be captured in particular by firm-specific advantages and location-specific advantages.

A Multinational Enterprise (MNE)

One definition of MNE is provided by Dunning (1993a: 3): *"A multinational or transnational enterprise is an enterprise that is engaged in foreign investments (FDI) and owns or controls value-adding activities in more than one country"*. This definition is widely used by academics and organizations such as OECD and UNCTC. The degree of multinationality is also commonly discussed in the literature as a multi-factors phenomena. The degree of multinationality would then relate to such factors as: (1) number of foreign subsidiaries, (2) number of countries involved, (3) proportion of foreign to domestic assets, income, profits, employment, management etc. (4) internationalization of ownership, and (5) nature of competitive advantage

as it relates to international or global business. There is no internationally accepted norm for defining the degree of multinationality.

A MNE is in particular associated with FDI, although MNEs tend to use a variety of different market involvements. As proposed by the conceptual model, the choice of service mode vary according to the nature of the firm-specific advantages, locational characteristics of the host country, nature of transactions involved and the strategic objectives of the firm. Buckley and Casson (1985) have provided a typology of foreign market servicing modes, based on (1) equity or non-equity, (2) time limited or unlimited, (3) space limited, (4) extent of transfer of resources and rights and (5) internal versus external mode of transfer.

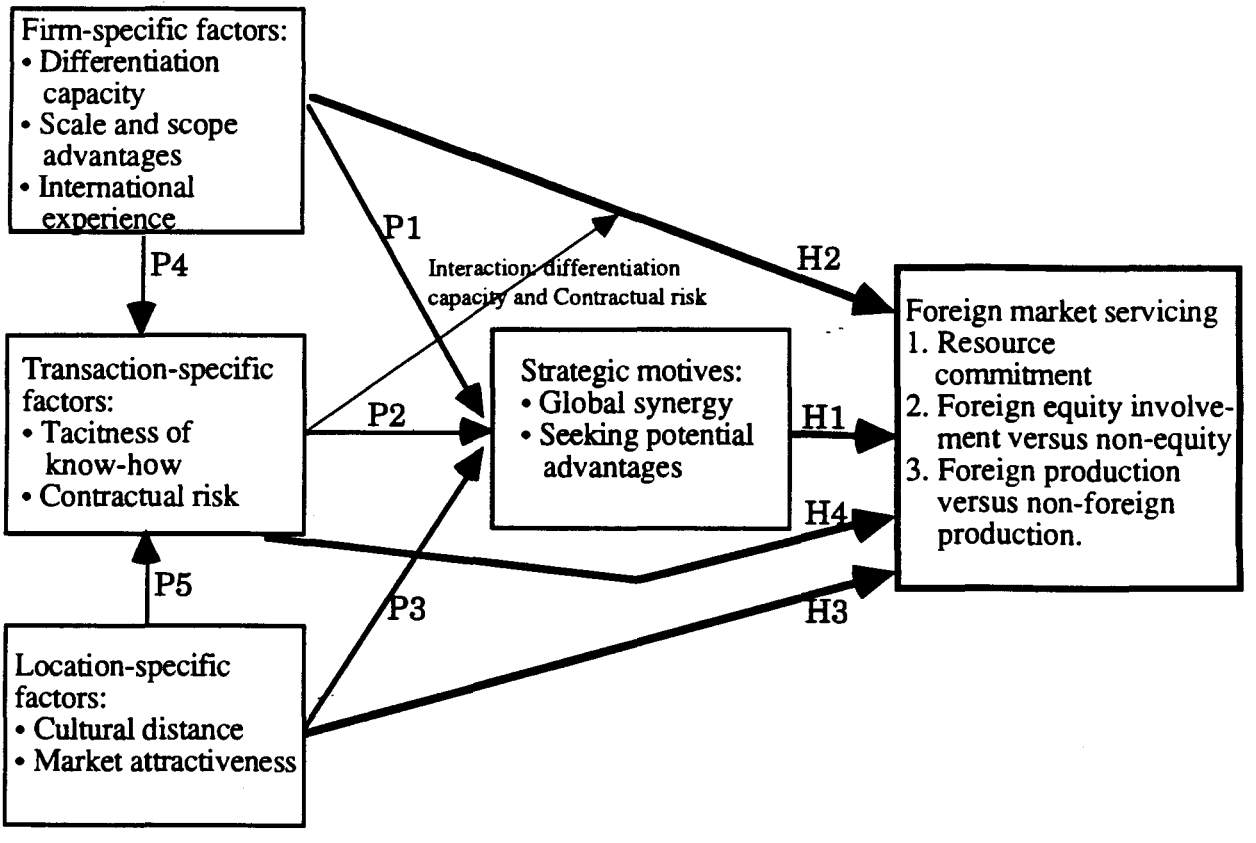
3.2. A Model of International Market Servicing

Buckley & Brooke (1992: 15) point out how *"motives, the process of direct investment and the entry strategy [mode] into a particular foreign market vary greatly according to the characteristics of the entrant firm, its past relationship to the market and the nature of the foreign market."* In our model of foreign market servicing we capitalize on the above quotation. We have included factors related to "motives" (strategic motives), "the process of direct investment" (particularly the transaction-specific factors), "characteristics of the entrant firm" (firm-specific factors), and "the nature of the foreign market" (location-specific factors). Each of these factors are part of our model of foreign market servicing. However, we have not fully incorporated what Buckley & Brooke describe as the "past relationship to the market", although "international experience" is included in the model. Our

model is limited by the fact that we only consider present contingencies, and we perform the empirical tests in a context of a cross-sectional study.

Figure 3.1 is an operationalization of the conceptual model initially presented in Figure 2.2. In this section we focus on the hypothesized relationships. The specific operationalizations are discussed later in Chapter 4. As pointed out previously (Chapter 2), this model is an attempt to incorporate independent variables explaining foreign market servicing. In Figure 3.1 the bold lines refer to the direct or main effects (H1-H4), which have direct effects on the choice of foreign market servicing. The thin lines represent the indirect effects (P1-P5). These effects only affect the dependent variables indirectly through intermediate variables. The dotted lines show the interaction effects, which indicate that there is a multiplicative relationship between the suggested factors. We have included the numbers for the main hypotheses (H1-H4) as well as propositions related to the indirect and interaction effects. We distinguish between hypotheses and propositions, because the later has a much weaker theoretical and empirical basis. We discuss these hypotheses and propositions extensively in this chapter.

Figure 3.1: Our model of foreign market servicing



The economic theory of internationalization centers on how present conditions, such as firm-specific advantages and transaction costs, affect the choice of international market servicing. The behavioral theory of internationalization is primarily concerned with factors associated with the past, such as firm-specific experience and established growth patterns. A combination of these two perspectives does not, however, provide a sufficient explanation for why companies choose a particular operational mode. By adding strategic motives we are able to consider factors associated with the future. Dunning (1993:a 93) points out how *"strategic management is essentially concerned with the ways in which managers act to achieve their* ***long-term objectives*** *[author's emphasis] in conditions of market failures".* A company might not have the firm-specific skills nor the international experience to justify an FDI, but it can still be appropriate to choose a

particular market servicing mode because of strategic considerations. Such an investment might be necessary in order to facilitate the creation of a future competitive advantage. Kim & Hwang (1992: 29) question the *"underlying assumption that each entry decision is made in isolation and is driven essentially by efficiency considerations at the level of the individual entrant or subsidiary unit."* Norsk Hydro's significant investments in the European fertilizer industry cannot sufficiently be explained with reference to economic and behavioral considerations (Nielsen & Randøy, 1992). The potential competitive advantages associated with the restructuring the fertilizer industry, which created international advantages of scale and scope, were a paramount strategic motive behind the billion (NOK) size investments during the early 1980s.

Dunning's eclectic paradigm (Dunning 1977, 1981, 1988, 1993a) is one important input for the conceptual model of international market servicing. However, using Dunning's framework creates some specific challenges for the empirical investigation. First, the paradigm is very comprehensive. Second, it covers multiple levels of analysis, and third, it does not incorporate strategic considerations[16]. Fourth, the relationships between the constructs is not explicitly modelled. In order to simplify the market servicing model we focus on the most important constructs. Unfortunately, Dunning does not make an attempt to summarize the eclectic paradigm in terms of a shorter list of constructs[17], as most of the factors are highly interrelated.

The proposed model (Figure 3.1) is naturally a simplification, as we are not attempting to cover all relevant aspects of international market servicing

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[16] An interesting critique of Dunning's eclectic paradigm is presented by Itaki (1991).

[17] A comprehensive overview of the factors associated with the eclectic paradigm is presented by Dunning (1993a: 81).

decisions. In the literature we focus on those theories and empirical findings that relate to the firm/divisions-level of analysis. Dunning (1990) points out how the eclectic paradigm does not address the importance of strategic or dynamic factors. By introducing global strategic variables, Kim & Hwang (1992) have successfully extended the previous framework of transactional and environmental factors, as pointed out by Anderson & Gatignon (1988). Kim & Hwang identified three global strategic variables: (1) global concentration, (2) global synergy and (3) global strategic motivation. We point out that only one of these strategic motives considered the strategic *motives*, as the others were concerned with global environmental factors. Kim & Hwang's survey examined 96 foreign entry launches by U.S. MNEs. Considering strategic motives is a natural adaptation of the strategic management theory to the theory of the international firm.

Agarwal & Ramaswami (1992) point out how a number of empirical studies have implicitly or explicitly used Dunning's eclectic framework in explaining the choice between joint venture and FDI (Kogut & Singh, 1983), licensing and FDI (Caves 1982; Davidson & McFetridge 1985), and extent of foreign direct investment (Cho 1980; Dunning 1980; Kimura 1989: Sabi 1988; Terpstra & Yu 1988; Yu & Ito 1988). The research of Agarwal & Ramaswami (1992) on 285 leasing firms supports the main predictions of Dunning's eclectic paradigm. Because the intention of this study is to capture the unique effects of strategic motives, these motives need to be put within a framework of other determinants. One common limitation of these studies is that the dependent variable is either based on one measure (extent of foreign production relative to total production) or is dichotomous, such as licensing versus FDI.

As shown by Figure 3.1, we use three measures for the dependent variable, namely, (1) foreign market resource commitment, (2) level of equity control, and (3) degree of foreign production. These measures are also more extensively discussed in Chapter 4. We use the two last measures, level of equity control and degree of foreign production, to define an FDI (see Table 1.1). A number of alternative classifications for the dependent variable are provided by previous research. The distinction between export (without ownership), FDI and licensing has been suggested by Buckley & Casson (1976). The international marketing literature has particularly discussed the issue of exporting, joint ventures and licensing (e.g. Anderson & Gatignon, 1986). The international business literature has centered on the MNE and the proportion of foreign over domestic production. Joint ventures, as another alternative to FDI, have emerged as an important class of market servicing during the 1980s (i.e. Kogut 1988, Contractor & Lorange 1988). However, in our sample we only have four majority owned joint ventures (we have classified these as FDI) and one minority joint venture (classified as a strategic alliance).

The empirical side of this study focuses on three underlying dimensions, or measures, of foreign market servicing, namely the *degree of control*, the *resource commitment*, and the level of *foreign production*. In most the stated hypotheses (H1-H4) we have specific predictions for *each* of these three dimensions of the dependent variables. However, for some of the hypotheses we are not able to make knowledgeable predictions for all three dimensions/measures. Kim & Hwang (1992) and Hill, Kim & Hwang (1990) discuss how each of these different market involvements varies according to the level of control (Clavet 1984; Caves 1982; Davidson 1982; Root 1987) and resource commitment (Vernon 1983). The level of control refers to the level of ownership, i.e., legal control over foreign production. By control we imply

that the foreign owner has authority over operational and strategic decision-making. FDI is the market servicing mode that provides the firm with the highest level of control. On the other hand exporting or licensing gives the firm little such ownership control. The level of foreign production is really a measure for the level of local value added activities. Since our sample only consists of manufacturing companies, such a measure captures where this important activity takes place.

The third operationalization of the dependent variable, the degree of foreign market resource commitment, reflects the actual resources the firm has allocated to one particular market. Resource commitment refers to the level of dedicated assets that cannot be transferred without loss of economic value. Anderson & Gatignon (1986) point out how FDI represents the typical high commitment and high control mode, whereas licensing is on the opposite end of the spectrum. Exporting is also associated with a low level of commitment and control. Joint venturing is positioned (dependent on the ownership share) between licensing and FDI. Strategic alliances commonly take the form of equity joint ventures, licensing agreements, or long-term co-operation. We calculate the country-specific resource commitment by having the divisional manager express the "extent of economic involvement in that particular country", the "exit costs if the division should pull out of this market", and whether "the division possess dedicated resources that are uniquely connected to the present mode of market servicing".

The literature has not extensively explored how companies might use a combination of different service modes in the same country, as suggested by e.g. Buckley, 1983; Davidson 1980. However, this is beyond the focus of this present study. The role of multinationals in international trade, as well as in investment, has recently received increased attention. A very significant

proportion of international trade does not take place with arms-length transactions (as assumed by the traditional trade theory), but through intra-firm trade (Gray, 1993). In 1982 as much as 45.2% of manufacturing imports to the U.S. went through intra-firm channels and as much as 34.3% of exports (Hipple, 1990). Recently, the UN (1993) estimated that about one-third of the world's trade took place within companies. We, therefore, find it interesting to use a scale of different levels of resource commitments, i.e., the resource commitment of a sales subsidiary tends to be between that of an FDI and export.

Hypotheses related to strategic motives

We identified seven distinct motives for FDI in Section 2.2. The proposed conceptual model only focuses on three motives that are specifically related to *strategic* considerations. The implicit assumption is that the other motives are rather synonymous with the firm-, location or transaction-related determinants. As pointed out earlier, we attempt to identify the most important strategic motives that are not fully captured by the other three sets of factors (location-, transaction- and firm-specific factors).

Our first hypothesis (H1a) links the strategic motive of "global synergy seeking", or "global integration", to two of our measures for the dependent variable, namely, resource commitment and equity involvement. We do not have any *a priori* predictions for the effect of our third measure for the dependent variable: choice of foreign production. Based on the responses from executives of U.S. MNEs, Kim & Hwang (1992) identified the significance of "global synergy seeking." An MNE that pursues global integration, and thus global organizational synergy, is motivated by factors

beyond the narrow calculus of country-by-country efficiency. This has been shown by a number of researchers (e.g. Edwards 1971; Watson 1982; Hout, Porter & Rudden 1982: Hamel & Prahalad 1985; Kim & Mauborgne 1988). Global strategic motivation can be based on factors such as positioning for future expansion, creating strategic options (Lessard, 1982), maintaining international oligopolistic competition, and utilizing international scale or scope advantages (Porter, 1986; Chandler, 1990; Bartlett and Ghoshal, 1989). Hedlund (1986) argues that the necessary country-level "sacrifices" for the benefit of the whole organization makes global advantages difficult to exploit without considerable ownership control, i.e. FDI.

Global or international synergy is based on the benefits of *"transnational integration resulting from specialization, interchange, and scale"* (Kobrin 1991: 17). We define these advantages as international scale and scope advantages, which are difficult to achieve without ownership control. The issue of foreign production is much less certain, as global integration often implies that the firm only produces in a small number of countries. Some of the synergies of international integration are enhanced innovation (multiple stimulus) or reduced costs (Baumol, Panzer & Willig 1982). Jones & Hill (1988) have also observed that the existence of organizational synergies increase a firm's commitment to a particular business unit. This indicates that given a possible advantage of integration/global synergy, a division would prefer a high commitment mode like FDI, involving a high degree of ownership.

> *H1a: Other things being equal, the higher the motivation for* ***global integration****, the more a division will favor a high foreign market resource commitment and equity involvement.*

The second hypothesis (H1b) address the relationship between the strategy of national adaptation and foreign market servicing. In an MNE national

adaptation refers to the activities, such as marketing, production, R&D etc., that are performed in each country and adapted to local contingencies (Jarillo and Martínez, 1990). The desire for national adaptation is motivated by factors such as differences in national factor markets, distributive patterns, political regimes (i.e., government and business interaction), and local consumer preferences, etc.. In a similar fashion Porter (1986) refers to how the firm should configure activities across countries in a context of an industry. Bartlett and Ghoshal's (1989) discussion of responsiveness/differentiation focuses on the overall organizational strategy of the MNE. In line with Jarillo and Martínez (1990), we are also focusing on the country-specific strategy of serving a particular market, i.e. the subsidiary level. We argue that hierarchical control (FDI or sales subsidiary) is a costly and unfavorable means to develop and exploit such a strategic objective. Hout *et al.*(1982) and Hill, Kim & Hwang (1990) also suggest that a multi-domestic strategy, i.e., one focusing on national adaptation, does not favor the use of a high control/high commitment mode, such as FDI. In line with the above arguments, we propose that a strategy of national adaptation also favors local production in a foreign market. We argue that locally controlled companies are more knowledgeable, and thus better implementors of an adaptation strategy.

> *H1b: Other thing being equal, the higher the motivation for* ***national adaptation****, the more a division will* ***favor a low degree*** *of foreign market resource commitment, non-equity involvement, and disfavor foreign production.*

Our next hypothesis (H1c) links the concept of "advantage seeking" (related to process and product technology) to our three measures for the dependent variable "foreign market servicing". Our use of "advantage seeking investments" concerns involvement where the purpose of the foreign market involvement is specifically to seek product and/or process technology. Porter

(1990) emphasizes how domestic rivalry, advanced factor input, demanding customers, and strong supporting industries facilitate the creating of internationally competitive firms. However, Porter's "diamond" framework does not properly recognize how MNEs affect cross-country transfers of capabilities and resources (Dunning, 1990). McClain (1986) identified how a number of European investments in the United States were carried out in order to expose European firms to the innovative stimuli of the U.S. market (i.e., strong rivalry and demanding customers). These arguments imply that a considerable equity position and foreign production were prerequisites for a successful knowledge transfer. The whole logic of making an FDI in order to *seek* complementary competitive advantages, rather then merely utilizing such an advantage, is totally contrary to the traditional explanations based on the industrial organization or internalization perspectives. Our third hypothesis captures this point. One such Norwegian example is the acquisition of the Silicon Valley-based Salutar Inc. by Hafslund Nycomed. This investment provided the company with a complementary technology that could lead to economies of scope.

> *H1c: Other things being equal, the higher the motivation for strategic* ***advantage seeking****, the more a division will favor an extensive foreign market resource commitment, equity involvement, and foreign production.*

Hypotheses related to firm-specific factors

Dunning's (1977, 1981, 1988, 1993a, 1993b) eclectic paradigm emphasizes the importance of firm- or owner-specific advantages. He argues that a firm must possess superior assets and/or skills that can earn economic rents to counter the disadvantages of servicing a *particular* foreign market. This

issue is being particularly discussed in relation to the market power perspective. If a company has the skills and assets to develop differentiated products, then sharing these resources through market transactions may convey a significant risk. This risk is often increased in a cross-border setting as the interorganizational infrastructure of international business is often less developed and more prone to frequent changes (Van de Ven & Poole, 1989). These factors make it advantageous to use a foreign market servicing mode with a high degree of ownership control.

Dunning´s firm-specific advantages capitalize particularly on industrial organization theory, dating back to the work of Hymer (1960). With reference to this perspective, FDI is primarily undertaken to exploit product or factor market imperfections. We distinguish between those firm-specific advantages that are based on differentiation (hypothesis H2a), scale and scope economies (hypothesis H2b), and international experience (hypothesis H2c).

A number of studies have identified the association between FDI and a high level of product differentiation (Anderson & Coughlan 1987; Caves 1982; Davidson, 1982). Most of these studies have used research and development, or advertising expenditures, as proxies for the ability to develop differentiated products. The advantages of differentiation can be created in any part of the firm´s value-chain, thus suggesting that the owner need to keep control over production, as well as marketing and research. In this study we use top management's self-reported assessment of their ability to produce differentiation products. Hypothesis H2a is tested in relation to "international brand name recognition" and "strength of the distribution system".

*H2a: Other things being equal, the higher the **differentiation capacity**, the more a division will favor a foreign market involvement with a high degree of resource commitment and equity involvement.*

A number of studies built on the market power (industrial organization) perspective has discussed the role of international oligopolistic competition on the choice of foreign market servicing (Knickerbocker, 1973; Calvet, 1981). MNEs are often most transparent in industries where a small number of competitors challenge each other in a number of markets. Our research on the international strategic behavior of Aker´s cement activities suggests such an example.

In Dunning´s eclectic framework, the benefit of having multinational experience is a distinct firm-specific advantage. International or global integration, as opposed to the mere cross-border co-ordination of similar activities, implies rationalization by standardizing products, centralizing research and development, or the vertical or horizontal integration of production. A number of empirical studies have used size as a proxy for scale or scope advantages. Empirical evidence indicates that firm size has an positive impact on the use of FDI (Buckley & Casson 1976; Cho 1985; Caves & Mehra 1986; Kimura 1989; Terpstra & Yu 1988; Yu & Ito 1988). The argument is that the foreign firm needs to overcome the disadvantages associated with its foreign origin, such that it needs scale advantages to absorb the higher cost of marketing, as well as costs associated with enforcing patents and contracts.

*H2b: Other things being equal, the more a division/firm **possess international scale and scope advantages**, the more it will favor high foreign market resource commitment, equity involvement, and foreign production.*

Firm-specific international experience has been shown to influence entry mode choices, particularly as discussed by the internationalization process perspective (e.g. Johanson & Vahlne, 1991). Dunning includes international experience as a firm-specific advantage. Davidson (1980) and Agarwal & Ramaswami (1992) point out how firms with limited international experience tend to overstate risk, while understating the potential returns of operating abroad. Typically, the less experienced company prefers low control modes such as exporting. When the firm gains more international experience, it tends to move towards more direct investments (Bilkey, 1978). According to Hill *et al* (1990) and Anderson & Gatignon´s (1986) the internationally inexperienced firm has a lower ability to estimate risk and return related to foreign market involvement. The outcome is than that firms with little experience have less of a desire to commit resources (including production) and gain ownership control in foreign markets.

> *H2c: Other things being equal, the greater the* ***international experience****, the more a division will favor a high foreign market resource commitment, equity involvement, and foreign production.*

Hypotheses related to location-specific factors

According to the normative theory, the MNE is expected to minimize risk and maximize return on international investments. This implies that attractive markets are better served with market involvements with a high degree of control (i.e., FDI).

The market power perspective focuses on how the international market involvement is effected by the national and international market structure. However, the internationalization process perspective focuses on the effects from organizational learning and assessment of risk. The internalization

theory considers such location-specific factors as national demand, uncertainty, and opportunism in relation to a specific market.

The literature suggests that a number of location-specific or environmentally derived variables affect choice of foreign market servicing. Hofstede (1980) points out how national differences in culture, taste, and literacy requires the MNE to make costly adaptations. The larger the differences the more costly is the needed adaptation. However, diversity might also be a source of innovation. In modelling choice of foreign market entry Kim & Hwang (1992) used the location variables: demand uncertainty, competition intensity, location unfamiliarity, and country risk. Agarwal & Ramaswami (1992) focused on two location-related variables:, market potential and investment risk, in order to model foreign market entry. We limit our analysis to two location-specific concepts: location familiarity and market attractiveness. The "location familiarity" variable concerns the firm´s ability manage a specific cultural diversity (between home and host country). The "market attractiveness" concerns a whole set of national factors that might potentially effect the choice of foreign market servicing.

We measure location familiarity as the perceived differences between home and host country business practices, political economic systems, employee relations, management styles, and work ethics. A number of previous studies have argued that an unfamiliar environment would disfavor FDI (e.g. Anderson & Coughlan, 1987; Kobrin, 1983; Kogut & Singh, 1988; Johanson & Vahlne, 1977). Most of these studies have capitalized on Hofstede´s (1980) conceptual research on cultural similarities. Hill, Kim & Hwang (1990) argue that not knowing or being uncomfortable with a host environment makes executives unwilling to make extensive commitments, such as foreign production. According to Root (1987), a long cultural distance creates

information needs and thus greater costs. Hill *et al* (1990) explicitly points out how MNEs are more inclined to use non-equity involvements in culturally distant locations.

H3a: Other things being equal, the more a location (country) being served is ***unfamiliar****, the more a division will favor a low degree of foreign market resource commitment, non-equity involvement, and disfavor foreign production.*

Market attractiveness, commonly operationalized as the size and growth of a foreign market, has been found to be an important determinant of FDI (e.g. Terpstra & Yu 1986). In attractive markets FDI is expected to provide the greatest potential for long-term profit. One reason for this effect is that managers perceive contracts (i.e. export contracts or licensing agreements) to have a shorter time-horizon then an FDI. Kim & Hwang (1992) identified how the intensity of competition apparently did not have a significant effect on choice of entry mode.

Harrigan (1985a, 1985b) argues that the characteristics of the competitive situation has an impact on possible desire for vertical integration, i.e. an FDI involvement. Vertical integration provides the firm with greater strategic flexibility in a situation of contractual risk. We expect that attractive markets enhance the desire for a higher commitment of resources in foreign markets. We can see how this effects the desire for equity control, however, we do not see how this can enhance foreign production.

H3b: Other things being equal, the higher the ***attractiveness of a foreign market****, the more a division will favor a high foreign market resource commitment, equity involvement, and foreign production.*

Hypotheses related to transaction-specific factors

In this section we specifically look at how transaction costs affect the choice of foreign market servicing. Previous research suggests that there are two sources of transaction costs related to foreign market involvement (Hill, Hwang and Hill, 1990; and Kim and Hwang, 1992). First, there is the loss of economic value due to the mere tacit nature of the know-how being transferred (H4a). Second, transaction costs occur because of the costs related to drafting, negotiating, monitoring, and enforcing contracts with a possibly opportunistic counterpart (H4b). The first kind of transaction cost occurs irrespective of the existence of opportunism, whereas the second kind attempts to measure the effect of opportunism.

For hypothesis H4a we are focusing on the effect from tacit knowledge of the firm on choice of foreign market involvement. We are capitalizing on the resource-based perspective of strategic management, also referred to as the evolutionary theory of the firm (e.g. Nelson & Winter, 1982). This perspective specifically looks for the "core competencies" of the corporation (Prahalad & Doz, 1990). The effect of tacit know-how on entry mode and market servicing decisions has been tested by Kim & Hwang (1992) and Kogut & Zander (1993), respectively. Both verified the importance of this factor. Kogut & Zander point out that *"it is the difference in knowledge and the embedded capabilities between the creator and the users (possessed with complementary skills) which determine the firm boundary, not market failure itself"* (1993: 631). They question the assumption that the main function of a firm is merely to internalize markets, as assumed by internalization and transaction cost theory. We expect that the tacitness of know-how being transferred, would first of all enhance the use of equity-based service modes (FDI), as the transfer costs in an open market become

too large. Furthermore, this would also encourage the firm to increase its resource commitment. Our *a priori* hypothesis related to foreign production and the tacitness of know-how is that such production enhances the advantages of vertical control. Our hypothesis is formulated retrospectively, since we are concerned about the effect of tacit know-how on the most recent change in market servicing in that particular market.

> *H4a: Other things being equal, the greater the* ***tacitness*** *of a division's resources at the time of the most recent change in market servicing, the more a division will favor a high foreign market resource commitment, equity involvement, and foreign production.*

Our last hypothesis concerns the effect from contractual *risk* on choice of foreign market servicing mode, whereas our previous hypothesis (H4a) considered the complexity or difficulty of transferring resources and capabilities. Williamson (1985) points out how low-control market involvements (export or licensing) can reap the benefits of scale economies of the marketplace. The marketplace operates without the bureaucratic cost of hierarchies. This implies that with negligible asset specificity a company can achieve economies of scale without integration. According to the transaction cost theory (Coase, 1937) internalization only becomes an option where markets fail to provide the appropriate signal to the transactional parties. These market distortions occur when markets are not able to predict future contingencies (problem of bounded rationality/external uncertainty) or cannot provide market participants with alternative transactions (small number bargaining/ opportunism).

Transaction costs are often hard to measure and estimate (Buckley, 1988). Therefore, researchers have recommended the use of contractual risk associated with sharing the firm's assets and skills (Dunning, 1980).

Focusing on the risk of transferring skills and assets is consistent with the transaction cost considerations of the resource-based perspective of strategy (Hill & Kim 1988).

Davidson & McFetridge's (1985) study looked at how asset specificity affected intra-firm and market transactions in 32 U.S. MNEs during the period of 1945-1978. They found that newer and more advanced technology was more commonly transferred internally. These findings support the appropriateness of using transaction cost considerations in FDI theory. Gatignon & Anderson (1988) used data from the 180 largest US MNEs to test the effect of transaction costs on the degree of vertical integration. The study found support for a significantly positive relationship between the proprietary products and processes, and the degree of vertical control. This suggest that there is a positive relationship between contractual risk, a natural consequence of proprietary products and processes, and foreign production.

> *H4b: Other things being equal, the **higher the contractual risk** of sharing a division's resources, the more a division will **favor** a high foreign market resource commitment, equity involvement, and foreign production.*

In this section we have discussed hypotheses related to strategic motives (H1a-c), firm-specific factors (H2a-c), location-specific factors (H3a-b), and transaction-specific factors (H4a-b). Table 3.1 shows which direct, or main, effects that favor/disfavor a high foreign market resource commitment, favor/disfavor equity involvement, and favor/disfavor foreign production. We also point out which theoretical perspective these hypotheses are being built on.

Table 3.1: Summary of hypothesized direct effects on foreign market servicing.

	Favors a high degree of resource commitment	Favors equity involve-ment	Favors foreign production	Capitalizes on the theoretical perspectives of:
Strategic motives				
H1a: Seeking global synergy	+	+	no hypothesis	Resource-based perspective on strategy
H1b: Seeking localization	-	-	-	Resource-based perspective on strategy , networks
H1c: Seeking potential advantages	+	+	+	Networks, resource-based perspective on strategy
Firm-specific factors				
H2a: Differentiation capacity	+	+	+	Market power, internalization
H2b: Scale and scope advantages	+	+	+	Market power, network
H2c: International experience	+	+	+	Network, internationalization process
Location-specific factors				
H3a: Perceived cultural distance	-	-	-	Network, internationalization process
H3b: High market attractiveness	+	+	no hypothesis	Market power, internationalization process
Transaction-specific factors				
H4a: High degree of tacitness of know-how	+	+	+	Resource-based perspective on strategy
H4b: Low contractual risk	-	-	-	Internalization

3.3. An Explorative Analysis of Indirect and Interaction Effects

Figure 3.1 shows how we have modelled choice of foreign market servicing as a function of both direct effects, indirect effects, and an interaction effect. Since these indirect effects (P1-P5 in Figure 3.1) have hardly been tested in previous empirical research, we present these expected effects as propositions (instead of formal hypotheses). There are two main reasons why we have included these propositions into the model. First, past theorizing on foreign market involvement suggest that such effects can be expected (e.g. Dunning, 1993). Second, having a contingency perspective on strategy suggests that both the macro- (location factors) and the micro-environment

(firm-specific and transaction-specific factors) can affect the formation of the strategic motives. To including these indirect effects in the model is therefore necessary in order to make the model more complete. Due to our weak theoretical basis, the specific discussion of individual effects is mostly an *explorative* process. We have summarized our propositions in Table 3.2-3.5.

In line with Reve´s (1990) use of agency theory and transaction cost theory, we are considering how the boundary of the firm is a function of both internal contracts (with employees) and external contracts (with suppliers, customers). We consider three effects (P1, P2, P3) that affects the formation of firm´s strategic motives. We are testing these three indirect effects in relation to two different strategic motives, namely, "seeking global synergy" (Table 3.2) and "seeking potential advantages" (Table 3.3). In our discussing of indirect effects we use the same factors as in the previous section, however, now we relate these factors to the intermediate factors of strategic motives and transaction-specific factors.

Table 3.2: Proposed indirect effects on the strategic motive of "seeking global synergy".

	Proposed effect
P1a I: Differentiation capacity	+
P1a II: Scale and scope advantages	-
P1a III International experience	+
P2a I: High degree of tacitness of know-how	?
P2a II: Low contractual risk	+
P3a I: Perceived cultural distance	+
P3a II: High market attractiveness	?

In this paragraph we consider the relationships affecting the strategic motive of "seeking global synergy". This implies a high degree of global integration. However, this is not an attempt to produce a complete model of the formation of strategic motives. Examples of influential factors outside our model are the firm´s past strategy and the historic configuration of the

firm's resources and capabilities. We propose that the strategic motive of "seeking global synergy" is positively effected by "differentiation capacity" (P1a I), as utilization of such an advantage supports the pursuit of a global integrated strategy. We also argue that "scale and scope advantages" related to a particular market would limit the desire for an integrated global strategy (P1a II), as this might erode the existing scale and scope advantages. "International experience" creates an incentive to exploit international integration (P1a III), seeking global synergy might be one way of achieving this. We expect the "perceived cultural distance" to affect positively global synergy seeking (P3a I), as a familiar environment provides more opportunities for exploring global synergy. A high "contractual risk" related to conducting business in a particular foreign market can make it more advantageous to pursue a strategy of integration (P2a II), since it is difficult to achieve an arms-length price for firm-specific competitive advantages. We have no predetermined propositions for the effects of "market attractiveness" (P3a II) and the "tacitness of know-how" (P2a I).

Table 3.3: Proposed indirect effects on the strategic motive of "seeking potential advantages".

	Proposed effect
P1b I: Differentiation capacity	+
P1b II: Scale and scope advantages	-
P1b III International experience	+
P2b I: High degree of tacitness of know-how	?
P2b II: Contractual risk	+
P3b I: Perceived cultural distance	+
P3b II: High market attractiveness	?

In this paragraph we consider how indirect effects influence the strategic motive of "seeking potential advantages", which specifically considers the potential advantages of process and product technology. Our use of "seeking potential advantages" relates to the firm/division's pursuit for resources and capabilities in process and product technology. We propose that

"differentiation capacity" can have a positive effect on the motivation to search for potential advantages or resources (P1b I). Our definition of differentiation capacity is related to marketing and distribution capabilities. Acquisition of new resources in process or product technology might be particularly advantageous for firms that already possess distribution and/or marketing resources. We expect that the existence of established "scale and scope advantages", might limit potential returns from acquiring new strategic resources in product or process technology (P1b II). We expect that firms with considerable international experience can utilize new resources or capabilities more efficiently than inexperienced firms (P1b III). To seek potential advantages in foreign process or product technology would therefore be more profitable for the experienced firm. We expect that firms are more keen on acquiring new resources in a culturally familiar environment, as this will simplify the absorption of these new capabilities (P3b I). A low level of perceived contractual risk related to conducting business in a specific foreign market might enhance the desire to acquire resources in that market (P2b II). It should be no surprise that the total cost of acquiring new resources is affected by the perceived contractual costs of a specific market. We do not have any specific propositions related to market attractiveness (P3b II) and the "tacitness of know-how" (P2b I).

Table 3.4: Proposed indirect effects on the transaction-specific factor of "tacitness of know-how".

	Proposed effect
P4a I: Differentiation capacity	+
P4a II: Scale and scope advantages	-
P4a III International experience	-
P5a I: Perceived cultural distance	-
P5a II: High market attractiveness	?

By adapting a contingency approach, we are looking at how the transaction-specific factors are formed by internal conditions (firm-specific), and external

conditions (location-specific factors). Proposition P4 and P5 specifically consider these two effects, which are tested in relation to our two transaction-specific factors (see Table 3.4 and 3.5). These two relationships are really the left part of our conceptual model (Figure 2.2). As pointed out previously, we have used Dunning´s eclectic paradigm as the basis for this part of the model. Even though Dunning´s framework has been used as a basis for empirical testing, these tests have not looked at the indirect effects within his model. Now we attempt to discuss some of these relationships. We expect that "differentiation capacity" increases the firm´s invisible resources, such that a positive effect on the "tacitness of know-how" can be expected (P4a I). We presume that "the tacitness of know-how" is negatively effected by "scale and scope advantages" (P4a II). We expect this effect because these advantages tend to be rather easy to transfer within the firm but difficult to transfer between firms. We also expect that "international experience" reduces the "tacitness of know-how" (P4a III), as it makes transfers more achievable. However, this effect is somewhat uncertain as it does not imply whether the firm´s know-how is tacit. A short "perceived cultural distance" to a foreign market makes resources transfers relatively more easy, i.e. we expect a negative relationship between the cultural distance and the tacitness of know-how (P5a I). We do not have any *a prior* proposition related to "market attractiveness" (P5a II).

Table 3.5: Proposed indirect effects on the transaction-specific factor of "contractual risk".

	Proposed effect
P4b I: Differentiation capacity	-
P4b II: Scale and scope advantages	-
P4b III International experience	-
P5b I: Perceived cultural distance	-
P5b II: High market attractiveness	?

The effect of firm-specific (P4) and location-specific factors (P5) on the transaction-specific factor of "contractual risk" may be as follows. We expect that firms with a strong competitive advantage is able to reduce the contractual risk (P4a I, II & III) related to a foreign market involvement. Based on the existence of a strong brand name and/or a competitive distributions system. This "differentiation capacity" might reduce the risk associated with identifying good foreign contractual partners (P4b I). We also anticipate that "international experience" can reduce contract related risk (P4b III), as well as boost the advantages from existing economies of "scale and scope" (P4b II). We clearly expect that the longer the "cultural distance" the higher the level of contractual risk. We do not have any predictions related to "market attractiveness".

Agarwal & Ramaswami (1992) explicitly made empirical tests of the interaction between the determinants within Dunning´s eclectic framework. They looked at the mode by which 97 U.S. leasing firms penetrated various foreign markets. This study gave support to the main effects (firm-, location- and transaction-related factors from Dunning´s framework), as well as a number of interaction effects. Because we only have two of Agarwal & Ramaswami´s constructs in our model, we are limited to test the interaction effect of differentiation capacity on contractual risk. In line with Agarwal & Ramaswami´s findings we expect that a combination of high contractual risk and high differentiation capacity enhances the use of FDI, or other foreign market servicing modes with a high degree of resource commitment.

3.4. Conclusion

This chapter has taken the proposed independent variables, derived from the theoretical perspectives discussed in Chapter two, and placed these variables within a model of market servicing (Figure 3.1). We have also discussed how this model of foreign market involvement need to consider direct, indirect, and interaction effects. The specific hypotheses derived from this model are then discussed in this chapter, and summarized in Table 3.1. In addition we have also performed an explorative analysis of indirect effect, as proposed in Table 3.2-3.5.

4. Research Design and Methodology

4.1. Design

The main challenge for our research design is to be able to test the model being presented and developed in Chapter 3. We want to test the formulated hypotheses and explore the presented propositions. In the following we address why we choose a cross-sectional design with the division as the unit of analysis. We will also discuss the sampling method and the development of the survey instrument.

A considerable research effort has been performed on issues related to FDI, MNE, and international market servicing. However, a number of both competing and complementary theories exists. This supports a rather structured research approach. Our three case-studies were used to validate the relevance of past theory, and to identify strategic motives as proposed by previous studies. An extensive research design is most attractive, since external validity is of major concern at the present stage of research. The chosen research setting reflects a trade-off between the need for a somewhat homogeneous sample, in order to isolate alternative explanations to the variations in the dependent variable, and a search for generalizable explanations. The fact that this study use data from a different country than previous studies, adds further validity to the empirical results. All of our analyzed divisions are in the manufacturing sector, and *from* one country. These limitations have, however, not been considered a significant limitation of prior research.

We attempt to reduce the limitations of a purely cross-sectional design by combining a cross-sectional design with some longitudinal design elements. An "ideal" design for the research issue at hand would be a time-series study (as recently suggested by Melin, 1992), but such a design was rejected due to the time and resource limitations. Our research design includes measures related to the accumulated "international experience" (independent variable H2c), the potential advantages of "strategic motives" (H1a, b and c), and the transaction cost trade-off related to the most recent choice of market servicing (H4a).

This study focuses on four sets of independent variables: location-specific (environmental), firm-specific, transaction-specific and strategic motives. Some of the concepts outlined in the conceptual model are rather new (such as the strategic motives), whereas some have been operationalized in a number of earlier studies (particularly firm-specific, and location-specific). An important challenge for this study is to further specify concepts related to transaction-specific factors and strategic motives. Construct validity is, therefore, also a major concern in this study.

4.2. Unit of Analysis and Data

The data consist of three case-studies and a survey of the divisions of the largest 50 Norwegian exporters. The unit of analysis is the division's market involvement in seven selected countries. By limiting the study to the "largest" manufacturing exporting companies (median sales of NOK 788 million in 1992), we achieve a somewhat homogeneous sample. Since Norway is a relatively small economy, the 50 largest exporters represent a very large share of the nation's export and FDI. The total export of the

divisions in the sample is NOK 102,848 million (1992), which compares to the aggregate export (in 1991) in these industries of NOK 201,476 million (Norges Bank, 1993). In terms of the value of export, the sample covers 52% of the export of oil-related products, and 48% of the value of manufacturing goods[18]. In terms of FDI the total book value of foreign subsidiaries in our sample amounts to NOK 38,511 million as of the end of 1992. There are a couple of missing values for this variable, so the real number is somewhat higher. This amount of FDI compares with the total FDI number from Norway of NOK 81,500 million as of the end of 1992 (Special data provided by Norges Bank). This suggests that the analyzed divisions/firms covers approximately 47% of the value of all Norwegian FDIs. Since the response rate is 45%, this suggests that there is only a moderate response bias towards firm's with FDI.

Table 4.1: Main market servicing mode in different counties in our sample.

	Strategic alliances	Export	Sales subsidiary	FDI	TOTAL
Sweden	0	7	7	10	24
Germany	1	11	9	4	25
United Kingdom	1	8	10	10	29
Spain	1	6	3	2	12
Poland	2	3	4	0	9
Japan	6	2	2	0	10
United States	2	4	5	9	20
TOTAL	13	41	40	35	129

[18] The numbers are not directly compatible as the national number only covers physical export from Norway, but the division-based number covers both physical export and sales from foreign subsidiaries.

As shown by Table 4.1, we are dividing the 129 foreign market involvements into four groups: (1) 13 cases of various kinds of strategic alliances (minority joint ventures, licensing etc.) (2) direct export without ownership involvement, (3) sales subsidiaries with ownership (at least 10%), and (4) FDI (includes also four cases of majority joint ventures). The strategic alliances category consists of seven cases of licensing, one case of minority joint venture, and four cases of long-term co-operation.

We are considering foreign market servicing modes in both similar and dissimilar countries as compared to Norway. In the analysis, each independent variable relates to a division's activities with reference to a specific country. This has produced a considerable variation among the independent variables. Our sample of 129 foreign market involvements consists of: 24 from Sweden, 25 from Germany, 29 from the United Kingdom, 12 from Spain, 9 from Poland, 10 from Japan, and 20 from the United States.

The use of one key informant from each division is, of course, a limitation of this study. However, by using highly knowledgeable informants, we can overcome some of these problems (John, 1984). Furthermore, Huber and Power (1985) argue that using a single respondent significantly increases the motivation of the respondent. Our pretest of the questionnaire showed how important it was to address the questions to the CEO/president or another person who is part of the top management team. 48% of our responses came from CEO/Presidents, and 84% of the respondents were explicitly part of the top-management team. The average respondents had as much as 14 years with the present company, which adds reliability to the responses.

Table 4.2: Relationship between outward stock of Norwegian FDI (10% or more ownership) at the end of 1992 and the 1992 export to Norway's major export markets.

	FDI: Billion NOK	Export : Billion NOK	Ratio of FDI/ Export
Denmark:	12.7	11.9	1.06
Sweden	11.0	20.4	0.54
UK	8.5	52.9	0.16
Germany	7.9	28.7	0.28
Netherlands	8.1	16.0	0.51
USA	12.5	11.0	1.14
France	3.2*	16.8	0.19
Finland	1.4	5.6	0.24

Source: Special figures provided Norges Bank and Statistical Yearbook of Norway 1994.

* 1991 Figures.

The respondents were asked to reply to our research questionnaire in relation to their involvement in seven selected markets. The markets that we consider are Sweden, the United Kingdom, Germany, Spain, the USA, Poland, and Japan. The reason for this particular selection of countries was partly based on our *a priori* knowledge. For one, the relative intensity of FDI to export vary among these countries (see Table 4.2). This is important in order to have some variation in the dependent variable. We included culturally distant countries to address the effect of cultural unfamiliarity, even though we know that the total stock of Norwegian FDI in these countries is rather limited (Japan, Spain, and Poland). We also choose to include the emerging Polish market that is presently low in terms of both FDI and export, but where some Norwegian businesses see a considerable potential for future market development.

Column two in Table 4.3 shows the considerable variation of the independent variable "cultural distance" (CD). One of the independent variables in our study, "cultural distance", may be compared to a rather similar Swedish study. We contrast Nordström's (1991) research on the perceived cultural distance of Swedish managers to the one of Norwegian managers, since the

cultural distance between Norway and Sweden is quite small. As shown by Table 4.3, the perceived cultural distance in our sample is very consistent with Nordström's research, conducted in 1989. (The Spearman rank correlation of the two measures is 1.0).

Table 4.3. Cultural distance between Norway and seven countries.

	Index of cultural distance from *Sweden*: Nordström 1991	This study: Cultural distance from *Norway*, scale: dissimilar (1) to similar (5)
Difference Norway-Sweden	0.5	4.48
The United Kingdom	14.8	3.38
Germany (West)	17.7	3.19
USA	25.3	2.95
Spain	38.2	2.41
Poland	n.a.	1.94
Japan	59.5	1.85

Source: Nordström, K.A. 1991. The internationalizaton process of the firm - searching for new patterns and explanations. Stockholm School of Economics: Stockholm, page. 116

We choose to use data from all manufacturing industries in order to find a setting that increased the variation of the independent variables. Examples of the variation in the sample are the number of foreign subsidiaries, which range from 0 to 29 (with a median of 10), the total sales from the divisions, which range from NOK 47 million to NOK 58,126 million (median NOK 788 million), and the foreign revenues of these divisions, which range from a low of 3% to a high of 100% (mean 77%).

This research is limited to the divisions of non-financial companies incorporated in Norway, whose main activity in Norway is in manufacturing. The companies in questions are at least 50% Norwegian owned, or otherwise they could rather be described as a foreign FDI. The average foreign ownership share in this sample is 16%. We are only including divisions of companies that are among the 50 largest exporters from Norway. The export

number also includes sales from subsidiaries abroad, such that it does not favor FDI over export. We are only considering "larger" companies for two reasons. First, the phenomena of FDI is particularly related to large size companies. In 1989 the 15 largest Norwegian companies controlled approximately 65% of all FDI from Norway (Hansen & Wamli 1991). Second, most of the theories on the issue have been built on empirical evidence from large or medium size companies. In an international context, the Norwegian large companies are rather small.

4.3. Sampling and Data Collection

We use the division as the sampling unit. The list was provided by the Norwegian Export Council. This list is, however, of exporting companies, and not of exporting divisions. We attempt to address the *population* of divisions of the larger Norwegian manufacturing companies. Because of the non-responses, however, we still have to analyze the data as a sample.

A total of 120 divisions were identified by studying the annual reports of the selected 50 exporting companies or concerns. However, the population was actually 80 divisions, since some of the divisions had no or negligible international activities in any of the seven countries, or had less than 50% Norwegian ownership. The initial mailout in January 1994 was complemented by one phone and one fax follow-up in March and April of 1994. The initial response rate of 38%, and with the follow-up we achieved a 45% response rate. The 36 respondents represent 156 market involvements, or 4.3 market involvements for each division. Because of incomplete answers we could only benefit from 129 of these observations, and thus ended with using answers from 33 divisions/firms, or 3.9 market involvements per

division. 8% of the non-respondents explicitly expressed that their no-response was based on the comprehensiveness of the questionnaire and another 8% of the questionnaires was returned due the respondents lack of time. Of our 129 analyzed foreign market involvements, 29 were made by single division firms (7 firms), and the remaining by divisions in multi-divisional firms (26 divisions).

Table 4.4: Characteristics of the sample

	Our sample, divisions of the 50 largest exporting companies in Norway: collected Jan-Apr.94	Carelius (1993) Survey among the 416 largest exporting companies in Norway: collected Dec. 1992.
Average concern sales NOK 1992	NOK 12,901 million (median=3072)	NOK 882 million
Average divisional sales, 1992	NOK 5296 million (median=788)	
Divisional profitability 1992	NOK 32 million (median=18)	
Average foreign sales as % of total sales	77%	61%
Average number of foreign subsidiaries	14 (median=10)	
Average number of countries with foreign subsidiaries	10 (median=5)	
Share of business unit's assets abroad	40%	
Share of employment abroad	46%	
Average foreign ownership of concern	13%	

Of the sample of 129 foreign market involvements, 98 are from the initial response, 8 are from the second follow-up, and 23 are from the last follow-up. We performed multiple *t*-tests in order to determine whether or not there are systematic non-response errors between the initial responses and the later responses. We tested for systematic biases in the independent variables and in the two measures of the dependent variable. We also tested for possible

firm-level characteristic differences, such as firm-size, research and development expenditure, profitability, share of foreign employment, number of foreign subsidiaries, number of countries served, proportion of assets abroad, and share of revenues from abroad. Since we did as many as 20 significance tests related to possible non-response biases, we used $p>0.01$ as the cut-off point, in order to guard against false significance. With the only exception of R&D expenditure, there is no significant difference between the first 98 respondents and the subsequent 31 respondents (at the $p<0.01$ level). The average R&D expenditure of the late respondents was 35 Mill. NOK , whereas the initial respondents average R&D expenditure was 53 Mill. NOK. There is no significant ($p<0.01$) difference between the initial and the later respondents on the three measures of the dependent variable. For the independent variables none of the differences between these two groups are significant at $p<0.01$. These tests suggest that we do not have any apparent non-response problems.

4.4. Operationalization

We conducted five preliminary tests of the questionnaire (see appendix) to check the face validity of the operationalizations. Another important step was to take full advantage of existing studies, both in terms of theoretical predictions *and* as this relates to construct operationalization.

The key independent variables believed to influence the market servicing mode (as stated in hypotheses: H1-H4), are latent in that they are linked to the empirical world only through indicators. As these variables appear to be multifaceted constructs, the use of multi-item proxies is warranted (Peter, 1979, Churchill, 1979) . Previous research (such as Anderson & Coughlan

1987; Agarwal & Ramaswami 1992; Davidson & McFetridge 1985; Gatignon & Anderson 1988; Haugland, 1991; Nygaard 1992; Kim & Hwang 1992) provided important direction in developing indicators for the multi-item concepts. Development of scales was performed in accordance with ordinary psychometric techniques (Nunnally 1978). Each indicator was then treated as a separate independent variable in the subsequent analysis in Chapter five. Table 4.4 summarize the discussion to follow on operationalization of our model. Our discussion follows the logic of our proposed model as it relates to strategic motives, firm-specific factors, transaction-specific factors, and location-specific factors.

Table 4.5: Constructs of the final model

	Respondents were asked to answer on a 5-point bipolar scale.[19]
Strategic motives	
SGS: Seeking global synergy	22a: Is creating synergy between the division's activities in different countries (including Norway) important to the choice of market servicing in _____? Important/unimportant.
SNA: Seeking national adaptation	28a: New knowledge (e.g. product improvements) is developed by the division in Norway and then transferred to the division's activities abroad Agree/disagree? 28b: The most important resources of the division are located in Norway, and less important resources located abroad. Agree/disagree?
SPA: Seeking potential advantages	22c: Is gaining access to process technology important for the choice of market servicing in _____? Agree/disagree? 22d: Is gaining access to product technology important for the choice of market servicing in _____? Agree/disagree?
Firm-specific factors	
DC: Differentiation capacity	20e: Does the division possess a better or worse distribution system than its most important competitor in ____? Better/Worse. 20f: Does the division possess a better or worse brand name than its most important competitor in ____? Better/Worse.
SSA: Scale and scope advantages	1: Total sales of concern in 1992
IE: International experience	3b: In how many countries does the division have subsidiaries with a minimum of 10% ownership? 3c: How many foreign subsidiaries does the division have with a minimum of 10% ownership?
Location-specific factors	
PCD: Perceived cultural distance	15: In which of the following areas are ____ (country's) culture different from the Norwegian culture? Very different/no difference. a. Business practice b. Political influence on businesses c. Relationship between employers and employee d. Work ethics e. Management Style
MA: High market attractiveness	23: How attractive is it to serve this particular market in relation to all the markets the division serves (Consider issues like market size, market growth, price level etc.)? More attractive/less attractive.
Transaction-specific factors	
TKH: Tacitness of know-how	21b: When today's market servicing mode was chosen, was it difficult to transfer marketing know-how to the division's representatives (e.g. subsidiaries, joint-venture partners, distributors, or other local partners) in _____ (Country)? Agree/disagree 21c: When today's market servicing was chosen, was it difficult to transfer management know-how to the division's representatives (e.g. subsidiaries, joint-venture partners, distributors, or other local partners) in _____ (Country)? Agree/disagree 21d: When today's market servicing was chosen, was it difficult to transfer research and development know-how to the division's representatives (e.g. subsidiaries, joint-venture partners, distributors, or other local partners) in _____ (Country)? Agree/disagree
CR: High contractual risk	25b: It is much more risky to make contracts in _____ (than in Norway)? Agree/disagree 25c: Product quality could be enhanced if local partners/representatives (importers, joint-venture partners, licensing partners etc.) were used. in ____. Agree/disagree 25e: It is much more costly to enforce contracts in _____ (than in Norway)? Agree/disagree

[19] The original language of the questionnaire is Norwegian.

Dependent variable:	
Measure 1: Extent of market commitment	13: What is the extent of economic servicing in this particular country? Very large servicing/very small servicing (1-5 scale) 14a: Would there be considerable exit costs if the division should pull out of this country? Very large costs/no costs (1-5 scale) 14b: Does the division possess dedicated resources that are uniquely connected to the present mode of market servicing? Very large resources/no resources (1-5 scale)
Measure 2: Equity involvement versus non-equity.	11. Equity involvements includes: FDI, majority- and minority joint ventures, plus sales subsidiaries.
Measure 3: Foreign production versus no foreign production.	11. Foreign production includes: FDI, majority- and minority joint ventures, plus licensing and other strategic alliances (in production).

Dependent variable

We use the three alternative ways of measuring the dependent variable in order to capture different aspects of this phenomena. These three measures also add further validity to our research by making possible the use of different techniques for analysis. Foreign market servicing mode relates to two underlying variables, namely *resource commitment* and *control*. The control dimension relates both to the legal aspects, as well as to the ability to control the production abroad. By measuring resource commitment directly, we get a specific test of this variable. Since the focus of this study is on the phenomena of FDI, we are using the independent variables to explain differences between FDIs and non-FDIs (A versus B, C & D). We are also testing hypotheses related to each of the two dimensions in Table 1.1., i.e. the equity dimension (A&C versus B&D), and the foreign production dimension (A&B versus C&D). We do not discuss each of the alternative service modes separately (e.g. strategic alliances), as our theoretical and empirical focus is on FDI.

Since an FDI is an involvement consistent of both an equity stake and foreign production (as initially discussed in Table 1.1), we attempt to separate out these two effects. As shown in Table 4.5, we define equity involvements as FDIs, majority joint ventures, and sales subsidiaries with

majority control. Whereas, foreign production involvements consist of FDI, majority and minority joint ventures, and licensing and other kinds of strategic alliances.

Table 4.6 shows how the analyzed 129 foreign market servicing modes are grouped on the dimensions of equity versus non-equity, and foreign production versus no foreign production. We are only considering the most important (in terms of profit) service mode in each country, which is relevant in the 26% of cases where the division use more then one service mode in a country (e.g. both an FDI and a joint venture). As shown in Table 4.6, 27% of the market involvements are FDI, whereas 31% are majority owned sales offices. 32% of our sample is direct export or export via local middlemen with no or less then 10% ownership positions. This is the non-equity, non-production category. The fourth category is strategic alliances that consists of the non-equity and foreign production combinations. This group represents only 10% of the cases.

Table 4.6: The distribution of foreign market servicing modes in this survey.

	Foreign equity share		
	At least 50% equity	Less than 50% equity	
Foreign production	35 FDIs	13 Strategic alliances	48
No foreign production	40 Sales subsidiaries	41 Direct export or minority distribution	81
	75	54	n=129

Using resource commitment as the dependent variable has been discussed by Hill, Kim & Hwang (1990), and Vernon (1982). However, we are not able to identify any empirical research that has previously attempted to test a

model of foreign market resource commitment. By resource commitment we refer to (1) the economic involvement in the country, (2) the extent of the dedicated assets that cannot be re-deployed without a loss of value, and (3) the extent to which these dedicated assets are uniquely connected to the chosen mode of market servicing. The reliability coefficient, or Cronbach's *alpha* for our three measures was found to be 0.80, which is acceptable.

Strategic motives

There are a rather limited number of studies specifically focusing on the strategic motives associated with foreign market involvement. The indicator for the strategic objective of "seeking global synergy" (SGS) has been provided by Leong and Tan (1993). They used a 5-point scale, measuring the extent of agreement with the constructs. They successfully measured the strategic motive related to achieving cross-border synergy. Their work benefited greatly from the work of Bartlett & Ghoshal (1989), which also emphasized the economic advantages of cross-border integration. A related approach, looking for possible global synergies from the sharing of activities across countries, has also been used by Kim and Hwang (1992). Benefiting from global or transnational synergy, through integration of production, was also important in two of our case studies, namely in the case of Aker and Norsk Hydro. The concept of national or local adaptation has particularly been developed by Porter (1986) and Prahalad and Doz (1987). In designing the indicators for the concept "seeking national adaptation" (SNA) we also capitalize on Leong & Tan's (page 458-59) questionnaire design. They use the same scaling as in our first variable (SGS). National adaptation was of less importance in our initial case studies. However, a number of case based studies have identified the existence of such strategic motive, as pointed out by Ågren (1990). The concept of "seeking potential advantages" (SPA) is derived from a number of previous field studies on FDI decision-making.

Examples of such studies are Hedlund & Kverneland (1984), Nordström (1991), and Ågren (1990). Nordström and Vahlne (1987) point out how firms enter new geographical areas in order to exploit (the market power logic) or *create* new proprietary advantages. This is similar to the strategic motive of Hafslund Nycomed, as discussed initially in this study. Due to lack of survey-based research on this issue, we had to develop new measures.

Firm-specific factors

We measure differentiation capacity in terms of two variables; the quality of the distribution system and the value of the firm´s brand-name(s) (or firm name). This corresponds to question 20e and 20f in our questionnaire, as displayed in Table 4.6. We use a bench-marking type of questionnaire by letting the respondent compare his/her own division's competitive position relative to their major competitor in each market. Such an approach has previously been used by e.g. Gencturk (1990). Agarwal & Ramaswami (1992) also measured the ability to develop differentiated products directly in their questionnaire, by using a 7-point bipolar scale. We believe that respondents will, however, make an implicit assumption about the *relative* position of such a competitive advantage and thus compare the firm´s position to the competition. We also benefit from Kim & Hwang´s (1992) use of the construct "value of firm-specific know-how". This construct resembles our "differentiation capacity" of the division, as they included questions on recognition of brand-name and perceived level of reputation. Kim & Hwang used a 7-point Likert scale that very much resembles our scale.

The used measure for "scale and scope advantages" is the 1992 sales of the overall concern. An identical approach has been used by Agarwal & Ramaswami (1992). Anderson & Gatignon (1986) and Horst (1972) also used a similar approach to measure firm-related scale effects. High sales numbers

can enhance the firms ability to bypass significant plant economies of scale, distribution economies of scope, or financial asset advantages (as discussed by Dunning, 1993a). We are not able to identify which aspect of scale and scope economies that our indicators measure. For our measure of "international experience" we use the average number of countries served and the number of foreign subsidiaries, a similar approach was used by Agarwal & Ramaswami (1992).

Location-specific factors

Studies like Agarwal & Ramaswami (1992) use five indicators for what they label as market potential. These factors including factors such as "market potential", "growth potential", "general acceptability of product", "government attitude towards industry", and "government attitude towards foreign companies". One problem with such a listing is that it can never be exhaustive, as various factors have different importance in different industries. Kim & Hwang (1992) used only "competition intensity" and "demand uncertainty" as indicators for market attractiveness, whereas we use these as latent indicators for our broader "market attractiveness" variable. Our measure for market attractiveness lets the respondents make their own weighting of the underlying attributes, such as market size, market growth, price level, etc. We ask the respondents:" How attractive is it to serve this particular market in relation all the markets the division serves (Consider issues like market size, market growth, price level etc.)?" We let the respondents make their own implicit trade-off between which factor that are important to their industry and their firm. However, we have in parenthesis suggested factors used in previous studies, e.g. market size, market growth, and price level (an implicit way of considering competition). The reliability coefficient for this measure was found to be 0.90.

Psychic distance, our measure for "cultural distance" has been defined by Vahlne and Nordström (1992:3) as *"the factors preventing or disturbing firms learning about and understanding of a foreign environment"*. The measure for cultural differences specifically takes advantage of Genctuck´s (1990) doctoral dissertation. A similar, but less specific approach, was used by Kim & Hwang (1992). Genctuck looks at the perceived environmental dissimilarities, between home country (U.S.) and foreign country, and used indicators such as differences in "consumption preferences", "governmental regulations toward foreign business practices", "cultural values", "norms of business conduct" etc.[20] Previous studies have shown how national cultures produce differences in organizational and administrative practices, as well as differences in employee expectations (Bendix, 1956; Lincoln, Hanada and Olson, 1981). For this reason we chose to use indicators that specifically deal with the relationship between workers and owners, and workers and managers.

Transaction-specific factors

Our measure of the tacitness of know-how (TKH) capitalizes on Kim & Hwang´s (1992) research. With respect to the foreign venture they address how difficult it was to: assess the proper price, understand the marketing/manufacturing know-how, transfer of marketing/manufacturing know-how, and R&D intensity. We chose to focus on issues specifically related to the difficulty of transferring know-how related to manufacturing, marketing, and management. We also chose to use a separate indicator for each aspect, i.e. a separate question for marketing and manufacturing (this last indicator was, however, removed due to a low *alpha*), since this is really two different questions. Kogut & Zander (1993) measurement instrument which focused on "codifiability", "teachability", and "complexity". Our

[20] Gencturk (1990) pages 445-446.

measure of the "tacitness of know-how" is similar to their approach with respect some of the indicators for "teachability" and "codifiability". Kogut & Zander used very specific measures such as "a useful manual describing our manufacturing process can be written". They only looked at the transfer problems related to manufacturing. Our similar measure was: "When today's market servicing was chosen, was it difficult to transfer management know-how to the division's representatives (e.g. subsidiaries, joint-venture partners, distributors, or other local partners) in _____ (Country)? Agree/disagree". The reliability coefficient for this measure was found to be 0.85.

"Contractual risk" (CR) refers to the relative costs, in terms of risk, of sharing the firm/division´s resources and capabilities with a firm in a foreign country, versus the alternative of integrating them within the firm.. Since it is difficult to estimate these transaction costs, a recommended approach has been to use contractual risk associated with sharing resources and capabilities. Contractual risk has previously been operationalized by Agarwal & Ramaswami (1992), Nygaard (1992) and Gatignon & Anderson (1988). We use in particular Agarwal & Ramaswami´s operationalization, as it directly builds on Dunning´s use of the concept. This also makes it easy to make "contractual risk" fit into our conceptual model of foreign market servicing. Agarwal & Ramaswami used a 7-point bipolar scale and we use a similar 5-point scale. We use three indicators for this concept: *(1) It is much more risky to make contracts in _____ (than in Norway)? Agree/disagree (2): Product quality could be enhanced if local partners/representatives (importers, joint-venture partners, licensing partners etc.) were used in ____? Agree/disagree (3) It is much more costly to enforce contracts in _____ (than in Norway)? Agree/disagree* The reliability coefficient (Cronbach´s *alpha)* for this indicator was 0.61, which is within our requirements.

4.5. Reliability measures and construct validity

Measurement literature (e.g. Nunnally, 1978) argues that measurement error exists for all non-directly observable theoretical concepts. We use a conventional two-step process for selecting the measures. As suggested by Nunnally, we use Cronbach's *alpha* to measure these multi-item approximations of the underlying factors. We also use item-to-factor correlation, eliminating those measures where r<.30 correlation. Churchill (1979) suggests that in the early stages of basic research reliability (*alpha*) of between 0.50 and 0.60 will suffice. Because this research represents an early attempt to use multiple-item measures specifically related to foreign market servicing (as opposed to *entry* mode issues), 0.60 was set as the cut-off point for the coefficient *alpha*. As shown by Table 4.7, the coefficient *alphas* for all the constructs are above our 0.6 cut-off point. However, since a number of these construct are only measured by two indicators, the alpha is then equivalent to the correlation between these two factors. In fact most of the *alphas* exceed Nunnally's 0.7 criterion for basic research. Finally, the fact that most of our constructs are not highly correlated (see Table 4.8) also suggests that independent constructs have been identified.

Table 4.7: Constructs of the final model

	Number of items	Cronbach's Alpha, or correlations when only two indicators	Lowest item-factor correlation
Strategic motives			
SGS: Seeking global synergy	1		
SNA: Seeking national adaptation	2	0.55	0.81
SPA: Seeking potential advantages	2	0.74	0.89
Firm-specific factors			
DC: Differentiation capacity	2	0.65	0.85
SSA: Scale and scope advantages	1		
IE: International experience	2	0.75	0.90
Location-specific factors			
PCD: Perceived cultural distance	4	0.90	0.84
MA: Market attractiveness	1		
Transaction-specific factors			
TKH: Tacitness of know-how	3	0.85	0.85
CR: Contractual risk	3	0.61	0.63
Dependent variable:			
Measure 1: Extent of market commitment	3	0.80	0.76
Measure 2: Equity involvement versus non-equity.			
Measure 3: Foreign production versus no foreign production.			

For hypothesis H2b we chose to use the direct measure of size, previously used in a number of other studies. We made a log-transformation of the size of the overall concern (their division's parent company) because of the uneven distribution of this variable. This transformation "improved" the residual plot of the subsequent regression analysis.

The presented bivariate correlations are instrumental in inspecting the nomological validity of the model (Table 4.8). We inspect the model by using Pearson pairwise correlation. This test also represents a preliminary test of the model, as well as the identification of possible multicollinearity problems. A high degree of intercorrelation among the independent variables makes the information from the independent variables redundant, as this reflects their common variance with the dependent variable. The variables

shown in Table 4.8 corresponds to the one presented in Table 4.5, and the abbreviations used are explained in Table 4.7.

Table 4.8: The independent variables of the model: means, standard deviations, and Pearson pairwise correlation matrix.

	Mean	S.D.	SGS	SPA	DC	SSA	IE	PCD	MA	TKH	CR
SGS	3.25	1.29	1.000								
SPA	1.83	0.98	0.321**	1.000							
DC	3.44	0.97	-0.016	0.071	1.000						
SSA	8.26	1.59	-0.065	-0.204*	0.074	1.000					
IE	12.00	14.00	0.183*	0.072	0.186*	0.516**	1.000				
PCD	3.17	1.00	0.164	-0.007	0.027	0.038	0.074	1.000			
MA	3.28	1.01	0.042	0.109	0.093	-0.139	-0.063	0.162	1.000		
TKH	2.68	1.06	-0.031	0.001	0.204*	-0.304**	-0.175*	-0.159	0.060	1.000	
CR	2.47	0.88	0.030	0.117	-0.108	-0.306**	-0.365**	-0.412**	-0.107	0.354**	1.000

* p<0.05, **p<0.01, n=129
PS. For definitions of abbreviations see Table 4.7.

The pairwise correlations in Table 4.8 reveals that there is a relatively high degree of independence between our independent variables. The highest observed intercorrelation is 0.516. The Pearson product moment correlations suggest a fit between the theoretical concept and the observed correlations (as discussed by Cook and Campbell, 1979). However, most of the cases of significant correlations make theoretical sense. The different groups of factors tend to be positively correlated as transaction-specific factors (TKH and CR), strategic motives (SGS and SPA), and the location-specific factors (PCD and MA) are significantly correlated. The significant positive association between the two strategic motives (SGS and SPA), indicates that global synergy seeking and (country-specific) advantage seeking are somewhat complementary strategic motives. Scale and scope advantages (SSA) are significantly associated with international experience (IE), which is not surprising. We also check for possible multicollinearity problems by running the model with fewer independent variables. This does not greatly change the ß-signs (compare full and reduced models in Table 5.5). These above factors suggest that multicollinearity may not be a serious problem in estimating the model parameters.

5. Hypotheses Testing and Model Evaluation

5.1. Introduction

In this chapter we test the theoretically developed model in relation to three alternative measures of the dependent variable. To further strengthen the validity of our analysis we apply both bivariate and multivariate techniques. We apply a *t*-test of differences of means, ordinary least square regression, and logistical regression. For the statistical analysis we employed two statistical software packages, SYSTAT 5.2 for Macintosh (OLS regression and t-tests) and SPSS 4.0 for Macintosh (provided both OLS regression and logistical regression). We did not identify any discrepancies between the results from these two programs.

We test how the independent variables affect the presence of (1) ownership control and (2) foreign production. We also test the model in relation to (3) the level of resource commitment. Since the concept "resource commitment" cannot be objectively observed as the actual mode of international servicing, we have to apply indicators for this construct. We use three indicators to capture this construct (see questions 13, 14a, and 14b in Table 4.5). Table 5.1 shows the relationship between the measure for resource commitment and the mode of foreign market servicing, supporting the assumption that FDI is the high commitment mode. Also as expected, the sales subsidiary mode reflects an intermediate level of resource commitment, and strategic alliances and export implies a low commitment mode.

Table 5.1: Relationship between the mode of foreign market servicing and the perceived level of resource commitment.

	Strategic alliances	Export	Sales subsidiary	FDI	TOTAL
High commitment					
1-1.49	0	0	0	11	11
1.5-2.49	0	3	10	16	29
2.5-3.49	7	13	16	6	42
3.5-4.49	4	18	12	2	36
4.5-5	2	7	2	0	11
Low commitment					
TOTAL	13	41	40	35	129

5.2. Model Specification

The model specification identifies the functional shape of the model used in testing the hypotheses proposed in this dissertation. The proposed general model is presented in Figure 2.2, and further specified in Figure 3.1. The model shows the direct effect of firm-specific advantages, transaction-specific factors, location-specific factors, and strategic motive on foreign market servicing. We can also see how the effect on foreign market servicing is mediated through transaction-specific factors, and strategic motives. We have also included an interaction effect between "differentiation capacity" (DC) and "contractual risk" (CR) that has been proposed by previous research (Agarwal & Ramaswami, 1992). Our proposed direct effect from firm-, location-, and transaction-specific factors on strategic motives, represents an enhancement of previous studies. We attempt to move towards a more complete model of foreign market servicing. The status of the strategic motives is an intervening variable, since it is conceptualized as a

determinant of foreign market servicing as well as a consequence of firm-specific advantages, transaction-specific factors, and location-specific factors. Hence, the introduction of strategic motives provides a contingency perspective as it proposes mediating effects (Schoonhove, 1981).

In the absence of existing conceptual and empirical evidence suggesting otherwise, a first order additive and linear model (with the exception of one interaction term) represent the functional form of the model. Ordinary Least Square (OLS) and Logistical Regression, respectively, is used to estimate the model parameters. The use of these two regression techniques is based on two considerations. First, these procedures have been shown to provide unbiased and efficient estimates in recursive models (e.g. Ott, 1984). Since the proposed model shows a system with unidirectional flows from the independent to the dependent variable. These characteristics make OLS and logistic regression estimation appropriate. Second, by using estimation techniques that are consistent with previous research, this facilitates comparison of the findings across studies. By making it possible to directly address the observed differences in empirical findings of existing studies, we further add to the contribution of this study. Third, a considerable amount of previous international business research has identified good operational definitions of the discussed concepts (as we have discussed in Chapter four). This suggest that a structural equation technique, such as LISREL, that can produce latent constructs, might not add considerable new insights to our study.

Residuals

The additive linear model and the OLS procedure, as well as the logistical regression, rest on several assumptions concerning the sample. These assumptions concerning the functional form of the model. An inspection of

residuals, i.e. observed error, is an important approach for detecting potential violations of assumptions related to linearity, constant variance, and normality of error terms. We examined the sample data through the analysis of scatter-plots of standardized residuals plots (not included), as suggested by, e.g., Hair *et al.* (1992). To check for possible violations of these assumptions we used the fitted regression function and the residual values for the full model (that includes all our independent variables). By plotting the residuals against our nine independent variables, we did not identify any patterns of systematic variation suggesting non-linearity. To check for possible non-constant variance of the error terms, the residuals were plotted against the fitted values of the dependent variables. This also did not reveal any violations of sound regression analysis. Finally, possible violations of the normality of error terms was assessed by a plot of the cumulative frequency distribution of standardized residuals. Since the normal probability distribution represents a straight line, any substantial departures from this line in the frequency distribution of residuals are used as evidence for the non-normality of error terms. Again, the data reveal no major departures from normality.

5.3. Discussing Individual Hypotheses

We have divided our discussion of the results in two parts. First we consider the individual hypotheses (this section) and then we perform a test of our model of foreign market servicing (from Figure 3.1). In this section we start with the results from the bivariate analysis in Table 5.2. By using a T-test to compare the mean scores of the independent variables, we can see how the value of these variables are significantly different for FDI versus non-FDI

involvement. Except for our transaction specific variables (TKH, CR), these differences are significant beyond the p<0.10 level.

The results provide broad support for our hypothesized model, as also our discussion in the next section will identify. Table 5.3 provides a summary of the findings in the multivariate analysis identified in Table 5.5 to 5.18. Table 5.3 only displays the effects that are significant (p<0.05).

Table 5.2: T-test to compare mean scores for the independent variables.

	Mean score for Foreign Direct Investment	Mean score for non-FDI involvement	T-Value using pooled variance T
	n=35	n=94	
Strategic motives			
H1a: Seeking global synergy (SGS)	3.657	3.096	2.226**
H1b: Seeking localization (SL)			
H1c: Seeking potential advantages (SPA)	2.271	1.660	3.272***
Firm-specific factors			
H2a: Differentiation capacity (DC)	3.771	3.319	2.394**
H2b: Scale and scope advantages (SSA)	8.971	8.000	3.195***
H2c: International experience (IE)	16.671	10.266	2.351**
Location-specific factors			
H3a: Perceived cultural distance (PCD)	3.433	3.075	1.832*
H3b: High market attractiveness (MA)	4.543	4.172	2.121**
Transaction-specific factors			
H4a: High degree of tacitness of know-how (TKH)	2.876	2.603	1.302
H4b: High contractual risk (CR)	2.414	2.486	-0.41

*p<0.10 **p<0.05 ***p<0.01

Now we attempt to relate the proposed hypotheses (summarized in Table 3.1) to the empirical findings. We discussing each hypothesis in relation to our three measures for the dependent variable.

Table 5.3: Summary: Direct effects on the three measures of foreign market servicing, plus a direct measure for FDI. Summary from multivariate analysis. (p<0.05)

	Resource commitment	Foreign production	Equity involve-ment	FDI: both equity involve-ment and foreign production
Strategic motives				
H1a: Seeking global synergy (SGS)	**accepted**	n.h.	rejected	n.h
H1b: Seeking localization (SL)				
H1c: Seeking potential advantages (SPA)	**accepted**	**accepted**	rejected	**accepted**
Firm-specific factors				
H2a: Differentiation capacity (DC)	rejected	rejected	rejected	**accepted**
H2b: Scale and scope advantages (SSA)	**accepted**	**accepted**	**accepted**	**accepted**
H2c: International experience (IE)	rejected	rejected	**accepted**	rejected
Location-specific factors				
H3a: Perceived cultural distance (PCD)	**accepted***	rejected	**accepted***	**accepted***
H3b: High market attractiveness (MA)	**accepted**	n.h.	rejected	n.h.
Transaction-specific factors				
H4a: High degree of tacitness of know-how (TKH)	**accepted**	**accepted**	**accepted**	**accepted**
H4b: High contractual risk (CR)	rejected	**accepted**	rejected	rejected

* Opposite direction than the predicted.
n.h.: We have no hypothesis for this relationship.

Strategic motives

The overall relevance of strategic motives are supported, as the alternative hypothesis of no effect has to be rejected. Firms that seek to exploit cross-border integration, expressed by the strategic motive of "seeking global synergy" (SGS), have a more extensive foreign market involvement. I.e. they tend to have a higher level of resource commitment in relation to a given foreign market. Table 5.2 reveals that the importance of "seeking global synergy" is significantly higher among divisions/firms with an FDI involvement mode than for firms/divisions with a non-FDI service mode. We believe such a strategic motivation is warranted since developing cross-border synergies demands a long-term commitment in multiple markets. Based on our logistical regression we failed to identify any significant effect

from this strategic motive (SGS) on FDI, and equity involvement in general. This suggests that international integration, i.e. achieving global synergy, enhances a firm´s foreign market resource commitment. However, the specific *nature* or mode of such an involvement is of lesser importance in achieving global synergy. The increase in resource commitment might be necessary to achieve what Bartlett and Ghoshal (1989) refers to as cross-border scale and scope advantages. The economic potential from such synergies can be capitalized at any point in the firm´s value chain. Suggesting that global integration can be achieved not only in production.

We had to drop the construct "seeking national localization" (SNL) from our analysis due to the weak construct validity of this strategic motive (Cronbach´s alpha=0.55) and was therefore not able to test hypothesis H1b.

The results show that "seeking potential advantages" (SPA) in process or product technology, play an important role in choice of foreign market resource commitment of Norwegian companies. From Table 5.2 we can see how divisions/firms pursuing FDI involvements tend to have a significantly higher score on the objective of "seeking potential advantages" than firms/division with non-FDI involvements. As predicted (H1c), firms whose strategic motive for serving a foreign country is to get access to skills and capabilities, are more inclined to use FDI as their preferred market service mode. As we predicted, the strategic objective of "seeking potential advantages" did not significantly affect the preference for equity involvements in general. However, the same strategic motive effected the tendency to use foreign production.

Firm-specific factors

We have discussed the importance of firm-specific factors in relation to the perspectives of market power, internalization, and the internalization process perspective. This research reveals that firm-specific factors, "differentiation capacity" (H2a), "scale and scope advantages" (H2b) enhance the use of FDI significantly. It appears that FDI increase the firm´s ability to capitalize on superior resources and capabilities. The test of the three firm-specific factors all show the expected directional signs.

Table 5.2 reveals how firms/divisions with an FDI involvement have a significantly higher level of differentiation capacity. "Differentiation capacity" (H2a) is, however, not significantly affecting the level of foreign market commitment. This indicates that differentiation has more to do with the *nature of* the firm´s involvement, then the *degree* of involvement. Since there is no significant effect favoring either equity involvement or national production, this suggest that there is a special effect from the *combined* use of equity involvement and foreign production. This is in fact rather interesting, as most previous research has emphasized the equity dimension.

From Table 5.2 we can see how divisions/firms with FDI involvements tend to have significantly higher "scale and scope advantages" than firms/divisions pursuing non-FDI involvements. "Scale and scope advantages" (H2b), measured as the size of the division´s concern, has a significant effect on all our measures of the dependent variable. Findings from this study suggest that smaller companies serving foreign markets are constrained. Interestingly, this factor effects the division´s level of commitment, it's ability to undertake FDI, equity involvement, and foreign production. Some aspects that produce this effect might be economies of scope (i.e. across divisions) in financing, government relations, and access to

distribution. Scale related effect can be related to marketing, production, and research and development. These advantages make the firm able to reduce, or even eliminate, the extra costs of having a foreign origin.

Firms with extensive "international experience" (H2c) have a significantly larger tendency to use equity involvements. This suggest that less experienced firms are constrained in their ability to operate equity-based foreign market involvement. From Table 5.2 we can see how divisions/firms using FDI involvements tend to have significantly more "international experience" than firms/divisions pursuing non-FDI involvements. However, based on the multivariate analysis we failed to identify any significant effects on the level of resource commitment, FDI, and the tendency to use foreign production. This discrepancy between the bivariate and the multivariate results suggests that the unique effect of "international experience" is not as important as indicated by the bivariate analysis. We also failed to identify any significant effect from our multivariate analysis on the level of resource commitment. One possible explanation might be that it is not the amount of resources associated with an equity involvement that limits inexperienced firms, but rather the qualitative characteristics.

Location-specific factors

Contrary to what we predicted, a long "perceived cultural distance" *increases* the likelihood of a high level of equity involvement, FDI, and the level of resource commitment. Divisions/firms servicing their markets with FDI tend to perceived these markets as significantly *more* culturally distant than the markets where the firms/divisions pursue non-FDI involvements (Table 5.2). We might have one possible explanation for this unexpected result. First, we can argue that the unfamiliarity effect has more to do with *which* market to *enter*, than *how* to continue to serve a particular market (our focus of this

research). Since we are only looking at countries where companies are already doing business, we can argue that if a division chose to operate in an unfamiliar environment, then the divisions might want a high degree of control, as characterized by FDI. This study is rare as we are not looking at market entry, and we are not considering the option of not serving a particular market. Root (1983) argues that with a certain level of international experience, the desire to actively manage international activities in culturally distant countries *increases*. We argue that we have looked at market involvements that have reached such a threshold. These factors *might* explain why a firm/division prefers to use FDI, a high level of resource commitment, and equity involvements in general, in a culturally distant country.

Market attractiveness (H3b), our second location-specific factor, shows the expected directional effect on foreign market servicing. The effect of market attractiveness is only significant ($p<.01$) in relation to the level of market commitment, but not in relation to the issues of equity involvement and foreign production. Based on our T-test in Table 5.2 we can see how a high "market attractiveness" is significantly associated with an FDI involvement. The effect from the "market attractiveness" on the level of "resource commitment", suggests that an attractive market enhance the use of sale subsidiaries over mere export. However, market attractiveness appears not to create a particular incentive for FDI, or foreign equity and production involvements in general.

Transaction-specific factors

Our analysis suggests that firms/divisions that are characterized by a high degree of "tacitness of know-how" tend to have a higher resource commitment in a foreign country. The firm´s/division´s tacitness of know-

how also enhances FDI, equity involvements in general, as well as foreign production. However, we are not able to infer from our T-test that the mean score on "tacitness of know-how" is significantly higher for firms/divisions pursuing FDI than those using non-FDI. However, the direction is correct and the p-value of the two-sided test equal to 0.195. The bivariate analysis is not able to detect the unique effect capture by our multivariate analysis. Our findings from the multivariate analysis support the relevance of the resource-based theory of strategic management to foreign market servicing issues. The transaction costs associated with transferring capabilities and skills make equity-based involvements favorable to other modes. The transfer problems also relates to the actual manufacturing of the products. It seems like foreign production enhances the ability to utilize the firm´s/division´s potential in a foreign market.

The empirical results reveals that "contractual risk" (H4b) does not significantly effect the level of foreign market resource commitment. Contractual risk does not significantly affect FDI or equity involvement, but it significantly affect the tendency to use foreign production. Table 5.2 reveals how the score on "contractual risk" is higher, as predicted, for FDI than non-FDI. However, this differences is not significant. The somewhat mixed support for the relevance of "contractual risk" to foreign market servicing decisions might suggest two things. First, contractual risk can be of less importance to the ongoing implicit choice of foreign market servicing than to entry mode decisions. One explanation can be that an experienced MNE eventually becomes one of the host country's insiders, and the firm/division will then be no more exposed to opportunism than the local firms. Second, the discrepancy between these two tests might suggest that contractual risk is an issue with respect to the choice of ownership of foreign

distribution, but not an issue with respect to the ownership of foreign *production*.

5.4. Test of the Model

In this section we first analyze of our model on foreign market resource commitment (COMMIT). We also test for the effect of two other aspects of foreign market servicing modes; the equity issue and the foreign production issue (EQUITY, FORPROD). Finally, we test how well our model captures the phenomena of FDI (i.e. *both* foreign production and foreign ownership). We are using multivariate techniques to perform the statistical tests using in this section.

The empirical test is aimed at assessing how the theoretical perspectives explain and predict the nature of international market involvement of a division, or firm. Second, we look at the indirect effects of the intermediate variables from strategic motives (SGS, SPA) and transaction specific factors (TKH, CR). The indirect relationships represent those factors that modify and extend the implications of the market power, the internationalization, the internalization, the network, as well as the resource-based perspective on strategy.

For the "resource commitment" measure the three sets of analyzed relationships are examined using a path analytical approach involving three simultaneous regression equations (see step one in Table 5.4 and Table 5.5, step two in Table 5.15. and 5.14, and step three in 5.15 and 5.16). This approach is used for two reasons. First, path analysis represents an

appropriate technique for testing a model where the relationships among the variables are assumed to be linear and additive (our one proposed interaction term was rejected). Second, in path analysis, the parameter estimation involves fitting a separate regression equation on each dependent variable. These estimates can then be used to obtain a detail partitioning of the different effects associated with each cause.

The estimation of path coefficients (associated with the our hypotheses) is achieved in three steps. In the first stage, the model produce estimates for the firm-specific, location-specific, transaction-specific, as well as the strategic motives. This step produce estimates of the direct effects of the entire set of independent variables considered in our model. This corresponds to H1, H2, H3, and H4 in Figure 3.1. In order to estimate some of the additional indirect effects proposed in this stage two, the strategic motives (SGS and SPA) are modelled as a function of the independent variables associated with the firm-specific (DC, SSA and IE), location-specific (PCD and MA), and transaction-specific factors (TKH and CR). In step three, we are estimating another set of indirect effects. We test the effect from firm-specific (DC, SSA and IE) and location-specific factors (PCD and MA) on transaction-specific factors (TKH and CR). The coefficient estimates and associated statistical tests are described below for each step of the analysis.

Step 1: Direct Effect on Foreign Market Servicing

The direct path coefficients for the nine independent variables are estimated by using standardized regression coefficients (ß´s) in the model where (the abbreviations are taken from Table 5.2) :

$$COMMIT = \beta_0 + \beta_1 SGS + \beta_3 SPA + \beta_4 DC + \beta_5 SSA + \beta_6 IE + \beta_7 PCD + \beta_8 MA + \beta_9 TKH + \beta_{10} CR + \beta_{11} CR^{*}DC + e$$

The ß-coefficients for a given variable represents the direct effect after partialling out the effects of other variables in the equation. Accordingly, the evaluation of the ß-estimates for the independent variables is a simultaneous test of the direct effects associated with the predictions of the five outlined theoretical perspectives.

In Table 5.4 we are testing the model on the dependent variable "resource commitment". Our initial step is to consider our only proposed interaction term, as discussed in Section 3.3. Based on the test statistics in Table 5.4 the proposed interaction term (DC*CR) between "differentiation capacity" and contractual risk (DC*CR) is being rejected. The direction of this interaction term is in line with the prediction, however, the significance test reveals a *t*-statistics of only 0.247. As we cannot support the existence of an interaction term based on these finding, we will proceed with a full model without this estimate. As the interaction term is dropped from the model, this improves the F-ratio of the tested model.

Table 5.4: Degree of foreign market resource commitment, using least ordinary square. Model with interaction.

DEP VAR: COMMIT N: 129 MULTIPLE R: 0.733 SQUARED MULTIPLE R: 0.538
ADJUSTED SQUARED MULTIPLE R: 0.498 STANDARD ERROR OF ESTIMATE: 0.753

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	-7.472	1.093	0.000	.	-6.834	0.000
SGS	0.150	0.057	0.182	0.816	2.632	0.010
SPA	0.319	0.075	0.294	0.810	4.230	0.000
DC	-0.223	0.256	-0.204	0.072	-0.873	0.384
SSA	0.175	0.054	0.262	0.600	3.238	0.002
IE	0.002	0.006	0.032	0.584	0.386	0.700
PCD	0.268	0.077	0.251	0.747	3.462	0.001
MA	0.402	0.069	0.381	0.914	5.812	0.000
TKH	0.328	0.073	0.328	0.733	4.486	0.000
CR	-0.511	0.318	-0.422	0.057	-1.608	0.110
DC*CR	0.103	0.088	0.376	0.037	1.163	0.247

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	77.761	10	7.776	13.715	<0.0005
RESIDUAL	66.904	118	0.567		

The test of the full model on "level of foreign market commitment", using least squared regression, is highly significant (F-ratio of 15.044:p<.0005). This is displayed in Table 5.5. All the directional effects on "foreign market commitment", except "contractual risk" (CR) and "perceived cultural distance" (PCD), are as predicted. Furthermore, six of the nine independent variables are significant beyond p<0.05. These significant factors are: seeking global synergy (SGS), seeking potential advantages (SPA), scale and scope advantages (SSA), perceived cultural differences (PCD)(However, in the opposite direction than predicted), market attractiveness (MA), and the tacitness of know-how (TKH). The adjusted R^2 shows that the full model explains 49.7% of the variance in the dependent variable. In the reduced models we dropped the insignificant factors of the full model, which gave an adjusted R^2 of 0.49 and an improved F-ratio of 21.53 (p<0.005). The direction and the approximate magnitude of the independent variables did not change as we ran the reduced model, and the significance level increased

for some factors. The difference between the reduced and the full model suggests that we cannot trace any signs of serious multicollinearity problems.

The standardized coefficients reveal that the location-specific factor, "market attractiveness" (MA), is the most important variable affecting the divisions choice of international service mode. This observation is consistent with the predictions of the location-specific factors emphasized in Dunning´s eclectic paradigm. The second most important variable is the transaction-specific factor of tacitness of know-how (TKH), which has been emphasized by the resource-based perspective on strategic management. The third most important factor is the strategic motive of seeking potential advantages (SPA). The relative importance of this strategic motive, suggests that it should be included in future studies. The traditional negligence of strategic motives in previous research need therefore to be addressed. The historically strong emphasis on firm-specific factors (particularly discussed in relation to the market power perspective) is only partly supported by this study, as the fourth most important variable is "scale and scope advantages" (SSA). The fifth most important variable is the "perceived cultural difference" (PCD), which is particularly emphasized by the internationalization process perspective. However, in our study a long perceived cultural distance *enhance* the use of high commitment modes, such as FDI. Possible reasons for this effect was discussed in the previous section. "Seeking global synergy" (SGS) is the sixth most important variable and significant at the $p<0.05$ level (in fact $p=0.011$ for this factor).

In the reduced model we eliminate three variables (differentiation capacity, contractual risk, and international experience) that were found to be insignificant in the full model. The reduced model reveals that the

standarized coefficients (ß´s) are rather stable in comparison with the full model. Also the relative ranking of importance of each variable does not change. All seven independent variables in the reduced model are significant at $p<0.05$. The adjusted R^2 of the reduced model is slightly lower than for the full model. The F-ratio for the reduced model is 20.53, whereas the full model shows a F-ratio of 15.044 (however, both at $p<0.0005$). Our conclusion is therefore that the reduced model adds validity to our model of foreign resource commitment.

Table 5.5: Degree of foreign market resource commitment, using least ordinary square. Full and reduced model.

Full model

DEP VAR: COMMIT N: 129 MULTIPLE R: 0.730 SQUARED MULTIPLE R: 0.532
ADJUSTED SQUARED MULTIPLE R: 0.497 STANDARD ERROR OF ESTIMATE: 0.754

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	-8.410	0.740	0.000	.	-11.370	0.000
SGS	0.148	0.057	0.180	0.816	2.595	0.011
SPA	0.325	0.075	0.299	0.814	4.307	0.000
DC	0.062	0.073	0.056	0.876	0.840	0.402
SSA	0.184	0.054	0.276	0.614	3.442	0.001
IE	0.001	0.006	0.017	0.597	0.214	0.831
PCD	0.251	0.076	0.235	0.774	3.299	0.001
MA	0.394	0.069	0.374	0.922	5.722	0.000
TKH	0.314	0.072	0.314	0.753	4.348	0.000
CR	-0.159	0.097	-0.131	0.609	-1.636	0.105

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	76.994	9	8.555	15.044	<0.0005
RESIDUAL	67.672	119	0.569		

Reduced model

DEP VAR: COMMIT N: 129 MULTIPLE R: 0.717 SQUARED MULTIPLE R: 0.514
ADJUSTED SQUARED MULTIPLE R: 0.490 STANDARD ERROR OF ESTIMATE: 0.759

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	-9.010	0.612	0.000	.	-14.728	0.000
SGS	0.141	0.056	0.172	0.869	2.535	0.013
SPA	0.326	0.074	0.300	0.851	4.388	0.000
SSA	0.217	0.046	0.324	0.856	4.750	0.000
PCD	0.305	0.070	0.286	0.916	4.339	0.000
MA	0.413	0.069	0.392	0.943	6.026	0.000
TKH	0.298	0.067	0.298	0.879	4.425	0.000

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	74.400	6	12.400	21.530	<0.0005
RESIDUAL	70.265	122	0.576		

In addition to our discussion of "foreign market commitment" above, we are also testing our model in relation to market involvements with or without FDI, with or without majority equity stakes in foreign subsidiaries, and with or without foreign production. Since these measures of the dependent variable are binary, this makes logistical regression an appropriate estimation technique. This kind of regression estimates the probability of an event occurring in contrast to the probability of an event not occurring. The estimated coefficients ($ß_1$, $ß_2$ ...$ß_n$) are measures of the change in the ratio of probability. A positive coefficient increases the probability, whereas a negative value decreases the predicted probability (Hair *et al.*, 1992). First we are estimating the probability that a division service a particular market with (value 1) or without FDI (value 0), which is really a combination of the equity measure and the production measure for the dependent variable.

In Table 5.6 we test the same models as in Table 5.5, but now with a binary dependent variable that discriminates between FDIs and non-FDIs. Initially we use the model with the proposed interaction term, but again this variable is found insignificant. The remaining discussion will therefore focus on the full and the reduced model. The direction of the independent variables are generally as predicted, with the two exceptions of "international experience" (IE) and "perceived cultural distance" (PCD). The *t*-test statistics from Table 5.6 reveal that five out of the nine independent variables are significant at $p<0.05$ or less. The overall goodness of the model is supported by a model *Chi-Square* of 49.72, that is significant at $p<0.0005$. This indicates that we cannot reject our model as a representation of the choice of foreign market servicing. In order to improve the model we also ran a reduced model where insignificant factors were subtracted. As shown in Table 5.6, the magnitude of the independent variables did not change greatly from the full to the reduced model.

The "R" statistics in Table 5.6 is a widely used indicator for the relative importance of each factor. The most important factor on the issue of FDI involvement is "scale and scope advantages" (SSA), followed by the strategic motive of "seeking potential advantages" (SPA). The third most important factor is "tacitness of know-how" (TKH). The last two significant factors are "perceived cultural distance" (PCD) and "differentiation capacity" (DC). There is no difference in the relative ranking of the importance between the full and the reduced model in Table 5.6.

The difference in results between this dependent variable (FDI) and the general measure of foreign market commitment (COMMIT, see Table 5.5), reveals that strategic and firm-specific factors are more important in relation to FDI than to "foreign market resource commitment".

Table 5.6: FDI (value 1) versus non-FDI market servicing (value 0).

Full model

	Chi-Square	df	Significance
-2 Log Likelihood	101.098	119	.8811
Model Chi-Square	49.720	9	.0000
Improvement	49.720	9	.0000
Goodness of Fit	134.833	119	.1523

---------- Variables in the Equation ----------

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SGS	.1666	.2533	.4327	1	.5106	.0000	1.1813
SPA	1.1147	.3235	11.8704	1	.0006	.2558	3.0486
DC	.6175	.3059	4.0751	1	.0435	.1173	1.8544
SSA	1.1290	.2840	15.8035	1	.0001	.3025	3.0925
IE	-.0072	.0201	.1301	1	.7183	.0000	.9928
PCD	.7611	.3154	5.8231	1	.0158	.1592	2.1406
MA	.2747	.2656	1.0698	1	.3010	.0000	1.3161
TKH	.9134	.3255	7.8765	1	.0050	.1974	2.4929
CR	.4658	.3733	1.5572	1	.2121	.0000	1.5933
Constant	-22.5107	4.8089	21.9125	1	.0000		

Reduced model

	Chi-Square	df	Significance
-2 Log Likelihood	104.844	123	.8804
Model Chi-Square	45.974	5	.0000
Improvement	45.974	5	.0000
Goodness of Fit	127.959	123	.3615

---------- Variables in the Equation ----------

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SPA	1.1833	.2975	15.8187	1	.0001	.3027	3.2650
DC	.5242	.2837	3.4158	1	.0646	.0969	1.6892
SSA	.9303	.2188	18.0777	1	.0000	.3265	2.5354
PCD	.6854	.2662	6.6294	1	.0100	.1752	1.9845
TKH	.9252	.3008	9.4603	1	.0021	.2224	2.5223
Constant	-17.8177	3.5027	25.8755	1	.0000		

The logistical regression results let us see how well the model is able to predict group membership (FDI versus non-FDI). In Table 5.7 and 5.9 we can see how the overall ability to predict correctly was 86% for the full model and 85% for the reduced model. Because of the higher number of non-FDIs, the models are better at predicting the non-FDIs, 94% and 93% correct respectively, than predicting the FDIs, that are 63% and 66% correct. Since our sample contains only 35 FDIs and 94 non-FDIs, the overall predictions

give 33% and 36% less errors than chance alone, respectively, with the full and the reduced model.

Table 5.7: Actual versus predicted outcome of FDI using logistical regression: Full model.

Observed	Predicted: Non-FDIs	Predicted: FDIs	Total	Correct
Non-FDIs	88	6	94	94%
FDIs	12	23	35	66%
Overall	100	29	129	86%

Table 5.8: Actual versus predicted outcome of FDI using logistical regression: Reduced model.

Observed	Predicted: Non-FDIs	Predicted: FDIs	Total	Correct
Non-FDIs	87	7	94	93%
FDIs	13	22	35	63%
Overall	100	29	129	85%

Table 5.9 shows how the coefficients look like when *equity control* is used as the dependent variable. We define equity-based market involvements to consist of majority owned FDIs and majority owned sale subsidiaries. The Model *Chi-Square* of 55.097 ($p<0.00005$) implies that we cannot reject the model in relation to the equity control dimension. Four of the nine independent variables are significantly ($p<0.05$) affecting equity control (EQUITY). The "R" statistics reveals that "perceived cultural distance" (PCD) is the most important factor, followed by "international experience" (IE), "scale and scope advantages" (SSA), and "tacitness of know-how" (TKH). The effect of all our variables, except "perceived cultural distance", are in line with our predictions.

Table 5.9: Foreign equity control (value 1) versus non-equity control (value 0).

Full model

	Chi-Square	df	Significance
-2 Log Likelihood	119.612	119	.4670
Model Chi-Square	55.097	9	.0000
Improvement	55.097	9	.0000
Goodness of Fit	109.082	119	.7318

Variables in the Equation

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SGS	.0963	.2165	.1980	1	.6563	.0000	1.1011
SPA	.1007	.3175	.1005	1	.7513	.0000	1.1059
DC	.2134	.2523	.7154	1	.3976	.0000	1.2379
SSA	.6115	.2164	7.9861	1	.0047	.1851	1.8432
IE	.1207	.0418	8.3123	1	.0039	.1901	1.1282
PCD	.9207	.2955	9.7088	1	.0018	.2101	2.5111
MA	.2229	.2327	.9179	1	.3380	.0000	1.2497
TKH	.6261	.2728	5.2681	1	.0217	.1368	1.8703
CR	.2315	.3333	.4826	1	.4872	.0000	1.2605
Constant	-12.8469	3.2942	15.2089	1	.0001		

Reduced model

	Chi-Square	df	Significance
-2 Log Likelihood	122.403	124	.5237
Model Chi-Square	52.307	4	.0000
Improvement	52.307	4	.0000
Goodness of Fit	110.695	124	.7980

Variables in the Equation

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SSA	.5391	.2038	6.9969	1	.0082	.1691	1.7145
IE	.1300	.0344	14.2362	1	.0002	.2646	1.1388
PCD	.8970	.2529	12.5832	1	.0004	.2461	2.4522
TKH	.7490	.2637	8.0690	1	.0045	.1864	2.1149
Constant	-10.0566	2.5505	15.5470	1	.0001		

In Table 5.10 and 5.11 we are capitilizing on the logistical regression technique to see how well the model predicts equity versus non-equity market servicing. The full model predicts correct in 74% of the cases, versus 73% for the reduced model. Both the full and the reduced model are better at predicting equity involvements, than non-equity involvements.

Table 5.10: Actual versus predicted outcome of equity control using logistical regression: Full model.

Observed	Predicted Non/low Equity	Equity	Total	Correct
Non/low-Equity	36	17	53	68%
Equity	16	60	76	79%
Overall	52	77	129	74%

Table 5.11: Actual versus predicted outcome of equity control using logistical regression: Reduced model.

Observed	Predicted Non/low Equity	Equity	Total	Correct
Non/low-Equity	33	20	53	62%
Equity	15	61	76	80%
Overall	48	81	129	73%

Our last measure of the dependent variable concerns foreign production. We define the "foreign production" category by combining FDIs, with both majority and minority ownership, and licensing agreements, as well as other long-term cooperative agreements related to production. 81 of our 129 market involvements use foreign production. As pointed our previously, this production can be both inside or outside the legal boundaries of the firm. Table 5.12 shows that our model cannot be rejected on the issue of foreign production, since the model *Chi-Square* is 43.003 ($p<0.00005$). The full model identifies four factors that significantly ($p<0.05$) affect the use of foreign production. The "R" statistics indicates that the most important factor is "seeking potential advantages" (SPA), followed by "scale and scope advantages" (SSA), "tacitness of know-how" (TKH), and "contractual risk" (CR). By eliminating insignificant factors, except "perceived cultural

distance" (PCD), the reduced model gives the same conclusions as the full model.

Table 5.12: Foreign production (value 1) versus non-production foreign involvement (value 0).

Full model

	Chi-Square	df	Significance
-2 Log Likelihood	127.293	119	.2848
Model Chi-Square	43.003	9	.0000
Improvement	43.003	9	.0000
Goodness of Fit	120.818	119	.4363

---------- Variables in the Equation ----------

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SGS	.0131	.2037	.0041	1	.9488	.0000	1.0132
SPA	1.0861	.2919	13.8450	1	.0002	.2637	2.9627
DC	.0517	.2363	.0480	1	.8267	.0000	1.0531
SSA	.7342	.2225	10.8859	1	.0010	.2284	2.0839
IE	.0128	.0181	.4954	1	.4815	.0000	1.0128
PCD	.3698	.2558	2.0903	1	.1482	.0230	1.4475
MA	.1834	.2277	.6491	1	.4204	.0000	1.2013
TKH	.7963	.2734	8.4809	1	.0036	.1951	2.2174
CR	.7422	.3235	5.2641	1	.0218	.1384	2.1005
Constant	-14.9295	3.4236	19.0165	1	.0000		

Reduced model

	Chi-Square	df	Significance
-2 Log Likelihood	128.525	123	.3485
Model Chi-Square	41.770	5	.0000
Improvement	41.770	5	.0000
Goodness of Fit	120.290	123	.5523

---------- Variables in the Equation ----------

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SPA	1.1468	.2686	18.2270	1	.0000	.3087	3.1480
SSA	.7825	.2087	14.0613	1	.0002	.2661	2.1869
PCD	.3801	.2374	2.5646	1	.1093	.0576	1.4624
TKH	.8231	.2692	9.3495	1	.0022	.2077	2.2776
CR	.6408	.3007	4.5422	1	.0331	.1222	1.8980
Constant	-14.2835	3.1835	20.1314	1	.0000		

Table 5.13 and 5.14 provide a comparison of the predicted versus the observed outcome related to the issue of foreign production. Of our 129 cases of foreign market involvement, 48 involved production at home and 81 cases involved foreign production. The full model gives an overall correct

prediction of 75%, whereas the reduced model is 72% correct. The models are much better at predicting "no foreign production" than "foreign production". The reduced model is particularly weak in this respect, as only 54% of the cases were predicted correctly.

Table 5.13: Actual versus predicted outcome of foreign production using logistical regression: Full model.

Observed	Predicted: No foreign production	Predicted: Foreign Production	Total	Correct
No foreign production	66	15	81	81%
Foreign Production	17	31	48	64%
Overall	83	46	129	75%

Table 5.14: Actual versus predicted outcome of foreign production using logistical regression: Reduced model.

Observed	Predicted: No foreign production	Predicted: Foreign Production	Total	Correct
No foreign production	67	14	81	83%
Foreign Production	22	26	48	54%
Overall	89	40	129	72%

Step 2: The direct effects on strategic motives

In step 1 we looked at the direct effects on choice of foreign market servicing(H1-H4). In step 2 we look at the *indirect* effects from firm-specific (P1), location-specific (P3), and transaction-specific factors (P2) on choice of foreign market servicing. We are performing this test by estimating the effects on strategic motives, from the firm-, location, and transaction-specific factors. The analysis performed under step 2 aims at examining potential interrelationships among model constructs that are not addressed by the

previous analysis. Due to lack of a strong theoretical basis these relationships are not specified *a priori* as formal hypotheses. However, we attempt to discuss the findings in light of our propositions in Chapter three, summarized in Table 3.2-3.5.

Table 5.15 and 5.16 shows how the two strategic motives, "seeking global synergy" (SGS) and "seeking potential advantages" are affected by the proposed independent variables. The proposed effects of these relationships are summarized in Table 3.2 and 3.3, respectively. In order to safeguard against chance, we emphasize the importance of considering the adjusted R^2. By performing the regression analysis on the dependent variables "seeking global synergy" and "seeking potential advantages", we get an adjusted R^2 of 0.071 and 0.074, respectively. This implies that most of the variance in these two intermediate variables is *not* explained by our model. However, both models are significant beyond the 0.05 cut-off, with p-values of 0.025 and 0.021, respectively.

The significant variables ($p<0.10$ with a two-way test) affecting "seeking global synergy" are "perceived cultural distance" (P3a I), "contractual risk" (P2a II), "international experience" (P1a III), and "scale and scope advantages" (P1a II). As predicted, these strategic motives are affected by the firm-specific (IE and SSA), location-specific (here, PCD), and transaction-specific factors (here, CR). The standardized ß-coefficients imply that "international experience" (P1a III) has the strongest *positive* effect on the tendency to emphasize "seeking global synergy". This implies that internationally experienced firms tend to emphasize a strategy of "global synergy" more than less experienced firms. The second most important effect is a positive effect from the "perceived cultural distance" (P3a I). This implies that "global synergy" considerations play a more important role in culturally

familiar countries, which is in line with our prediction. "Contractual risk" (P2a II) has the predicted positive effect on "global synergy seeking", suggesting that this transaction-cost based factor encourages the use of internalization, i.e. a cross-border integrated "global" strategy. The least important significant variable, "scale and scope advantages" (P1a II), has a *negative* effect on "global synergy", which is also as predicted. This might suggest that strong existing "scale and scope advantages" discourages the pursuit of a global strategy. The logic is that existing firm-specific advantages in the host-market might be eroded by substantial international integration. We failed to identify any proposed positive effect related to "differentiation capacity" (P1a I).

Table 5.15: Estimates for direct effects on the strategic motive: seeking global synergy.

DEP VAR: SGS N: 129 MULTIPLE R: 0.349 SQUARED MULTIPLE R: 0.122
ADJUSTED SQUARED MULTIPLE R: 0.071 STANDARD ERROR OF ESTIMATE: 1.246

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	2.834	1.175	0.000	.	2.413	0.017
P1a I (DC)	-0.052	0.121	-0.039	0.885	-0.428	0.669
P1a II (SSA)	-0.163	0.085	-0.201	0.668	-1.925	0.057
P1a III (IE)	0.032	0.010	0.344	0.667	3.293	0.001
P2a I (PKH)	-0.079	0.118	-0.065	0.765	-0.663	0.508
P2a II (CR)	0.303	0.157	0.206	0.638	1.929	0.056
P3a I (PCD)	0.282	0.123	0.217	0.808	2.290	0.024
P3a II (MA)	0.039	0.113	0.031	0.931	0.346	0.730

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	26.086	7	3.727	2.399	0.025
RESIDUAL	187.976	121	1.554		

The significant variables effecting "seeking potential advantages" are firm-specific variable of "international experience" (P1b III), "scale and scope advantages" (P1b II), and the transaction-specific factor of "contractual risk" (P2b II). None of the location-specific variables are significant ($p<0.10$). These same three factors were also significantly influencing the "seeking

global synergy" factor, as discussed in the section above. The most important variable, measured by using the standardized coefficients, is the negative effect of "scale and scope advantages" (P1b II). As predicted, this suggests that the existing "scale and scope advantages" inhibit the pay-offs from acquiring new technology in foreign markets. The second most important variable is the proposed positive effect from "international experience" (P1b III). This might suggests that superior knowledge enables the division/firm to utilize potential advantages strategically. The last significant factor is the positive expected effect from "contractual risk" (P2b II), which indicates that high transaction costs promote a strategy of internalized transfers (here acquisition) of resources.

Table 5.16 Estimates for direct effects on the strategic motive: seeking potential advantages.

DEP VAR: SPA N: 129 MULTIPLE R: 0.353 SQUARED MULTIPLE R: 0.125
ADJUSTED SQUARED MULTIPLE R: 0.074 STANDARD ERROR OF ESTIMATE: 0.943

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	2.326	0.888	0.000	.	2.618	0.010
P1b I (DC)	0.084	0.091	0.083	0.885	0.923	0.358
P1b II (SSA)	-0.197	0.064	-0.320	0.668	-3.073	0.003
P1b III (IE)	0.019	0.007	0.274	0.667	2.632	0.010
P2b I (TKH)	-0.127	0.090	-0.137	0.765	-1.414	0.160
P2b II (CR)	0.221	0.119	0.199	0.638	1.866	0.064
P3b I (PCD)	0.026	0.093	0.027	0.808	0.282	0.779
P3b II (MA)	0.097	0.086	0.100	0.931	1.130	0.261

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	15.307	7	2.187	2.461	0.021
RESIDUAL	107.519	121	0.889		

Step 3: The direct effects on transaction-specific factors

In the same manner as the test of indirect effects on strategic motives (step 2), this section estimates the *indirect* effects of location-specific and firm-specific factors on foreign market servicing. This test is performed by estimating the effects of location- (P5) and firm-specific factors (P4) on transaction-specific factors. Based on our interpretation of Dunning´s eclectic framework, we attempt to outline some hypotheses related to these factors. However, formulation of these hypotheses are significantly limited by the lack of previous empirical research.

In Table 5.17 and 5.18 we address another indirect effect. We look at the effects from location-specific (P5) and firm-specific factors (P4) on the transaction-specific factors. Based on the empirical results we reject the alternative hypothesis of no effect. The F-ratio for these two models are 5.057 ($p<0.0005$) and 10.994 ($p<0.0005$), respectively. The adjusted R^2-statistics reveal that the model explains 13.7% of the variance in "tacitness of know-how" (P4 and P5 combined) and 28.1% of the variance in "contractual risk" (also, P4 and P5 combined).

Table 5.17 shows how the firm-specific factors of "scale and scope advantages" (P4a II) has a significant negative effect, which is as proposed. "Differentiation capacity" (P4a I) has the proposed positive effect on the transaction-specific factor of "tacitness of know-how". The "perceived cultural distance" (P5a I) is the only location-specific variable that is significant ($p<0.10$). As proposed, "perceived cultural distance" has a negative effect, suggesting that it is more difficult to transfer knowledge to culturally distant counties.

Table 5.17: Estimates for direct effects on the transaction-specific factor: tacitness of know-how.

DEP VAR: TKH N: 129 MULTIPLE R: 0.413 SQUARED MULTIPLE R: 0.171
ADJUSTED SQUARED MULTIPLE R: 0.137 STANDARD ERROR OF ESTIMATE: 0.988

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	3.839	0.705	0.000	.	5.443	0.000
P4a I (DC)	0.261	0.092	0.238	0.954	2.837	0.005
P4a II (SSA)	-0.188	0.065	-0.282	0.722	-2.914	0.004
P4a III (IE)	-0.005	0.007	-0.061	0.709	-0.626	0.532
P5a I (PCD)	-0.163	0.089	-0.153	0.966	-1.831	0.069
P5a II (MA)	0.021	0.089	0.020	0.943	0.241	0.810

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	24.664	5	4.933	5.057	<0.0005
RESIDUAL	119.989	123	0.976		

Table 5.18 shows how firm-specific and location-specific variables affect contractual risk. The "perceived cultural distance" (P5b I) has the largest effect among the significant factors. As anticipated, a culturally distant country increase the contractual risk of serving that market. The second most important factor is "international experience" (P4b III), which as predicted leads to lower contractual risk. The last significant factor is the firm-specific variable of "scale and scope advantages" (P4b II). This variable decreases the contractual risk. One explanation can be that a "scale or scope" advantage reduces the contractual risk, as such an advantage provides the firm with more bargaining power over potential contractual partners. We failed to identify any significant effect from "differentiation capacity" (P4b I).

Table 5.18: Estimates for direct effects on the transaction-specific factor: contractual risk.

DEP VAR: CR N: 129 MULTIPLE R: 0.556 SQUARED MULTIPLE R: 0.309
ADJUSTED SQUARED MULTIPLE R: 0.281 STANDARD ERROR OF ESTIMATE: 0.745

VARIABLE	COEFFICIENT	STD ERROR	STD COEF	TOLERANCE	T	P(2 TAIL)
CONSTANT	4.821	0.532	0.000	.	9.057	0.000
P4b I (DC)	-0.028	0.069	-0.031	0.954	-0.405	0.686
P4b II (SSA)	-0.095	0.049	-0.173	0.722	-1.958	0.053
P4b III (IE)	-0.016	0.006	-0.248	0.709	-2.786	0.006
P5b I (PCD)	-0.329	0.067	-0.372	0.966	-4.885	0.000
P5b II (MA)	-0.073	0.067	-0.083	0.943	-1.079	0.283

ANALYSIS OF VARIANCE

SOURCE	SUM-OF-SQUARES	DF	MEAN-SQUARE	F-RATIO	P
REGRESSION	30.551	5	6.110	10.994	<0.0005
RESIDUAL	68.359	123	0.556		

6. Summary and Conclusion

6.1. Theoretical Implications

We have attempted to operationalize a model of foreign market servicing based on five major theoretical perspectives. Our model is both a simplification, in order to get independent constructs, and an extension of previous conceptual models. The multiple tests of our main model (Figure 3.1), and the corresponding individual hypotheses, suggest that we have constructed a rather powerful framework for understanding FDI and foreign market resource commitment at the divisional level. Another theoretical implication is the nature of the relationship between the elements of the eclectic paradigm. Whereas Dunning (1988) emphasizes that all three sets of factors are necessary preconditions for FDI, i.e. indirect effects, we are suggesting a model of both direct and indirect effects. By using multivariate techniques we are able to estimate the potential indirect and/or interaction effects, thus, enhancing understanding of the complex pattern of relationships among the model constructs. The observed empirical results show that a linear combination of the proposed independent variables provides a good fit to the data, i.e., each factor is fairly independent of each other.

This study has identified and empirically verified the significance of strategic motives in relation to foreign market servicing decisions. This study is among the first to attempt to incorporate strategic motives at the firm- or divisional level of analysis, as suggested by e.g. Dunning (1993b), and Hill, Kim & Hwang (1990), and Melin (1992). The implication is that

strategic motives need to be an integrated part of further model development on FDI decisions and choice of international market servicing.

This study has moved in three directions in relation to previous research efforts. First, we focus on the micro-level of divisional entities within concerns. We are able to consider division-specific psychometrially measured variables that are not measurable in industry-level studies, such as strategic motives. Second, we are providing a coherent theoretical model in a field that has been critiqued for its lack of theoretical rigor (as pointed out by e.g. Anderson & Coughlan, 1987; and Andersen, 1993). In response to the above remarks, all of the hypotheses of this study are discussed in relation to the theoretical perspectives (summarized in Table 3.1). The empirical results provide partial support for applying the perspectives of internalization theory, market power, location theory, network theory, and the resource-based theory of strategic management in addressing foreign market servicing issues. The reason we only received *partial* support was due to the fact that none of the perspectives are supported by all its derived hypotheses. However, none of the theoretical perspectives failed to receive some empirical support. Third, this study focuses on *current* market servicing and resource commitment, as opposed to foreign market *entry* decisions. Forsgren's (1989) research on the foreign market servicing of Swedish MNEs reveals that only a small fraction of these firm's international resource commitments went towards new market entries. A similar pattern is also evident in our sample. However, we do not have the exact figures to support this argument.

This research supports the relevance of using multiple perspectives in order to understand FDI and foreign market servicing. The results also suggest that neither market power (utilizing oligopolistic advantages) nor

internalization (reduction of transaction costs) are sufficient explanations for the existence of FDI; at best these perspectives represent partial explanations. We identify how the resource-based perspective on strategy enhances the understanding of FDI, particularly as it relates to the effect of tacitness of know-how and strategic motives. The network perspective helps us to understand the reasons for the existence of strategic motives. The effect of international experience, as suggested by the internationalization process perspective, proved to enhance the use of FDI and equity involvements. However, this effect was in fact mostly evident indirectly, as it effected the strategic motives of the firm/division.

6.2. Implications for Practitioners

A recent *Economist* (1994) article identified three specific strategies that MNEs pursue in order to enhance their global competitiveness. This articles used a few well-known cases to support its propositions. The three strategies identified were: (1) seeking global efficiency, (2) responding to national needs, and (3) a global search for know-how. Interestingly, these same three factors have been the focus of our discussion of strategic variables, namely: (H1a), (H1b), and (H1c). In our sample of Norwegian manufacturing companies, we empirically verified the existence of the strategic motive of "seeking global synergy" (or global integration), and "seeking potential advantages".

The model of foreign market servicing (Figure 3.1) gives specific direction on the role strategic factors. Based on theoretical arguments we describe strategic motives as an intermediate factor. Our findings provide further support to this position. By focusing both on the specific mode (FDI versus

non-FDI) and the resource commitment, we are able to closely link this study to managerial decision-making. Managers need to know how much resources to invest in each country, as well as the specific nature of this investment. The overall model and a fair number of the proposed hypotheses are highly significant, which suggests that the findings have practical importance (McCloskey, 1985).

One particular advantage of this study is the attempt to build a "complete" model of FDI choice and foreign market resource commitment decisions. Since this study attempts to build a comprehensive model of foreign market servicing, it provides managers with a framework in which these decisions can be easily evaluated.

The empirical results indicate that there is a relationship between strategic motives and foreign market servicing. To consider strategic motives might be an appropriate approach to seek long-term efficiency. Because of the typical short-sightedness of regular market agreements (such as exporting), such a market servicing mode might not be appropriate to achieve the potential gains from "advantage seeking" or "global synergy seeking". FDI is then the preferred mode, since the potential long-term gains cannot be achieved through arms-lengths agreements in the market.

An FDI can be used to capture the economic benefits of a firm-specific advantage, i.e., utilizing differentiation to set prices (and supply) above the marginal costs of production. Advantages based on differentiation can be lost if the firm does not have tight control over product quality (typically in the case of FDI) and the way the product is marketed (either FDI or sales subsidiary). In a similar fashion the potential gains from economies of scale and scope might be hard to transfer in an open market. Sharing, or pooling,

of common resources (e.g. financing, production, marketing) within a concern can, therefore, be an important source of firm-specific advantages.

Choosing ownership control (FDI or sales subsidiary) might be a way to economize on transaction related costs. Hierarchical control makes the firm less vulnerable to opportunism, and it can reduce contract related costs of negotiating and enforcing contracts. FDI might also be a necessary mean in order to facilitate international transfer of skills and resources. The tacitness of these resources and skills makes anything short of a long-term market servicing, such as a FDI or a sales subsidiary, less attractive or even unfeasible.

In an unfamiliar environment the firm is less able to control and monitor contractual arrangements, such as exporting and licensing. To choose FDI in an unfamiliar environment provides the firm with more protection against opportunism among contractual partners. An attractive market makes a firm more willing to increase its market-specific resource commitment. However, this effect was not specifically related to FDI, which may suggest that international *production* is not necessary in order to take advantage of such a market-based opportunity.

6.3. Limitations

We are using the four common dimensions of validity to discuss some of the limitations of this study. In line with Cook & Campbell (1979), we are considering statistical conclusion validity, internal validity, construct validity, and external validity.

In this study *statistical conclusion validity* concerns the magnitude of covariation between the variables in the presented model. In relation to foreign market resource commitment six out of nine hypothesis related to this measure significant at $p<0.01$. The statistical conclusion validity is also supported by the fact that five out of nine hypotheses related to FDI are significant ($p<0.05$). Based on the least square regression model (Table 5.5) we are able to explain 49.7% (full model) and 50.2% (reduced model) of the variation in the dependent variable of "foreign market resource commitment". This magnitude of explained covariation is very high, particularly considering the cross-industry nature of the sample. The *Chi-square* statistics for the full and the reduced model of FDI are 49.72 and 45.97 (both at $p<0.001$), respectively.

Internal validity refers to whether a causal relationship can be inferred between the independent and the dependent variable. Our survey of foreign market servicing cannot answer the question of causality. We need to ground the casual relationships theoretically, since our research approach lacks, among others, the methodological power of a time-series design. This theoretical grounding has also been sought through the extensive use of past studies in identifying the constructs, in Chapter two, and in formulating the model specification and the specific hypotheses in Chapter three. Even though we are considering factors related to the past (international experience) and the future (strategic considerations), we are only using present indications for these past or future factors. We have limited this study to manufacturing divisions from one country, and as such, this somewhat homogenous setting helps us to control for alternative explanations.

We extensively use previous operationalizations in order to gain a satisfactionary level of *construct validity*. In line with the recommendations of Noordewier, John & Nevin (1990), we are not using the same data for measure development as we use for testing relationships. In order to develop the new constructs related to strategic motives (the other factors rely on measures from other studies) we were particularly reliant on our initial exploratory interviews, guided by theory. Construct validity testing evaluates the relation between the measures in a way that is consistent with the theoretical concepts. We assess construct validity, discriminate validity, and convergent validity by applying item-total correlations (Table 4.7) and common factor analysis on each set of factors (not reported). Tests for the convergent validity is, however, limited by the fact that we do not measure the same constructs with different methods. Our measure of convergent validity only considers the difference produced by the various wordings (captured by our discussion about reliability). Factor analysis (unreported) was used to assess the constructs of each set of factors. The pattern of factor loadings are taken to provide some evidence of discriminate and convergent validity, even though the original discussion of these validities assumed repeated studies using different methods (Campbell and Fiske, 1959).

Since this study uses regression analysis, we assume that the hypothesized relationships are linear. Based on the residual statistics and the robustness of the developed model (i.e. the small changes in the parameter coefficients. as individual variables are dropped), it appears that the linearity assumptions are satisfied.

External validity is a major concern in this study. Since we are only analyzing the market servicing of larger Norwegian companies, this does, of course, limit the generaliability of the results to other countries and smaller

countries. We do not include factors that might have a home-country effect on FDI, such as the home market political environment (i.e. Norway), home-market competition, and export policies of the home country. However, there are some reasons to generalize the results beyond Norwegian FDI. First, we argue that the nationality effects of the home country might be limited, since the relevant issue is cultural *distance* (which is part of our model).[21] Second, the theoretical basis for the market servicing model is exclusively based on research from non-Norwegian companies (since no similar previous studies exists). The good fit of the data to the model suggests that the theories and factors being used are not country-specific. Issues such as Norway's industry composition limits the ability to generalize. Since this is a study make at one particular time (1993), this also limits the generalizability of the results to other points in time.

Our sampling criteria, selecting the divisions of the larger exporting manufacturing companies, produce a non-random sample of Norwegian businesses in general. However, there appear to be no systematic non-response problem based on the differences between the early and the late respondents. By comparing our sample to parameters of other studies (Carelius, 1993, and Nordström, 1991) and population information, this suggest that our sample is not biased. The fact that the divisions we analyze represent 48% of the total amount of FDI from Norway in 1992, and 52% of the export, adds to the generaliability of the results to Norwegian manufacturing businesses.

[21] By re-running our regressions with dummies for each host-market we have not been able to increase the power of the model, nor are these dummies significant. This suggest that our existing model is able to capture these host-market effects.

6.4. Recommendations for Future Research

40% of the assets of the average division/firm in our sample is located abroad. This shows the importance of international servicing choice to these corporations. As much as 77% of the these division/firms revenues were generated outside the home country. These factors suggest the tremendous need for further understanding of factors related to choice of market servicing and choice of international resource commitment. This is of interest to managers, policy-makers, and researchers. While this study is an attempt to gain this understanding, its findings, implications, and limitations reveal the need for further research on this issue.

We are particularly suggesting three directions for future research. First, strategic considerations at the firm-, or alternatively at the divisional level, need to be an explicit part of theory on FDI and foreign market servicing. Even though the amount of explained variance in the dependent variable is rather high and significant, a fair amount of unexplained variance remains. Future theory development is, therefore, needed to further identify and specify the nature and effect of all sets of factors. This is particularly pertinent in relation to the least researched strategic motives.

Second, an important consideration for future research studies should be the replication and confirmation of the results obtained in this study. In order to strengthen the generalization of our finding, we recommend that similar studies be conducted on foreign market servicing in new geographical areas (both host- and host-counties). Given the rather precise operationalizations and measurements of most of the key model constructs, future studies using the same measures and measurement instrument are encouraged in order to create comparability of results across studies.

Since this is not an experimental based study, testing causality is beyond the capabilities of this research design. Our initial case-studies and the significant amount of previous research is our best safeguard against unfounded causal assumptions. However, future research is needed to assess the causality between the four sets of independent factors (strategic, firm-specific, location-specific, and transaction-specific) and the foreign market servicing mode.

6.5. Summary of Findings

We have enhanced the existing models of foreign market servicing. To focus on foreign market servicing implies that we are considering the *present* mode of foreign market involvement, whereas most existing studies have only looked at the entry mode. We have incorporated strategic motives and built a more complete model of foreign market servicing that incorporates direct and indirect effects. The empirical evidence supports our proposed model, however, some of the proposed hypotheses and propositions were rejected. A considerable amount of unexplained variance still remains. This is especially the case of the indirect effects (P1-P5).

A Foreign Direct Investment (FDI) represents a very important strategic commitment for a company. An important issue is, therefore, which factors determine the resource commitment in foreign markets, and the simultaneous choice of equity versus non-equity involvement, and foreign versus domestic production. This study proposes and tests a decision-making model of international involvements on a sample from the divisions of the 50 largest exporting manufacturing companies from Norway. By using three measures for the dependent variable, we get a more complex picture of the

outcome of the foreign market servicing decision. We identify five significant variables that promote the use of foreign market involvements with a high level of resource commitment. We also identify four variables that significantly affect the tendency to use FDI. Furthermore, four variables specifically affect the use of equity involvements, and four factors affect the use of foreign production (either inside or outside the boundary of the firm). This study verify the importance of locational, firm-specific, and transactional factors, as previously recognized by e.g. Gatignon & Anderson, (1988), Dunning (1988), and Kogut and Zander (1993). In addition we test for the effect of strategic motives, which to our knowledge have only been previously empirically tested by Kim and Hwang (1992). To the practising manager this study links previous theory development research, (e.g. Hill, Kim & Hwang, 1990; Dunning, 1993b), to actual decision-makers at the divisional level or firm level.

This research effort concludes that strategic motives are important to the choice of foreign market servicing. The strategic reasons for choosing FDI are particularly coupled with the motive of "advantage seeking". This result is very interesting, since this variable has not been previously tested within a model of foreign market servicing. This finding also contradicts the predictions of the market power perspective, which specifically argues that possessing firm-specific resources is the main factor driving FDI. The strategic motive of "global synergy seeking" appears to be influential on the resource commitment in a foreign market, but not significantly related to FDI. This might suggest that the strategic motive of "global synergy seeking" can be achieved by using a number of alternative market involvements, i.e., not only through FDI.

In line with the Dunning's (1988,1993a) eclectic paradigm we have identified the influence of firm-specific, location-specific, and transaction-specific factors. We have extended the empirical basis for such an eclectic approach to market involvement decisions. The variables that determine these resource commitments are: "seeking global synergy" (H1a), "seeking potential advantage" (product or process technology) (H1c), "scale and scope advantages" (H2b), the "perceived cultural distance" (H3a), high "market attractiveness" (H3b), and the "tacitness of know-how" (H4a). The variables that specifically determine the use of FDI (which implies both equity involvement and foreign production) over alternative market involvements are: "seeking potential advantage" (product or process technology) (H1c), "differentiation capacity" (H2a), "scale and scope advantages" (H2b), the "perceived cultural distance" (H3a), and the "tacitness of know-how" (H4a). Even though "international experience" (2c) did not effect the use of FDI directly, it significantly effects FDI indirectly through the intermediate strategic variables of "seeking global synergy" (P1a III) and "seeking potential advantages (P1b III).

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APPENDIX

MAIL SURVEY INSTRUMENT

Vennligst returner spørreskjemaet i vedlagt konvolutt adressert til: Tone Løvik, Agder Ingeniør- og Distriktshøyskole, 4890 Grimstad.

Generelle retningslinjer for utfylling

Vi ønsker å få Deres vurdering av forretningsområdets eventuelle internasjonale aktiviteter i Sverige, Storbritannia, Tyskland, Spania, Japan, Polen og USA. Spørreskjemaet omhandler det forretningsområdet De er mest tilknyttet, med unntak av de spørsmålene som omhandler konsernet. Et ***forretningsområde*** er definert som: Den viktigste gruppering av bedriftens produkter/tjenester med hensyn til internasjonal strategisk planlegging og økonomisk rapportering. Forretningsområde kan være benevnt som divisjon, mens i andre bedrifter vil virksomheten kun bestå av ett forretningsområde.

Vennligst besvar alle spørsmålene. Vi innser at det i noen tilfeller vil være vanskelig å gi eksakte opplysninger, da er imidlertid det beste anslag tilstrekkelig. Hvis De har noen utfyllende kommentarer til spørsmålene, så benytt gjerne ledig plass på selve spørreskjemaet eller et eget ark. Deres kommentarer vil bli nøye lest og være en viktig del av analysen.

Generell informasjon om forretningsområdet og konsernet

1. Hva var ***konsernets*** totale omsetning i 1992? _____millioner kroner.

1b. Hva var ***forretningsområdets*** omsetning og resultat før skatt i hhv. 1992, 1988?:

Omsetning i Mill. kr.		Resultat før skatt: i Mill.kr.	
1988	_____	1988	_____
1992	_____	1992	_____

2. Hvor stor del av ***forretningsområdets*** kostnader i 1992 kan betegnes som forsknings- og utviklingskostnader?_____mill. kr.

3a. Hvor stor var ***eksportandelen*** (inklusive salg fra enheter i utlandet) for Deres ***forretningsområde*** i 1992? _____%

3b. I hvor mange ***land*** har ***forretningsområdet*** (eventuelt sammen med resten av konsernet) datterselskap med minimum 10% eierandel (både produksjon og distribusjon)? _____pr. 1.1.93

3c. ***Hvor mange utenlanske datterselskaper***, med minimum 10% eierandel, har Deres ***forretningsområde***?_____pr. 1.1.93

3d. Hva er ***forretningsområdets*** totale ***eiendeler***, slik det fremkommer av balansen pr. 1.1.93? _____Millioner kr.

3e. Hvor stor del av ***forretningsområdets*** eiendeler, som besvart i spørsmål 3c, er tilknyttet datterselskap i utlandet? _____%pr 1.1. 93 (anslag bedre enn intet svar).

3f. Hvor mange er ***ansatte har forretningsområdet*** pr.1.1.93?_____ Hvor mange av disse er ***ansatt i utlandet***?_____

4a. Hvilken bransje tilhører Deres forretningsområde: Vennligst sett ring rundt en av bokstavene: a-k:

a. Oljeutvinning og bergverksdrift
b. Næringsmidler, drikke- og tobakksvarer
c. Tekstiler- bekledningsindustri, lær- og lærvarer
d. Trevarer
e. Treforedling, grafisk- og forlagsvirksomhet
f. Kjemiske-, gummi- og plastprodukter
g. Mineralske produkter
h. Metaller
i. Verkstedprodukter
j. Industriproduksjon ellers
k. Annet _____

4b. I hvilken grad inneholder forretningsområdets viktigste ***produkt*** firmaunik teknologi? Vennligst sett ring rundt det tallet som passer best.

Meget betydelig unik teknologi	Betydelig unik teknologi	Noe unik teknologi	Litt unik teknologi	Ingen unik teknologi
1	2	3	4	5

4c. I hvilken grad inneholder forretningsområdets viktigste ***produksjonsprosess(er)*** firmaunik teknologi?

Meget betydelig unik teknologi	Betydelig unik teknologi	Noe unik teknologi	Litt unik teknologi	Ingen unik teknologi
1	2	3	4	5

4d. I hvilken grad er forretningsområdets viktigste produkt(er), mht. lønnsomhet, spesialtilpasset til den enkelte sluttbruker(ne)?

Meget betydelig spesial tilpasset	Betydelig spesialtilpasset	Noe spesial-tilpasset	Litt spesial-tilpasset	Ikke spesial-tilpasset
1	2	3	4	5

5. Hvor stor var konsernets utenlanske eierandel pr. 1.1.93? _____%

6. I forbindelse med forretningsområdets siste etablering i utlandet, eventuelt endring av etableringsform, hvilke av de følgende forhold var viktig for det valget som ble foretatt? (vennligst sett 0 hvis irrelevant spørsmål/vet ikke)

	Meget viktig	**Viktig**	**Middels viktighet**	**Litt viktig**	**Uvesentlig**
a. Høy økonomisk lønnsomhet	1	2	3	4	5
b. Lav risiko	1	2	3	4	5
c. Unngå negative effekter for norsk økonomi	1	2	3	4	5
d. Bidra til å bedre økonomien i etableringslandet	1	2	3	4	5
e. Unngå tap av arbeidsplasser i Norge	1	2	3	4	5
f. Skape karrieremuligheter for ansatte fra Norge	1	2	3	4	5

Generell informasjon om utfylleren av skjemaet

7. Hvor mange år har De vært ansatt i konsernet? _____ år

8. Har De arbeidet i utlandet, enten for Deres nåværende arbeidsgiver eller for andre bedrifter/organisasjoner? Eventuelt, antall år _____.

9. Hvilken stilling har De i bedriften? Vennligst sett en ring rundt riktig bokstav.

a. Divisjonssjef eller leder forretningsområdet
b. Adm Dir.
c. Vise-Adm.
d. Internasjonal sjef e.l.
e. Controller e.l.
f. Annet _____

10. Ønsker De å få tilsendt et gratis sammendrag av den endelige rapporten? ja nei

Forretningsområdets nåværende etableringsform i utlandet

11. Hva er eventuelt den viktigste etableringsformen (kategoriene a-m) i hhv. Sverige, Tyskland, Storbritannia, Spania, Polen, Japan og USA? Vennligst sett 1-tall for den viktigste etableringsform i hvert land (mht. lønnsomhet). Hvis Deres forretningsområde benytter mer enn en etableringsform i et land, så vennligst sett et 2-tall for den nest viktigste etableringsformen.

	Sver-ige	Tysk-land	Storbr itannia	Span-ia	Polen	Japan	USA
a. Betjener **ikke** landet regelmessig:							
b. **Eksport** til heleid datterselskap (100-90% eierandel).							
c. **Eksport** til joint-venture (10 - 90% eierandel)							
d. **Eksport** tilsalg/distribusjons/markedsførings-selskap med ingen eller mindre enn 10% eierandel							
e. **Eksport** direkte til sluttbruker							
f. **Produksjon** utlandet i heleid datterselskap (100-90% eierandel)							
g. **Produksjon** i utlandet i delvis eid selskap (mindre enn 90% og til og med 50% andel)							
h. **Produksjon** i utlandet i selskap med minoritetseierandel (mindre enn 50% eierandel)							
i. **Lisensavtale** med selskap *uten* eierandel							
j. **Lisensavtale** med selskap *med* eierandel							
k. **Franchising** på utemarkedet							
l. **Langsiktig samarbeid med selskap**							
m. Annet :							

Vennligst besvar resten av spørreskjemaet mht. de landene De betjener regelmessig.

	Sver-ige	Tysk-land	Storbr itannia	Span-ia	Polen	Japan	USA
12a. **I.** Har forretningsområdet planer om å endre den viktigste etablerings-formen i noen av landene i perioden frem til 31.12.1995? Hvis *ja*, svar også på II: **II.** Hva vil være den nye etablerings-formen (bruk kategoriene a-m fra spørsmål 11).	I: Ja Nei II:	I: Ja Nei II:	I: Ja Nei II:	I: Ja Nei II:	I: Ja Nei II:	I: Ja Nei II:	I: Ja Nei II: .....
12b. Hvor stor er forretningsområdets markedsandel i hvert land?	%	%	%	%	%	%	%
12c. **I:** Har forretningsområdet benyttet en annen etableringsform tidligere i landet? Hvis *ja*, svar også på I og II: **II:** Når skjedde eventuelt denne endringen, årstall? **III:** Hva var den tidligere etablerings-formen?(bruk a-m fra spørsmål 11)	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III:	I: Ja Nei II: 19.... III: .....
12d. **I:** Har Deres forretningsområde helt eller delvis eid produksjon i utlandet? Hvis *ja*, vennligst svar på II: **II:** Hvordan ble denne produksjonen startet opp?	I: Ja Nei II.	I: Ja Nei II.	I: Ja Nei II.	I: Ja Nei II.	I: Ja Nei II.	I: Ja Nei II.	I: Ja Nei II.
a. 100% oppkjøp av etablert selskap.....	a	a	a	a	a	a	a
b. Delvis (<100%) oppkjøp av etablert selskap	b	b	b	b	b	b	b
c. Etablering av et nytt eget selskap	c	c	c	c	c	c	c
d. Etablering av et nytt selskap i samarbeid med et eller flere andre selskap.	d	d	d	d	d	d	d
e. Annet.....	e	e	e	e	e	e	e

I spørsmål 13 og 14 skal De ta utgangspunkt i den viktigste etableringsformen i hvert land.

13. Vil De karakterisere forretningsområdets økonomiske engasjement i hvert av de syv landene som lite eller betydelig? (Sett ring rundt riktig tall for hvert land, og sett 0 ved landet hvis spørsmålet er irrelevant/vet ikke).

	Betydelige engasjement	Ganske stort engasjement	Middels stort engasjement	Ganske lite engasjement	Meget lite engasjement
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

14a. Vil det medføre betydelige avviklingskostnader hvis forretningsområdet skulle slutte å betjene landet? (Sett ring rundt riktig tall for hvert land, og sett 0 ved landet hvis spørsmålet er irrelevant/vet ikke).

	Meget store kostnader	Store kostnader	Middels store kostnader	Små kostnader	Ingen kostnader
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

14b. Har Deres forretningsområde ressurser som kun kan benyttes i tilknytning til den nåværende etableringsformen (f.eks. eksport, joint venture, uteproduksjon etc.) i landet?

	Meget store ressurser	Store ressurser	Noen ressurser	Små ressurser	Ingen slike ressurser
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

14c. Er de forbindelser/kontakter forretningsområdet har etablering i landet vanskelig å tilegne seg for eventuelle nye konkurrenter?

	Meget vanskelig å tilegne seg	Vanskelig å tilegne seg	Middels vanskelig å tilegne seg	Nokså lett å tilegne seg	Meget lett å tilegne seg
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

Kulturelle forskjeller og likheter: Spørsmålene 15-19a-c angår de landene De betjener.

15. På hvilke av de følgende områder er ***polsk*** kultur svært forskjellig fra norsk kultur? (Vennligst sett ring rundt det som passer best, sett 0 hvis spørsmålet ikke passer/vet ikke).

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

16. På hvilke av de følgende områder er ***tysk*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

17. På hvilke av de følgende områder er ***britisk*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

18. På hvilke av de følgende områder er ***japansk*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

19a. På hvilke av de følgende områder er ***amerikansk (USA)*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

19b. På hvilke av de følgende områder er ***spansk*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

19c. På hvilke av de følgende områder er ***svensk*** kultur svært forskjellig fra norsk kultur?

	Svært forskjellig	Ganske forskjellig	Noe forskjellig	Litt forskjellig	Ingen forskjell
a. Forretningspraksis:	1	2	3	4	5
b. Politisk innflytelse på næringlivet:	1	2	3	4	5
c. Forholdet eiere og ansatte:	1	2	3	4	5
d. Arbeidsmoral:	1	2	3	4	5
e. Lederstil:	1	2	3	4	5

Forretningsområdets konkurranse-fortrinn og -ulemper

20. Konkurransefortrinn er de forhold som danner grunnlag for virksomhetens langsiktige lønnsomhet. Vennligst sett ring rundt det tallet som passer for det aktuelle land.

a. Er Deres forretningsområde bedre eller dårligere ***til å tilpasse produktene til kundenes behov*** enn den viktigste konkurrenten i (konkurrenten trenger ikke være fra landet):

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

b. Har Deres forretningsområde bedre eller dårligere ***prosessteknologi*** i forhold til den viktigste konkurrenten i:

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

c. Er Deres forretningsområdes viktigste ***produkt mer avansert*** enn tilsvarende produkt fra den viktigste konkurrenten i:

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

d. Benytter Deres forretningsområde ***mer eller mindre tid på å få ferdig nye produkter*** i forhold til den viktigste konkurrenten i:

	Betydelig senere	Noe senere	Hverken bedre eller senere	Noe raskere	Betydelig raskere	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

e Har Deres forretningsområde et bedre eller dårligere ***distribusjonssystem*** enn den viktigste konkurrenten i:

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

f. Har Deres forretningsområde et bedre eller dårligere ***merkenavn*** enn den viktigste konkurrenten i:

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

g. Har Deres forretningsområde større eller mindre ***stordriftsfortrinn i produksjon*** enn den viktigste konkurrenten i:

	Betydelig mindre	Noe mindre	Hverken større eller mindre	Noe større	Betydelig større	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

h. Har Deres forretningsområde større eller mindre ***stordriftsfortrinn i distribusjon/markeds-føring*** enn den viktigste konkurrenten i:

	Betydelig mindre	Noe mindre	Hverken større eller mindre	Noe større	Betydelig større	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

i. Har Deres forretningsområde bedre eller dårligere ***kunnskap om forretningsdrift i landet*** enn den viktigste konkurrenten i:

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

Spørsmålene j. og k. gjelder forhold knyttet til forretningsområdet generelt.

j. Har Deres forretningsområde mer eller mindre ***effektiv koordinering av aktiviteter mellom land*** enn den viktigste internasjonale konkurrenten?

	Betydelig mindre effektiv	Noe mindre	Hverken mer eller mindre effektiv	Noe mer	Betydelig mer effektiv	Vet ikke/ Irrelevant
Generelt:	1	2	3	4	5	0

k. Gir forretningsområdets ***konserntilknytning spesielle fortrinn*** *eller ulemper*?

	Betydelig ulemper	Noen ulemper	Hverken ulemper eller fortrinn	Noen fortrinn	Betydelig fortrinn	Vet ikke/ Irrelevant
Generelt:	1	2	3	4	5	0

Koordinerings- og overførings-kostnader

21. Er De enig eller uenig i utsagnene i spørsmål 21a-d knyttet til den viktigste etableringsformen i landet. (Vennligst sett 0 til venstre for landet hvis spørsmålet er irrelevant/vet ikke).

a. Da en valgte dagens etableringsform, var det ***lett å overføre produksjonskunnskap*** til forretningsområdets representant(er) (f.eks. datterbedrifter, joint-venture partnere, andre samarbeidspartnere, distributører, importører) i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

b. Da en valgte dagens etableringsform, var det ***vanskelig å overføre markedsførings-kunnskap*** til forretningsområdets representant(er) (f.eks. datterbedrifter, joint-ventures, samarbeidspartnere, distributører, importører) i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

c. Da en valgte dagens etableringsform, var det ***vanskelig å overføre ledelseskunnskap*** til forretningsområdets representant(er) (f.eks. datterbedrifter, joint-ventures, samarbeidspartnere, distributører, importører) i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

d. Da en valgte dagens etableringsform, var det ***vanskelig å overføre forsknings- og utviklingskunnskap*** til forretningsområdets representant(er) (f.eks. datterbedrifter, joint-ventures, samarbeidspartnere, distributører, importører) i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

Målsetning for nåværende etableringsform

22a. Er målsetningen om ***å oppnå synergieffekt*** mellom forretningsområdets aktiviteter i landet og aktiviteter i andre land (inklusive Norge) vesentlig for valg av viktigste etableringsform i: (Vennligst sett 0 til venstre for landet hvis ukjent svar, eller spørsmålet er irrelevant).

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

b. Er målsetningen om å ***kunne påvirke prisnivået i bransjen*** vesentlig for forretningsområdets nåværende valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

c. Er målsetningen om å ***få tilgang til prosessteknologi*** vesentlig for forretningsområdets nåværende valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

d. Er målsetningen om å ***få tilgang til produktteknologi*** vesentlig for forretningsområdets nåværende valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

e. Er målsetningen om å ***redusere den generelle økonomiske usikkerhet*** knyttet til internasjonale svingninger i valutakurser, inflasjon og renteutvikling vesentlig for forretningsområdets nåværende valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

f. Er målsetningen om å ***få bedre tilgang til innsatsfaktorer*** vesentlig for forretningsområdets nåværende valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

g. Er målsetning om å ***få lavere produksjonskostnader*** vesentlig for forretningsområdets valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

h. Er målsetning om å ***få minimert den politiske risiko*** (mao. risiko for at politiske beslutninger i hvertslandet skal ha negative innvirkning) vesentlig for forretningsområdets valg av viktigste etableringsform i:

	Ingen betydning	Liten viktighet	En viss viktighet	Stor viktighet	Meget viktig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

Økonomisk attraktivitet i de forskjellige utemarkedene

23. Hvor økonomisk attraktivt er det å betjene landet i fht. gjennomsnittet av forretningsområdets utemarkeder? (tatt i betrakting forhold som markedsstørrelse, markedsvekst, prisnivå osv)

	Betydelig dårligere	Noe dårligere	Hverken bedre eller dårligere	Noe bedre	Betydelig bedre	Vet ikke/ Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

Generell økonomisk risiko

24. Er De enig eller uenig i følgende påstand:

De politiske forhold er meget stabile i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig	Vet ikke Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

Forskjellige former for risiko

25. Er du enig eller uenig i følgende påstander?

a. Forretningsområde vil kunne bli ***tilført ny teknologi*** hvis en benytter lokale samarbeids-partner(e).

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

b. Det er betydelig mer ***risikofylt å inngå kontrakter*** i: (enn i Norge)

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

c. ***Produktkvaliteten ville kunne økes*** hvis en benytter lokale samarbeidspartner(e) (importører, joint-venture partnere, lisenspartnere o.l.) i:

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

d. Forretningsområde vil kunne bli ***tilført ny teknologi*** hvis en benytter lokale samarbeids-partner(e).

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

e. Det er vesentlig mer ***kostbart å overvåke kontrakter*** i: (enn i Norge)

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Sverige:	1	2	3	4	5
Tyskland:	1	2	3	4	5
Storbritannia:	1	2	3	4	5
Spania:	1	2	3	4	5
Polen:	1	2	3	4	5
Japan:	1	2	3	4	5
USA:	1	2	3	4	5

Valg av fremtidig etableringsform

26. Er du enig eller uenig i følgende utsagn?

a. Valg av etableringsform i et nytt marked er sterkt påvirket av forretningsområdets tidligere valg av etableringsform i andre land.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

b. Målsetningen om å oppnå globale/tverrnasjonale konkurransefortrinn er vesentlig for forretningsområdets valg av etableringsform i nye land.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

27. Hvor stor del av ledelsesteamet (f.eks. adm.dir, teknisk direktør, finansdirektør, markedsdirektør, o.l.) i egne eller samarbeidende selskaper er fra moderselskapet i Norge?

	0-20%	>20-40%	>40-60%	>60-80%	>80-100%	Irrelevant
Sverige	1	2	3	4	5	0
Tyskland	1	2	3	4	5	0
Storbritannia	1	2	3	4	5	0
Spania	1	2	3	4	5	0
Polen	1	2	3	4	5	0
Japan	1	2	3	4	5	0
USA	1	2	3	4	5	0

28. Er De enig i følgende utsagn? Vennligst sett 0 hvis irrelevant/vet ikke.

a. Ny kunnskap (f.eks. produktforbedringer) blir utviklet av forretningsområde i Norge og så overført til aktivitetene i utlandet.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

b. Forretningsområdets viktigste ressurser er lokalisert i Norge, mens mindre viktige aktiviteter er lokalisert i utemarkedene.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

c. Den strategisk viktigste funksjonen til forretningsområdets aktiviteter i utlandet, inklusive eventuelt lokale samarbeidspartnere, er å utnytte mulighetene innenfor det landet hvor aktiviteten(e) er lokalisert.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

d. Forsknings- og utviklingsaktiviteter er vanligvis et samarbeid mellom forretningsområdet i Norge og forretningsområdets enheter/samarbeidspartnere i utemarkedene.

	Sterkt uenig	Delvis uenig	Hverken enig eller uenig	Delvis enig	Sterkt enig
Generelt:	1	2	3	4	5

Hjertelig takk for hjelpen!