NORGES HANDELSHØYSKOLE
Bergen, autumn 2005

Thesis in the specialisation: International Strategy
Supervisor: Professor Joyce Falkenberg

THE COMPETITIVE ADVANTAGE OF NATIONS AND CHOICE OF ENTRY STRATEGIES

– A THREE SCENARIO CASE STUDY

by
Marianne Helvik and Maria Luisa Garrido Harnecker

Acknowledgements

We are very grateful for the response by Associate Professor Ph.D. Erik Stavnsager Rasmussen and Professor Tage Koed Madsen, both positioned at the University of Southern Denmark, on our request on the Born Global Concept. We also thank our supervisor Professor Joyce Falkenberg, Agder University College, for contributing with valuable feedback and advices on our work. Finally, we thank Professor Paul Gooderham at the Department of Strategy and Management, NHH, for precise and quick response on our questions.

Bergen, March 2006

Maria Luisa Garrido Harnecker

Marianne Helvik

Abstract

Michael E. Porter's Diamond framework has been used as an analysis tool the last 15 years to define the competitive advantage of nations, but few researchers have discussed if there is a link between the Diamond framework and how international firms can pursue the best entry mode. Different variables will be presented linking the Diamond framework to entry strategies, designing an extended framework. Three case scenarios are used for analysis purposes; the first two originating in Porter's Diamond framework, while the third deals with alternative theory to the Diamond framework. The first scenario takes place in a nation where the home market lacks one or more of the Diamond determinants. The firm in this scenario is IKEA. The second scenario is located in a nation where the home market accesses all the Diamond-determinants. The firm chosen for this scenario is the Lerøy Seafood Group. The development of an extended framework illustrates how Porter's Diamond better suits the current business formation. Born Globals and the Double Diamond framework are presented as alternative notions for analysis-purposes. To illustrate the concepts, Dell Computer Corporation has been chosen.

Contents

I. Introduction

The internationalization process can be viewed in stages from the acknowledgement of the needs and wishes for international business, via the crucial foreign market entry phase to the point where the firm starts competing and consolidates in distant markets.

The purpose of this thesis is to connect Porter's Diamond framework of competitive advantage of nations to entry strategies. More specific, the scope of the thesis is firms originating in sophisticated and advanced market economies establishing in other advanced market economies. This means the challenges of entering into emerging and undeveloped economies will not be dealt with. In order to do so, an extended framework is developed and tested on two different case-scenarios. In addition, a third scenario is used for testing the validity of alternative concepts which can be seen as criticism of the Diamond-framework.

A clarification on the time perspective of the thesis is required. When focusing on the entry strategy phase, the association may be drawn towards the initial international experience of the firm. This, however, is not the approach in this thesis. The firms used for analysis have constantly continued expanding into new markets after their initial internationalization. Therefore, when dealing with the entry phase in this thesis, the notion is to be interpreted as a new entry strategy process for each new market entry.

The thesis is divided into three main parts. Part one constitutes of the theory part, where the research on which the thesis rests upon is being presented. In part two, the main task is the development of the Extended framework and the connection between Porter's Diamond and entry strategies. The last part includes the testing of the Extended framework on two different business-contexts. The first scenario describes a context where one or more of the country-specific determinants of the Diamond framework are lacking in the home-base. The second scenario illustrates the context where the home-market possesses all the determinants itself. The third scenario, however, has another focus than the two others. Scenario 1 and 2 focus on connecting the Diamond framework to entry strategies, while scenario 3 illustrates a business context where the Diamond is not relevant. The case-scenario firms are IKEA (Sweden), the Lerøy Seafood Group (Norway) and Dell Computer Corporation (the USA).

Peng (2006) points out three crucial questions which need to be answered. These are *how* to enter a new market, *when* to enter and *where* to enter. In addition, a *why* question is added because of the necessity to define a reason for the internationalization-process. The *how* question relates to the different entry strategies, like export, franchising, FDI, JV and others, while the *when* question deals with the time aspect. Finally, *where* refers to the choice of location for the foreign subsidiary.

Although the main focus lies with the *how* question, the extended framework and the connection to entry strategies are found by also investigating the *why* and the *where* question.

1.1 Definitions

The focus of the thesis is limited to advanced economies. According to the International Monetary Fund (IMF) the term advanced economy is replacing the old terms of industrial countries to describe the level of economic prosperity and wealth, as the share of employment in manufacturing is declining among the world's leading economies. The characteristics of advanced economies are "per capita income levels well within the range indicated by the group of industrial countries, well-developed financial markets and high degrees of financial intermediation, and diversified economic structures with relatively large and rapidly growing service sectors."(www.imf.org).

The terms "going international" and "going global" are often used interchangeable in the international business literature, see Peng (2006), Gooderham and Nordhaug (2004) among others. In this thesis the term "going international" refers to a firm establishing business outside its home market. The term "going global", i.e. to engage in a global strategy, is "A particular form of international strategy, characterized by the production and distribution of standardized products and services on a worldwide basis" (Peng, 2006). Throughout the thesis, the term "going international" is preferred because the Extended framework should not be limited by the more narrow definition of "going global".

The firms used in the analysis, can all be classified as Multinational Enterprises (MNEs). Bartlett and Ghoshal (2004) define MNEs by two criteria: The first relates to the need for HQs to engage in the *active management* of their overseas subsidiaries, not only holding them as a passive financial portfolio. More specific, what Bartlett and Ghoshal want, is to distinguish the pure holding corporations, as these cannot be regarded as real MNEs. The second criterion is regarding the need for substantial foreign direct investment. Substantial direct investment can be explained as "A flow of lending to, or purchase of ownership in, a foreign enterprise that is largely owned (at least 10 percent ownership, according to U.S. balance of payments accounts) by residents of the investing country. Direct investment implies full or partial control of the enterprise and, usually, physical presence by foreign firms or individuals in the host country" (www.highered.mcgraw-hill.com). Among the firms which can be classified as an MNE, those with less than 250 employees in a European context and less than 500 employees in an American context can be classified as Small-and-Medium-sized Enterprises (SMEs).[1]

In the third scenario, e-commerce is being discussed. Parsons and Oja (2006) define e-commerce as "financial transactions that are conducted electronically over a computer network. It encompasses all aspects of business and marketing processes enabled by internet and web technologies."

[1] This definition is taken from the work of Servais, Per, Rasmussen Erik S, Nielsen Bo B, & Madsen, Tage K.. In addition to use number of employees as defining measurement of the MNEs, turnover or the size of the balance sheet may also be used.

PART ONE

THEORY

II. Methodology

The thesis is based on a qualitative methodology. The Extended framework is theoretically derived, and the research used for the framework development, is articles and textbooks.

2.1 Sources

The bibliographical search was done using bibliographical databases, specialized research databases and relevant websites on the three firms and their industries. All sources were accessed through the library at the Norwegian School of Economics and Business Administrations (NHH) in Bergen, Norway, during the time period of Sept. 2005 – Feb. 2006. The searches included general bibliographical databases such as BIBSYS and Google Scholars, and research databases like Business Source Premier, Business Source Complete from EBSCO (NHH accessed this database shortly before the deadline) and Science Direct. BIBSYS were mostly used for textbook searches, while the other databases mainly were used for finding articles. Among the most frequently used websites were http://www.godfisk.no, http://www.leroy.no, http://www.ikea.com and http://www.dell.com.

The searches were carried out using key words as “entry strategies”, “entry modes” and “Diamond-framework + Porter”. In addition, direct searches on author or journal also took place, mainly on Porter, Michael, Bartlett and Ghoshal, Management International Review (MIR) and Journal of International Business Studies (JIBS). From the start searches were limited to research published from 2000 and later, but as the results were not satisfactory, the searches continued without any restrictions on publishing dates. The searches were limited to include only English and Norwegian literature.

2.2 The Outcome of the Bibliographical Search and the Application of Sources

The outcome of the literature search comprised approximately 250 titles using the Business Source Premier, but broadened to roughly 400 titles using both the Business Source Premier and the Business Source Complete databases. The selection of articles was rather limited as the thesis concentrates on advanced economies both as home-markets and host-country markets. The limitation actually more than halved the outcome of the search because a great number of articles are focusing on entry into emerging economies, in particular the Asian economies, with China and South Korea as the most cited, and many of the former Communist states in Eastern Europe. The search outcome was further narrowed by the fact that several of the remaining articles either originated from non-academic journals or had a distinct marketing approach, which were considered as not suitable for the purpose of the thesis.

Another problem with the database-searches was that a number of articles had a very specific purpose; typically examining how one particular entry strategy would match one certain industry, while the extended framework presented later in the thesis is developed for more general purposes. Finally, 6-7 articles were actively used.

Because of the relatively few suitable articles, several textbooks have been used to complement the literature sources. Textbooks have also been used for definitions and to form the basis of the presentation of theory and frameworks which provide the basis for discussions and the development of the extended framework later in the thesis. Most of the articles were used for determining the connection between the Diamond-framework and entry strategies, and hence, as the basis for the extended framework. It is the connection which is the contribution to this thesis; hence, most effort has been put in the search for relevant articles for this purpose.

The literature on the Born Global Concept (2 articles) were accessed through direct correspondence with the authors at the University of Southern Denmark.

III. Motivations for Going International

Having outlined the methodology, the focus now turns to the presentation of the theoretical basis for the thesis, starting with the reasons for going international.

Although the main objective is to explore the *how*-question, it may be reasonable that the answer is found by also examining the *why*-question. Without a proper and inspiring motivation, it is doubtful that firms will engage in the complex and time-consuming process of planning an international launch, and therefore, have to consider which entry strategy to follow.

Through search of literature, it became evident that different scholars introduce different sets of motivations[2]. The presentation given in this thesis is based on Lasserre's (2003) contribution in his textbook *Global Strategic Management*, where he gives a simple, but including categorization. Furthermore, he also makes an effort connecting the motivations to the entry strategies, see appendix 1. This connection is used later in the thesis when developing the Extended framework.

Lasserre (2003) mentions four general categories of motivations:

1. **To develop the market**

   Firms having market development objectives typically look for countries representing size and growth opportunities. Favourable countries are those that are critical regarding size and quality of their customer base, i.e. countries that can offer a large home markets with growth potential, and/or a very demanding and quality minded customer base. Such countries are often referred to as key countries, and a presence is often required for a long term global competitiveness. Key countries commonly mentioned are the US, China, Japan, United Kingdom, France and Germany. Russia should probably also be added to that list soon. Market development and market share increase constitute the most common entry objectives.

[2]See for instance Kotabe and Helsen 2001

2. **To access critical resources**

   The assumption is that certain key resources; mineral, agricultural or human, needed for developing competitive advantage, are found in other areas than the home-market. A presence in a resource-rich country will essentially be made to secure a steady supply of the key resource. Such activity can be the establishment of a mine, a plant, a software centre, a research facility etc.

3. **To capture knowledge available in the country**

   Learning objectives and investment in knowledge and research is important in countries where the particular industry is leading when it comes to innovation, product development and R&D, and where the only way to gain these competencies, is by being present.

4. **To set up a regional or global centre for co-ordinating various activities**

   Countries chosen for co-ordination activities have a critical geographical position and superior infrastructure to the surrounding areas. Often, firms tend to locate their HQs/training centres/logistics centres in such countries.

IV. The Competitive Advantage of Nations

The task of this chapter is to give a thorough presentation of Porter's work on competitive advantage of nations and the Diamond framework. The Diamond framework and the theory of the competitive advantage of nations are important contributions to the theoretical foundation of the thesis, and hence, a great effort has been put into this presentation, drawing upon the work of Porter himself.

Central in Porter's research on the competitive advantage of nations, is his statement that "national prosperity is created, not inherited." (Porter, 1990). By saying this, he rejects the traditional economic theory which teaches that variables like labour costs, interest rates and economy of scale are of most importance for the competitive advantages of a nation[3]. These are often a result of historical events and traditions, i.e. inherited.

In order to do so, several premises for understanding national advantage are given. First, the reason why some firms are better at differentiating between products and sources of competitive advantage needs to be explored. Second, an explanation of why the nation appears to be the desirable home base for competing in an industry should be given.

Porter defines the home base as the location “where strategy is set, core product and process development takes place, and the essential and proprietary skills reside.” (Porter, 1998b) The home base then constitutes the platform for a global strategy in which advantages drawn from the home nation are supplemented by those of the firm. Third, firms gain and sustain competitive advantage in international competition through improvement, innovation and upgrading. Porter (1990) defines innovation very broadly to include both product improvement and development of entirely new products and production methods. Furthermore, he stresses the importance of innovation as an accumulation of small steps and extended efforts, as much as the dramatic breakthrough. Advantages are gained through altering the basis of competition, and sustained by improvement which is fast enough to stay ahead. Today’s advantages are soon superseded or nullified. At the core of explaining national advantage in an industry must be the role of the home nation stimulating competitive improvement and innovation. Finally, the firms gaining competitive advantage are not necessarily those which discover new market needs or the potential of new technologies, but the early-movers and those most aggressive towards exploring new opportunities. Such new discoveries may alter the competitive structure of an industry, making previous leaders minor to the more adapting firms.

4.1 The Diamond of National Advantage

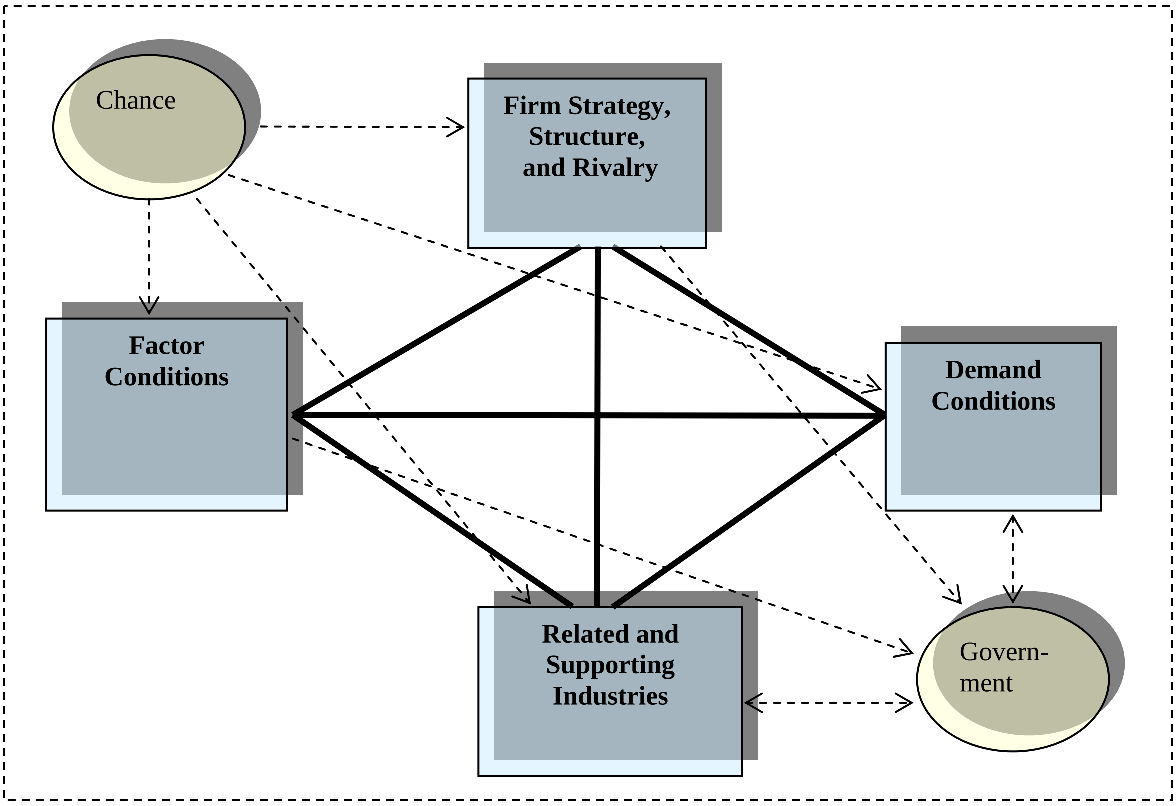
The Diamond framework is an industry-level framework focusing on the nations as its core unit of analysis. It is a tool for determining whether the industry (in a given nation) can provide firms with such favourable conditions allowing them to compete internationally. In other words, the Diamond framework says whether or not a firm has the competitive advantages necessary for an international launching.

The Diamond framework consists of four country-specific determinants, which describe characteristics of a nation’s competitive advantage, and two external variables. The determinants are factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry, chance and government. The determinants as a system constitute the Diamond framework, which is a mutually reinforced system meaning that the

[3] See the classical work of Adam Smith and David Ricardo among others.

effect of one determinant depends on the state of the others. Porter (1990) points out two elements of particular importance for the diamond as a system: domestic rivalry and geographic concentration. Domestic rivalry can be seen as the main motivator for improvement in all the other determinants, whereas geographic concentration is important because it expands and promotes the interaction among the determinants.

The determinants, individually and as a system, create the context in which a nation's firms are born and compete: "the availability of resources and skills necessary for competitive advantage in an industry; the information that shapes what opportunities are perceived and the directions in which resources and skills are deployed; the goals of the owners, managers, and employees that are involved in or carry out competition; and most importantly, the *pressure* on firms to invest and innovate." (Porter, 1998b). In other words, nations succeed in particular industries because their home environment is the most dynamic and the most challenging. This environment stimulates firms to upgrade and widen their advantages over time, for instance where the national diamond is the most favourable. The companies that emerge from such an environment will flourish in international competition.



The Determinants of National Competitive Advantage *Source: Porter, 1990*

To achieve and sustain competitive success in the knowledge-intensive industries of advanced economies, it is necessary that advantages are sourced throughout the diamond. Although, advantage in every determinant is not a prerequisite for competitive advantage in an industry, but competitive advantage should be based on more than only one or two determinants. The interaction of advantage in many determinants creates self-reinforcing benefits that are extremely hard for foreign rivals to nullify or replicate.

The Diamond framework states that firms gain competitive advantage under three conditions:

- If home base allows accumulation of assets and skills
- In industries where home base affords better information and insight into product and process needs
- If goals of the owners, managers and employees support intense commitment and sustained investment

4.1.1 Factor Conditions

Factor conditions relates to the nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry.

Factors of production can be ranged in a hierarchy where basic and generalized factors (local raw materials, unskilled labour etc) constitute the lowest level, and advanced and specialized factors (highly educated and specialized labour and other factors that in particular meet the needs of the industry) are on the higher level. Porter (1990) stresses the advanced and specialized factors as those critical for sustained and heavy investment. He even argues that having general high school or college/university education does not necessarily represent competitive advantage in the modern international competition. What is important to create competitive advantages, are factors highly specialized to an industry's particular needs, like venture capital in Silicon Valley and scientific research facilities in the aircraft-industry. These factors are scarce and hard to imitate, and they require sustained investment to be created.

In other words, what is important in sophisticated industries and advances economies is not the stock of factors itself, but how it most efficiently can be *created*, *upgraded* and *deployed* into particular industries. Usually, competitive advantage results from the presence of leading institutions that first create specialized factors and then continually work to upgrade them.

The driving force behind this innovative process is active domestic rivals which create pressure and company goals leading towards constant commitment to the industry. It is essential for companies to positioning themselves in the market, to innovate and upgrade before foreign rivals. In order to do this, favourable conditions must be present elsewhere in the diamond.

4.1.2 Demand Conditions

Demand conditions relates to the nature of home-market demand for the industry's products or services.

Porter (1998b) states that nations gain competitive advantage in industries where the home demand gives their companies a clearer and/or earlier picture of emerging buyer needs. Such home bases are often characterized by having some of the world's most sophisticated and demanding buyers for the product or service. This is the reason why sophisticated demand conditions provide advantages, because firms are forced to respond to tough challenges by innovating and upgrading sooner than its foreign competitors. However, the *size* of the home demand proves less significant than the *character* of home demand.

However, sophisticated demand conditions in the home market are of little value if domestic preferences are not transferable to other nations. A nation's companies can anticipate global trends only if the nation's values are spreading. Nations export their values and tastes through media, through training foreigners, through political influence, and through the foreign activities of their citizens and companies. Transfering domestic preferences to foreign markets, do not only benefit market growth in general, but is most important for small, open economies whose home market is too small to secure a high growth rate.

4.1.3 Related and Supporting Industries

Related and supporting industries relate to the presence or absence in the nation of supplier industries and other related industries that are internationally competitive.

Internationally competitive home-based suppliers create advantages in downstream industries in several ways, such as the ability to offer the most cost-effective input delivery and close working relationships. Short lines of communication can improve the information flow and the exchange of ideas and innovations due to a quick and constant process.

The nation's companies benefit most when the suppliers themselves are global competitors. It is ineffective for a company to create suppliers that are totally dependent on the domestic industry and in the worst case, also prevented from serving foreign competitors. The same principle applies to suppliers and their recipient firms. As for firms and their customers, suppliers also need rivalry and the constant pressure for product innovation and better logistics to perform better. Besides, serving only one industry or one market, makes them very vulnerable for economic fluctuations, meaning that risk involved is much higher than would be the case with a broader customer base.

Home-based competitiveness in related industries provides similar benefits as with suppliers, where information flows and technical interchange speed the rate of innovation and upgrading.

4.1.4 Firm Strategy, Structure and Rivalry

Firm strategy, structure and rivalry constitutes the context in which firms are created, organized and managed as well as the nature of domestic rivalry. Goals of the owners, management and employees also play a significant role.

The business context varies widely among nations, and national advantage arises from good match between choices regarding the context and the sources of competitive advantage in a particular industry.

No managerial style can be completely linked to a nation, but national preferences are often of such a character that it is noticeable by any observer. Porter (1998b) uses Germany to illustrate how the engineering and technical background of many senior executives has produced a strong fascination toward methodical product and process improvement. Likewise, their organizations are often hierarchical and impersonal. This has led to a great success in industries with a high technical or engineering content, whereas German successful firms in consumer goods and services are rarer.

Nations also differ remarkably in the types of goals that firms and individuals seek to achieve. Company goals reflect the national characteristics of capital markets and the shareholder/stakeholder issue. They also reflect how managers are being compensated. The characteristics of the appraisal systems most commonly accepted, are also important to competitive advantage as it influences individual motivation to work and expand skills. Individuals, no matter what level or position, should be encouraged to maintain and expand their skills and competencies. Outstanding talent is a scarce resource in any nation, and it is up to each nation to catch those talented individuals before someone else does. This is important because a nation's success largely depends on which type of education these talents pursue, where they choose to work and their commitment and effort in their vacancies. Other important nation-variables are attitude towards individualism, equality, inherited status vs. achieved status etc.[4]

Finally, domestic rivalry is a powerful stimulus to the creation and persistence of competitive advantage. Domestic rivalry is so important because of the mutual pressure for improvement and innovation. Porter (1998b) argues that the rivalry among domestic firms often go beyond a pure price-war, they push each other for better quality and services and the creation of new products and processes. The competition may reach a point where the incumbent firms might not preserve advantages for long periods, but the active pressure from its competitors and the fear of falling behind stimulates to new thinking and innovation.

4.1.5 The Two External Determinants; Chance and Government

The two external variables in the Diamond framework are chance and government.
Chance events are developments outside the control of firms (and usually also the nation's government), such as pure inventions, wars, external political developments, major shifts in foreign market demand, breakthrough in basic technologies etc. They create discontinuities that can reshape industry structure and provide the opportunity for one nation's firms to supplant another's.

[4] Porter (1998) mentions in his book a lot of nation-dependent aspects influencing the ways in which firms are organized and managed. Many of these aspects are similar to the issues dealt with in the cultural dimensions of scholars like Hofsteede and Trompenaars and Hampden-Turner, for an introduction to both frameworks, see Trompenaars, Fons / Hampden-Turner, Charles: *Riding the Waves of Culture: Understanding Cultural Diversity in Global Business, 2nd ed*, McGraw Hill, New York 1998

The final determinant to complete the Diamond-framework is Government. Government, at all levels, can make decisions which either can improve or worsen the national advantage.
This is most clearly seen by examining how policies can influence each of the determinants. Antitrust policy, regulations, investment and attitude towards education and government purchases all influences the diamond in one way or another. If such governmental policies are implemented without careful consideration on how they influence the diamond, the result may be undermining the competitive advantage as well enhancing it.

4.2 Cluster Discussion

As stated above, domestic rivalry and innovation is crucial for a good business performance, and clusters are special locations which can offer some of the best suitable business environments for their incumbent firms. As a continuation of the Diamond introduction, a brief presentation of cluster follows.

Porter (1998a) defines clusters as “critical masses - in one place - of unusual competitive success in particular fields”. In more detail, it is geographic concentrations of interconnected companies and institutions in a particular field. It encompasses an array of linked industries and other entities important to competition, and affects competitiveness within countries as well as across national borders. Often clusters also extend downstream to channels and customers, to manufacturers of complementary products and to companies in industries related to skills, technologies, or common inputs. Many clusters also include governmental and other institutions.

Most important of all, clusters promote both competition and cooperation (Porter, 1998a). Rivals compete intensely to win and retain customers. Without such dynamic competition, a cluster will fail. There is also cooperation, much of it vertical, involving companies in related industries and local institutions. Clusters represent a kind of new organizational form in between geographical close markets on the one hand and hierarchies, or vertical integration, on the other. A cluster, then, is an alternative way of organizing the value chain (Porter, 1998a)

4.2.1 Clusters and Motivations

Clusters in the meaning of vertical integration apply in particular to co-ordination, as logistics within the cluster area become a way of achieving competitive advantage. It will be essential to plan how the set of base for global and regional development should be, including the establishment of logistic centers. A set up base close to financing institutions will facilitate the coordination of cluster members, where speed and control will be improved.

However, clusters may be critical to competition for several reasons because productivity rests on *how* companies compete, not on the particular fields they compete in. Companies can be highly productive in any industry if they employ sophisticated methods, use advanced technology, and offer unique products and services. All industries can employ advanced technology and all industries can be knowledge intensive. The sophistication with which companies compete in a particular location, however, is strongly influenced by the quality of the local business environment. The Diamond framework stresses how the relations among the determinants create business formation, where clusters affect competition in three broad ways:

- By increasing the productivity of companies based in the area
- By driving the direction and speed of innovation, which underpins future productivity growth
- By stimulating the formation of new business, which expands and strengthens the cluster itself.

The cluster-advantages can be summarized broadly as influencing productivity in a positive manner. Being part of a cluster allows companies to operate more productively in sourcing inputs; accessing information, technology, and needed institutions; coordinating with related companies; and measuring and motivating improvement.

Better access to employees and suppliers: Companies in vibrant clusters can tap into an existing pool of specialized and experienced employees, thereby lowering their search and transaction costs in recruiting. Because a cluster signals opportunity and reduces the risk of relocation for employees, it can also be easier to attract talented people from other locations, a decisive advantage in some industries. Sourcing locally instead of from distant suppliers will lower transaction costs, whereas formal alliances with distant suppliers can moderate some of the disadvantages of distant outsourcing. Even when some inputs are best sourced from a distance, clusters offer advantages. Suppliers trying to enter a large, concentrated market will price more aggressively.

The access to critical resources will therefore be a crucial motivation for firms to be a part of a cluster because it will secure the steady supply of the critical resources, including the advantages of better access to skilled low-cost labour, natural resources and suppliers.

Access to specialized information: In the extensive market, technical and competitive information accumulates within a cluster, and members have preferred access to it. Additionally, personal relationships and communities within the cluster will contribute to further trust and facilitate the flow of information, resulting in a more transferable information flow. This is in accordance to the learning motivation. To achieve this goal, firms will be totally dependent on being present in the host country. This view is also supported by Ellis (2000), where he states that social ties will be an important factor when entering a foreign market. It signals the firm's intent to keep key competitors and determines the basis for future battles. How decision-makers identify potential exchange partners in foreign markets and thus initiate international exchange relationships is essential.

Access to institutions and public goods: Investments made by government or other public institutions can enhance a company's productivity (public spending for specialized infrastructure or educational programs). But also investments done by companies contribute to increased productivity (training programs, infrastructure, and quality centers).

Better motivation and measurement: Local rivalry is highly motivating and clusters can also make it easier to measure and compare performances because local rivals share general conditions. Companies within clusters have intimate knowledge of their suppliers' costs, and managers will have the possibility to compare costs and employees performance. Clusters are conductive to new business formations for many different reasons. Individuals working within a cluster can more easily distinguish gaps in products or services around which they can build businesses. Barriers to entry are usually lower than outside clusters.

Clusters may play a crucial role in a company's ongoing ability to innovate. Because sophisticated buyers are often part of a cluster, companies inside clusters usually have a better insight in the market than isolated competitors do. In addition to enhance innovation, clusters provide the capacity and the flexibility to act rapidly. A company relying on distant suppliers faces greater challenges in every activity it coordinates with other organizations, and innovation can be even harder in vertically integrated companies. Reinforcing the other advantages for innovation is the vertical pressure, competitive pressure and the constant assessment that occurs in a cluster.

The market development motivation will help firms through innovation finding new markets with growth potential and good customer base. Complementarities will also be a good motivational factor in a market development situation. Because members of the cluster are mutually dependent, good performance by one can boost the success of the others. The most obvious complementarities are when products complement one another in meeting customer's needs. Another form is the coordination of activities across companies to optimize their collective productivity. Other complementarities arise in marketing. A cluster frequently enhances the reputation of a location in a particular field, making it more likely that buyers will turn to a seller based there. Beyond reputation cluster members often profit from a variety of joint marketing mechanisms, such as company referrals, trade fairs, trade magazines, and marketing delegations. In addition, complementarities can make buying from a cluster more attractive for customers because it allows them to "multi-source" or to switch sellers if there is a need for it.

4.3 Criticism of the Diamond Framework

As the title suggests, this part will deal with the criticism of the Diamond framework and some major challenges it faces as the world economy has changed since it was first published in 1990.

The major academic objections have been Porter's choice of the nation as the unit of analysis. This view is shared by Rugman and D'Cruz (1993), Cartwright (1991), Rasmussen et.al. (2002) and others. There has been a development from Porter's focus on nations, via Rugman and D'Cruz' emphasis on regions to Rasmussen and Madsen's world perspective.

4.3.1 The Double Diamond Framework

A major drawback with the diamond framework; is according to Rugman and D'Cruz (1993), that the framework is developed with MNEs originating in one of the triad blocks in mind, leaving MNEs in small economies without a proper analyzing-tool. However, it is only a small number of firms that has the financial and organizational capabilities and resources to choose location by the criteria mentioned by Porter (1998a), it is the MNEs. More specifically, it is the MNEs of the US, Japan and the EU, i.e. the triad.

Bartlett and Ghoshal's (2004) proposition of the transnational firm suggests that MNEs are becoming increasingly independent from single nations, instead they use selective parts of many nations' diamonds to gain international advantage.

Rugman and D'Cruz (1993) argue that MNEs originating in small, open economies, to a large extent is guided by the requirement for market access to, and hence, also competitiveness in, at least one of the triad blocks. For firms competing in one or more triad blocks, both the home nation diamond and the diamond of the particular triad block may be of high relevance. MNEs in both the small country and in the triad block(s) may turn to all the national diamonds included for factor conditions, supporting industries, customers etc. What is important to notice is that such behaviour merges the national diamonds into one, big regional diamond.

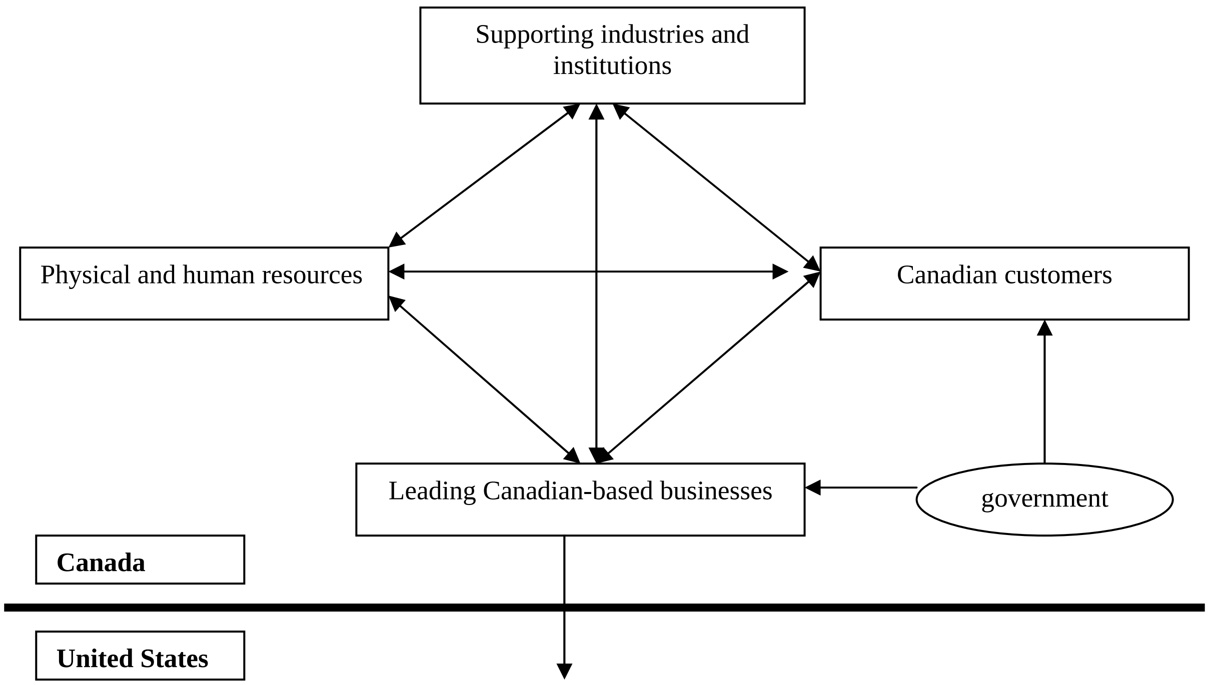
Rugman and D'Cruz (1993) have modified Porter's diamond into a Double Diamond framework to make it more applicable to MNEs in small nations. As an example, they have used the relations between the neighbours Canada and the United States of America. The message is that managers need to assess the determinants of competitiveness in both Canada and the United States simultaneously when developing corporate strategies. This initiative is supported by Cartwright (1993), who has done a similar analysis of New Zealand.

The double diamond framework shows that the Canadian and the American national diamonds have merged into a North American diamond, i.e. strong arguments for the fact that also other than the home country may be of crucial importance for an MNE's international competitiveness. This view is also supported by Dunning (1993).

This paragraph has shown that Porter's diamond, as originally formulated, has most explanatory effect on MNEs originating from one of the triad-blocks. For MNEs in small, open economies and to some extent, also SMEs, their number one task when going international is to secure access to and compete in one or more of the triad blocks. Determinants in other nations' diamonds can therefore influence the core competencies of these firms as much as the ones of the home base.

Rugman and D'Cruz (1993) have been aware of this challenge, and have developed a double diamond framework which shows that both the nations' diamonds merge into a common business area, and hence, presents an analyzing tool better suited for the reality of firms in small countries.

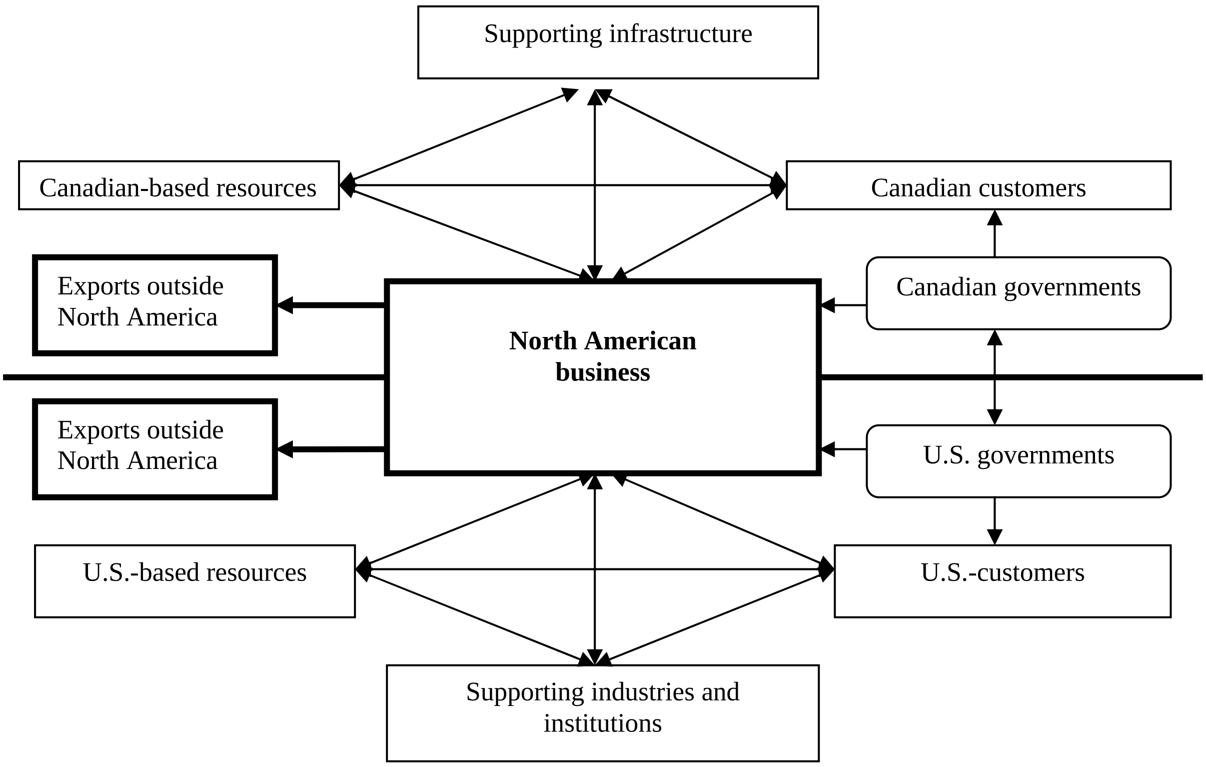
Porter's Home Country Diamond Approach to Canadian Business



Exports to the United States

(Source: Rugman and D'Cruz 1993)

A Double Diamond Approach to Canadian Business



(Source: Rugman and D'Cruz 1993)

4.3.2 The Born Global Concept

When explaining international business and international expansion in particular, scholars have often referred to the well-known stage models. According to these models, firms first establish a solid home base, then expand stepwise starting with the neighboring countries and continue expanding to areas farther away from home. Adopting such evolutionary approach to international expansion is though very time consuming, often several years, or even decades, are required until firms are ready to go international[5].

The Born Global concept in many ways constitutes a fundamentally different view. According to McKinsey this type of firm typically starts exporting less than two years after the firm's foundation, and the characteristics of the firms are the following: "These firms view the world as a market place from the outset and see the domestic market as a support for their international business" (McKinsey & Co. 1993, p. 9).

[5] See among others Rasmussen et.al. 2002

The notion of Born Globals was first mentioned in a survey for *The Australian Manufacturing Council* by the consultants McKinsey in 1993. When interpreting the Australian survey, Cavusgil stated that “small is beautiful” and “gradual internationalization is dead” (1994, p. 18). The Australian research consisted of an analysis of new exporters, with special focus on the emerging exporters; which were firms experiencing growing exports within the last five years before the survey was performed. The emerging exporters differed from other firms: “Characteristic for this new type of exporters (even the older firms) was that they did not see export and the foreign markets as a necessary evil. Instead they looked upon the world as one, large market.” (Rasmussen and Madsen, 2002, p. 7).

The survey clearly demonstrated that two types of exporters could be found; at the one hand were the home market based firms which had established a solid home base market (i.e. the rationale of the Diamond framework). These were very experienced firms facing exporting as the major option if continued growth should take place. The other group, approximately 25% of all the firms, was the Born Globals.

As shown in appendix number 2, there is no clear definition of a Born Global or similar concept. The definition used in the Born Global research in Denmark by Madsen et.al. (2000) was: “A Born Global is a production firm with an export percentage (compared to the total sale) of 25% or more, which have started exporting within three years after the firm’s foundation.”

According to Rasmussen and Madsen (2002), the explanation for this new picture of internationalization of firms is claimed to be more global market conditions, new developments in transportation and communication technologies, and the rising number of people with international experience. The Born Globals are often high-tech firms, or companies that use well-known technology. A major factor in the explanation of the phenomenon Born Global is the management’s commitment to internationalization. The manager’s and the founder’s personal experience, relations, and knowledge are thought to have a great importance for the existence of Born Global firms. Also, the firm’s ability to standardize for instance production and marketing in a global niche instead of developing customized products is important. The idea is that even the smallest firm can have access to information about the export markets and can begin to export right from the birth.

According to all research done on “Born Global” as a concept, Rasmussen and Madsen (2002) think of it as an umbrella (or a metaphor) under which all similar concepts take place. This explains why research is carried out in the internationalization of small and medium sized firms. The purpose will be to give advice on how to manage problems of internationalization, and the societal aspect of internationalization (often raised as a question of export promotion programs). In addition, it can be useful to look at how to develop a theoretical understanding of firm’s internationalization. Changes in the economy including factors that can be related to special home-market conditions and changes in the firms themselves (management and founders) can be the reasons for the new internationalization concept. Markets are expanding internationally, and consequently the home-market advantage disappears, especially in a small country like for instance Denmark or other Scandinavian countries. The development of more intensive competition can also promote the disappearance of the home market.

4.4 Porter’s diamond and e-commerce

So far, the conceptual critics of the diamond framework have been discussed. The discussion on the validity of the diamond continues, focusing on the impact of internet and new ways of doing business and reaching customers.

According to scholars like Laudon and Laudon (2003) and Parsons and Oja (2006) e-commerce includes internet activities like online shopping, electronic auctions, online travel-ticket ordering, online banking and stock trading and online education. The unique feature of shopping digital products like news, music, videos, databases, software, and all types of knowledge-based items, is that they can be transformed into bits and delivered over the web. Consumers can get them immediately upon completing their orders, and no one pays shipping costs.

Typical e-commerce activities are B2C, C2C, B2B and B2G (where B is business, C is customer, G is government).

The issue with e-commerce and the diamond-framework is the assumption that online business makes country borders less significant. Parsons and Oja (2006) go on arguing that as long as the customers have internet-access, credit card for payment possibilities and access web pages are written in a language understandable to them, all requirements needed for a successful e-commerce transaction are evident. For online orders of physical products, some countries may suffer from shipping limitations, but otherwise, countries and home country markets are of lesser significance than what is the case for bricks and mortars businesses (the traditional physical stores).

If the assumption of country borders having less importance for e-commerce business is credible, then some of the very foundation of the diamond framework falls apart. Porter's starting point, as described above, is that "A firm's home base is considered to be the nation where it retains effective strategic, creative and technical control, i.e. it is the source of the MNE's core competencies. " (Rugman, 1993). As internet-firms work with the entire world as their marked, they do not have a specific home market to turn to. Hence, the location of the home base is no longer of any significance.

Instead, e-commerce businesses source their advantages elsewhere. From a customer's view, e-commerce offers some unique advantages over brick-and-mortar stores. They can easily search through large catalogues, compare prices between multiple vendors, arrange products online, and not least, shop whenever they feel like independent of opening hours.

Porter (2001), on the other hand, does not agree with the assertion of internet and e-commerce as a new economy. His main arguments for this is that e-commerce so far has failed to produce high profitability for the firms involved and thereby has not been strong enough as an influencing force to be able to create any industry structure of its own. According to him, "Internet technology provides better opportunities for companies to establish distinctive strategic positioning than did previous generations of information technology" (Porter, 2001). By this he means that internet in itself is not a competitive advantage, but that it can be used as a tool to compete. By doing so, it may seem as he defends the old position regarding online shopping just as a supplement to the traditional bricks-and-mortars, and not as the independent corporate structure it has become.

V. Entry Strategies

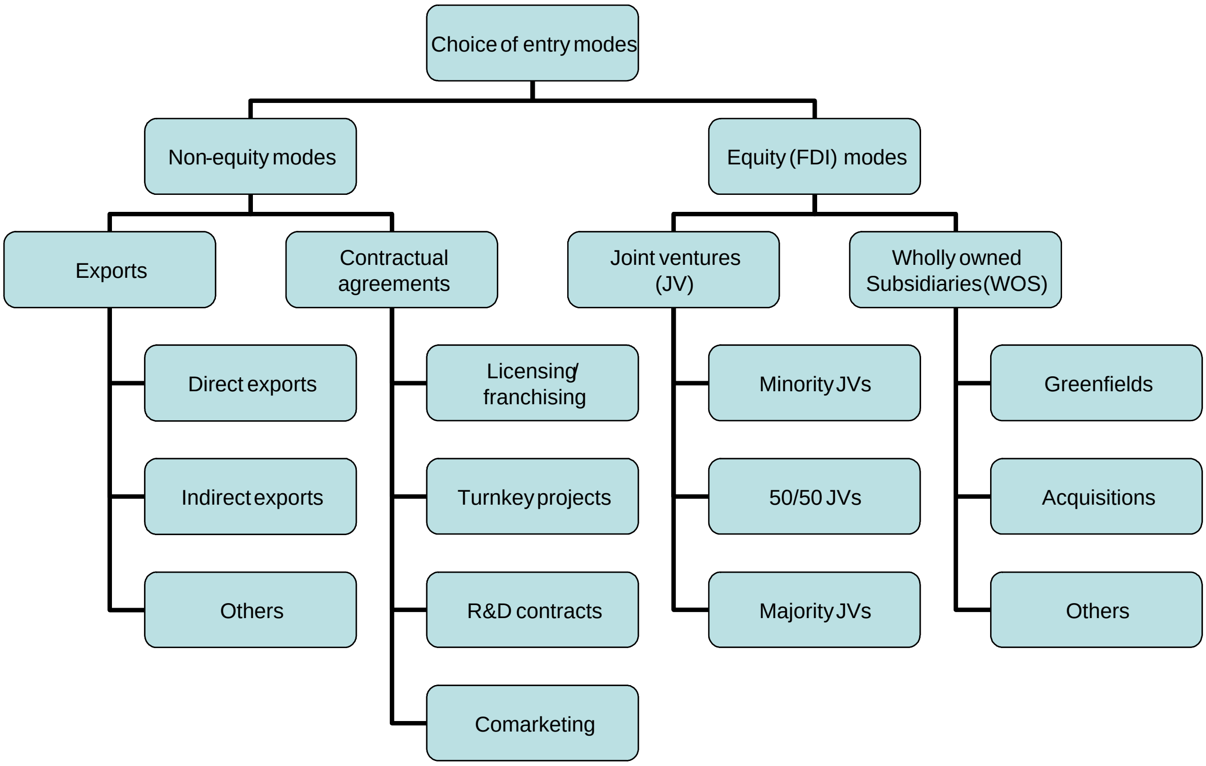
The focus now turns to the *how*-question. Entry strategies can be regarded as recipes or guided plans for the company's establishment of businesses abroad. They vary from simply exporting excessive goods produced mainly for home market to so-called green-field subsidiaries, which is company subsidiaries built up from scratch. With the varieties in range and ambition, there will also be differences according to financial resources necessary for the establishment, organizational capabilities, staff and training of staff and expected return on investment.

In chapter 3 different motivations for an international entry mode were outlined. Different motivations give different reasons for an international entry, and hence, different choice of entry strategy. This chapter is mainly based on the Hierarchical Model of Market Entry Modes (Pan and Tse 2000), Kotabe and Helsen's (2001) textbook in International Marketing and Zhan (1999).

According to the Hierarchical Model, the main criterion for the choice of entry strategy is whether the firm engages in equity or non-equity modes. The same classification is supported by Rodriguez, Uhlenbruck and Eden (2005). Pan and Tse (2000) argue that the choice of entry strategies depends on two different types of factors; firm-specific factors and industry-specific and country-specific factors (macro level factors). They continue to stress the importance of the macro level factors as decisive for the differentiation between equity modes and non-equity modes.

Which of the two modes the firm decides on, depends on whether the firm can be classified as an MNE or not. MNEs typically engage in equity modes whereas non-MNEs usually pursue non-equity modes. This is also supported by Peng (2006), as he states: "[…] determine whether the modes of entry would be equity- or non-equity-based. This crucial decision differentiates an MNE (which employs equity modes) from a non-MNE (which relies on non-equity modes)." He further argues that "In fact, this crucial distinction is what defines an MNE: An MNE enters foreign markets via equity modes through foreign direct investment (FDI), which refers to direct control and management of value-adding activities overseas." (Peng, 2006, p. 230-231). The non-equity entry modes most often require less financial and organizational resources and capabilities of the firms involved than is the case of equity modes. Also, the cost, commitment, risk, return, and control involved is often more limited than in the case of equity entry modes (Peng, 2006, p. 231).

The Hierarchical Model of Market Entry Modes



(Source: Adapted from Peng 2006)

There are four broad categories of entry modes, each with subcategories; exports, contractual agreements, joint ventures and wholly owned subsidiaries.

5.1 Exports

Export is a low commitment entry mode, and the mode that companies typically choose by the start of an international expansion. Both Kotabe and Helsen (2001) and Peng (2006) support this view, stating that an international expansion usually starts with an exporting strategy, moving towards contractual agreements and the FDI modes as complexity and organizational resource demands evolve. For many small firms exporting is the only real entry mode alternative. It is common to distinguish between two types of exporting; direct and indirect exporting.

5.1.1 Direct Exports

"Direct exports means that the company sets up its own export organisation within the company and relies on a middle man" (Kotabe & Helsen, 2001). This middleman is often an agent that entails selling products made in the home-market demand to customers in other countries.

The advantage of direct exporting is that control of its international operations is kept within the firm organization than what is the case with indirect exporting. Hence, direct exporting facilitates a good opportunity for the company to build a business network with potential local partners. Zhan (1999) supports this view emphasizing the advantages of direct exports when it comes to control over product distribution, price and sales efforts.

The disadvantage with this entry strategy is that the firms may not have enough resources to pursue international opportunities which can be turned into sales and profits. Furthermore, they may also be unfamiliar with how to turn opportunities abroad into sales profit. Other disadvantages with direct exports are high transportation costs for bulky products and marketing distance from customers. In addition, it may provoke protectionism because of trade barriers.

5.1.2 Indirect Exports

Indirect exports means that the company uses a middleman based in the company's home market, to do the exporting (Kotabe & Helsen, 2001). This middleman can be a trading house, a broker or an export management company. The major advantage is access to a foreign market, using a minimum of company resources. Hence, very little risk is involved. Other advantages with indirect exports are the concentration of resources on production and that there is no need to directly handle export processes.

The major disadvantage is the little or no control the firm has over the way its products is handled in the foreign country. If the middleman has little or no experience or does not meet the company's requirements for an appropriate way of doing business, the company cannot take control of the process itself. According to Zhan (1999) it may be a problem that the middleman also is the agent of the competitors' products. This may happen if the firm does not engage in exclusive contracts with its middlemen, securing that the distributor only deals with the particular firm's products or products from non-competing firms. The only possible option will be to replace the middleman. Other disadvantages are less control over distribution (relative to direct export), and the inability to learn how to operate overseas.[6]

5.1.3 Others

In addition, Kotabe and Helsen (2001) mention a third form of exporting; the cooperative exporting. This mode is characterized by a firm entering into an agreement with another company (local or foreign) where the partner will use its distribution network to sell the exporter's goods. This is an excellent choice for companies that are not willing to use their own resources, but take the advantages of a co-operation, exploiting the other's resources.

5.2 Contractual agreements

Contractual agreements include licensing/franchising, turnkey projects, R&D contracts and co-marketing.

5.2.1 Licensing/franchising

Licensing refers to a business arrangement in which the manufacturer (the licensor) of a product or a firm with proprietary rights over certain technology, trademarks, etc. grants permission to some other group or individual (licensee) to manufacture that product (or make use of that proprietary material) in return for specified royalties or other payment.[7] Franchising is a specialized form of licensing in which the franchiser sells intangible property to the franchisee and insists on rules to conduct the business.[8] It represents essentially the same idea as licensing, but it is typically used in service industries. "Whereas licensing is pursued primarily by manufacturing firms, franchising is employed primarily by service firms" (Hill, 2005).

Hill (2005) continues to argue that the advantage for licensors and franchisors is that they can expand abroad with relatively little capital of their own. For SMEs this can be advantageous

[6] These arguments are commonly agreed upon by scholars like Kotabe & Helsen (2001), Hill, (2005), Gooderham & Nordhaug (2003), and others.
[7] http://www.eaca.com/.docs/pg/11222
[8] http://enbv.narod.ru/text/Econom/ib/str/261.html

as these can be resource constrained. Licensing/franchising is also advantageous when it comes to low development costs and the low risk in overseas expansion.

A disadvantage with this form of entry strategy is that the licensors/franchisors can loose control over how their technology and brand are being used. Franchising is similar to licensing, although franchising tends to involve longer-term commitments than licensing. The little control over technology and marketing may create competitors, and the inability to engage in global coordination may also be a result. One way for the licensor/franchisor to protect the company's business model and core competencies, is to seek pattern or trademark protection abroad.

5.2.2 Turnkey projects

A turnkey project is when a separate entity is responsible for setting up a plant or equipment (e.g. trains/infrastructure) and putting it into operations before handing back the project to the company which has asked for the consulting practise. It can include contractual actions at least through the system, subsystem, or equipment installation phase and may include follow-on contractual actions, such as testing, training, logistical, and operational support. It is often given to the best bidder in a procurement process.[9] Turnkey projects may give the possibility to earn returns from process technology in countries where FDI is restricted. Disadvantages are that if foreign clients are competitors, selling them state-of-the-art technology through turnkey projects may turn them into efficient competitors. In addition, turnkey projects do not allow for a long-term presence after the "key" is handled to clients (Peng, 2006).

5.2.3 R&D Contracts

According to Peng (2006), R&D contracts refer to outsourcing agreements in R&D between firms. An advantage is that these contracts give firms the ability to tap into the best locations for certain innovations at low costs. However, disadvantages are that it is difficult to negotiate and enforce contracts given the R&D's uncertain and multidimensional nature. Other disadvantages are that R&D may foster innovative competitors, and the firms may loose core innovation capabilities in the long run.

[9] http://en.wikipedia.org/wiki/Turnkey_project

5.2.4 Co-marketing

Co-marketing refers to agreements among a number of firms to jointly market their products and services. The advantage with this agreement is the capability to reach more customers, while the disadvantage is limited control and coordination because everything has to be negotiated between the firms that are co-marketing (Peng, 2006).

5.3 Joint Ventures

A joint venture (often abbreviated JV) is a strategic alliance between two or more parties to undertake economic activity together. The parties agree to create a new entity together by both contributing equity, and they then share in the profits, losses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship such as the Sony Ericsson joint venture.[10] A JV can have three principal forms; Minority JVs (less than 50% equity), 50/50 JVs, and majority JVs (more than 50% equity)

JVs have many advantages. They can share costs and risks with a local partner and gain access to the partner's knowledge about the host country. In return, the local firm benefits from the MNE's expertise in technology, capital and management. Additionally, JVs can be politically more acceptable than WOS.

Disadvantages may be that it can be difficult to involve partners from different backgrounds, divergent goals and incompatible capabilities. It may also be difficult to achieve effective equity and operational control because everything must be shared and negotiated, and it can be difficult to coordinate globally (Peng, 2006).

5.4 Wholly owned subsidiaries

What separates WOSs from the other entry modes is that the company now enters the new market with a 100 percent ownership. There are two primary ways to set up a WOSs; acquisitions and green-field operations.

[10] http://en.wikipedia.org/wiki/Joint_ventures

5.4.1 Green-field Operations

Green-field operations refer to building factories and offices from scratch. A green-field WOS gives an MNE complete equity and management control. This control leads to a better protection of proprietary technology and know-how. In addition, a WOS allows for centrally coordinated global actions. Further, green-fields do not have to deal with problems of integrating different corporate cultures of parent companies, as is the case partially in JVs and particularly in acquisitions (Gooderham and Nordhaug, 2003). Hence, green-fields give the company more freedom and flexibility. Drawbacks with a green-field WOS are the costs and risks involved (both politically and financially) and the slow entry speed as it takes at least 2 or mores years to start up a company (Peng, 2006).

5.4.2 Mergers and Acquisitions[11]

Gooderham and Nordhaug (2003) define mergers and acquisitions as "mergers are usually the result of a friendly arrangement between companies of roughly equal size, whereas acquisitions are unequal partnerships, often the product of a hard-fought battle between acquiring and target companies".

An acquisition is probably the most important entry mode given the amount of capital involved, it represents approx. 60% of global FDI (i.e. JVs and WOSs). Advantages with acquisitions are faster entry speed and the same benefits that green-field WOS take hold of. Acquisitions share all the disadvantages of green-field WOS (except slow entry speed) and post-acquisition integration problems (Peng, 2006). Kotabe & Helsen (2001) mention three major disadvantages. The first is linked to the differences in the corporate culture of the two merging/acquiring companies, and a new unified identity may be hard to establish. Second, the result of the acquisition does not always accomplish the expectations; consequently, disappointment and dissatisfaction will influence the corporate culture. Finally, an acquisition can turn out to be a very expensive entry mode. Attractive partners are scarce and are usually not willing to be acquired, and if so, they set a high price on themselves.

[11] Although, the Hierarchical Model only deals with acquisitions, we find it useful to also include mergers as many of the drawbacks with acquisitions also have some validity to mergers.

PART TWO

CONNECTING THE DIAMOND FRAMEWORK AND ENTRY STRATEGIES – Designing an Extended Framework

So far, a thorough presentation of the existing theory the thesis rests upon have been presented. Yet, the main task remains; linking the Diamond framework and the Entry Strategies together and designing an extended framework.

VI. Theoretical Fundament for Connecting the Diamond framework and Entry Strategies

The purpose of this paragraph is to examine *how* the connection can be characterized. The paragraph starts with an overview of relevant academic articles and continues with a discussion on why it is reasonable to expect a connection.

6.1 Bibliography

When conducting the bibliographical search, several relevant academic articles were collected. Besides Pan and Tse's (2000): *The Hierarchical Model of Market Entry Modes,* these were considered as relevant; Malhotra et.al. (2003): *Internationalization and Entry Modes: A Multitheoretical Framework and Research Propositions,* Keillor et.al. (2001): *Market Entry Strategies and Influencing Factors: A multi-industry / multi-product investigation,* Davis et.al. (2000): *Mode of International Entry: An Isomorphism Perspective* and Dunning (2000): *The eclectic paradigm as an envelope for economic and business theories of MNE activity.*

6.2 Is it Reasonable to Expect a Connection?

The main task of this paragraph is to examine why it is reasonable to expect a connection between the competitive advantage of nations and firm’s choice of entry strategies. The task is solved by first identifying the variables which have an impact on the choice of entry strategies. Second, once the key variables are revealed, links to the Diamond-framework can be recognized.

The literature mentioned in the previous paragraph, classifies two broad categories of variables important for the choice of entry strategies; the macro level variables (external) and the firm level (internal) variables (Malhotra et.al., 2003). The macro level variables typically consist of political arrangements both in home market and in host country nation (HCN), judicial systems and entry / exit barriers within HCN, see Pan and Tse (2000) and Dunning (2000). Typically firm level variables are human and financial capital, motivations, risk orientation and the preferred amount of control over its subsidiaries.

The identified variables may also be applicable for the Diamond framework. Both macro and firm level variables influence the determinants, as Porter mentions most of them in his work, see chapter 4. Based on this observation, it is reasonable to argue that some form of connection exists.

Nevertheless, the choice of entry strategy is according to Davis.et.al. (2000), a firm level activity. The implication of this is a relatively stronger emphasis on the firm level variables than industry level variables when explaining the connection.

The challenge is to overcome the difference of level of analysis between the entry strategy decision and the Diamond framework, which is an industry level tool. Even if the Diamond framework is positioned at an industry level, Porter (1998b) argues that the firm’s competencies and characteristics form the competitive advantages of the particular industry within the nation. In other words, if the industry is to provide favourable competitive conditions, it is dependent on sophisticated companies striving for improvement and innovation. Successful industries are dependent on companies making the excellent decisions on firm level. This includes engaging in the most proper entry strategy for each company.

The reasoning in this paragraph forms the foundation for the design of the extended framework, which is the task in the next chapter.

VII. Designing an Extended Framework

The Extended framework originates from the Hierarchical Model of Market Entry Modes presented in the theory part of this thesis, therefore the title Extended framework. The main structure of the Hierarchical Model has been kept. The new feature in the Extended framework is two new levels of analysis; the influence of macro factors and the decision on main motivations for going international.

First, the Extended framework and its variables are presented. Second, the Extended framework is carefully explained.

7.1 Extended Framework Variables

The overall goal of the framework is assisting the company to make the best choice of entry strategy. Therefore, it is the choice of entry strategy which ties the entire framework together. The function of the other variables is simply influencing the choice in the direction which is most proper for the company situation.

The variables used in the framework are the choice of entry strategy, macro factors, firm motivations, the choice of equity / non-equity mode, main categories of entry strategies and finally sub-category decision on entry strategy type. The hierarchical structure is shown in the figure on page 39.

7.2 Extended Framework Structure

The framework consists of six levels, each shaded in different colours. This has been done to easier identify which variables belong to which level. The framework is hierarchically structured meaning that all options are available at the start of the internationalization process, at the top of the framework. As the firm follows the structure downwards in the hierarchy, the number of options will narrow until there are only a few entry strategies left to choose among.

The two added levels are placed at the top of the hierarchy, between choice of entry strategy and equity / non-equity modes. Macro level factors are divided into four equal groups: Host Country Factors, Home Country Factors, Host and Home Country and Industry Factors[12]. The macro factors apply to the location question – the *where* question – as they characterize and describe features of the HCNs and bilateral relations among countries.

However, the Hierarchical Model does not pay any attention to firm motivations. In the extended framework, motivations are placed at the level below macro factors. The motivations relate to the *why*-question, and will be decisive for the final choice of entry strategy.

[12] The classification of macro factors in four groups are done in accordance with Pan and Tse's (2000) work, see figure 2, p. 539.

At the next level, firms decide for either a non-equity mode or an equity mode. The decisive variable is firm type, where MNEs / SMEs normally go for the equity modes, whereas non MNEs choose non-equity modes.

The next choice is to decide for the main types of entry strategies. There are four main categories; exports, contractual agreements, JV and WOS. Finally, the firm has to decide for which subcategory to pursue.

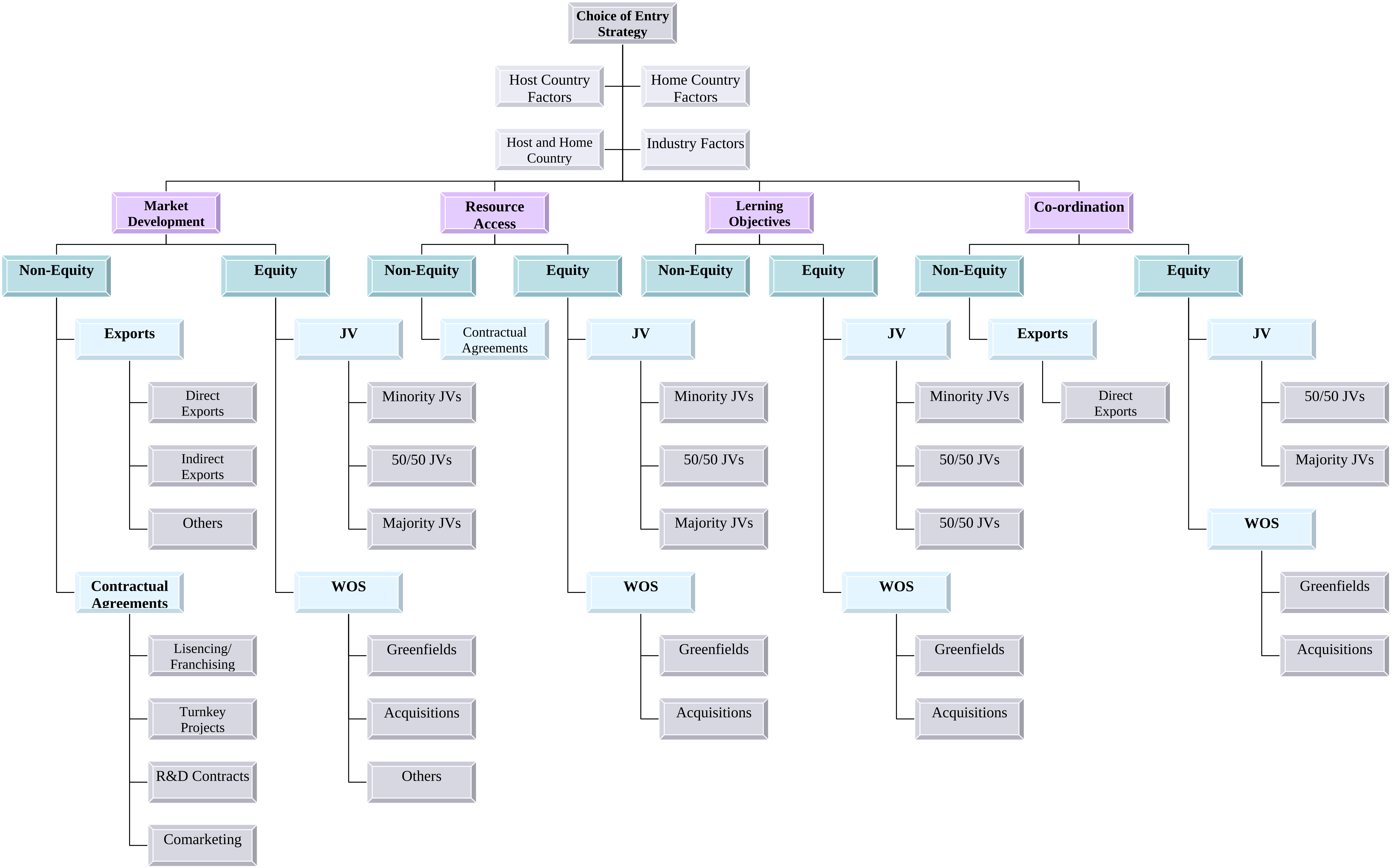
On the next page, the complete Extended Framework is presented, followed by an explanation of the two added levels; macro factors and firm motivations.

7.2.1 Macro Level Factors

There are four main macro level factors: *Host Country Factors*, *Home Country Factors*, *Host and Home Country and Industry Factors.*

The macro level factors are placed underneath the choice of entry strategy because they are already determined by world economy and political institutions. These macro factors influence both the business context in the country and the industry. Furthermore, the macro factors will influence the firm’s motivations, and are consequently placed above the firm motivation level.

Host Country Factors constitute of prioritized location and host country risk. When establishing in host country nations, foreign firms seek for certain areas that has been reserved in particular for foreign business activities. There are several reasons why these zones are attractive for localization. The first one is that in areas categorized by high stability and predictability, firms will feel safer due to lower country risk. This argument is supported by Pan and Tse (2000), and Rodriguez et al. (2005, p.388).


Choice of Entry Strategy
Host Country Factors
Home Country Factors
Host and Home Country
Industry Factors
Market Development
Resource Access
Lerning Objectives
Co-ordination
Non-Equity
Equity
Non-Equity
Equity
Non-Equity
Equity
Non-Equity
Equity
Exports
Direct Exports
Indirect Exports
Others
Contractual Agreements
Lisencing/ Franchising
Turnkey Projects
R&D Contracts
Comarketing
JV
Minority JVs
50/50 JVs
Majority JVs
WOS
Greenfields
Acquisitions
Others
Contractual Agreements
JV
Minority JVs
50/50 JVs
Majority JVs
WOS
Greenfields
Acquisitions
JV
Minority JVs
50/50 JVs
50/50 JVs
WOS
Greenfields
Acquisitions
Exports
Direct Exports
JV
50/50 JVs
Majority JVs
WOS
Greenfields
Acquisitions

Host country factors will have less influence on exporting firms because location will not be of the same importance as demand conditions. For contractual agreements location will be more important because there is a larger extent of cooperation between the two nations when transmitting knowledge. When it comes to equity modes, WOS will be more dependent on the localization of host countries than JVs, due to the responsibility being involved.

Home country factors refer to management orientation and risk orientation. Both management- and risk orientation build upon cultural dimensions. Exporting and contractual agreements may be firms classified by high uncertainty avoidance. This means that the management will not allow much risk involved. When it comes to management orientation, firms will have a larger power distance in hierarchies. JVs and WOS are usually firms originating in high power distance (Pan and Tse 2000).

Host and Home factors refers to the structural and institutional similarities between the nations and the commitment due to long diplomatic ties. Tse and Pan (2000) argue that the length of these ties will decide if it is reasonable to invest in the host country: “The higher the volume of bilateral business, the more knowledge firms have accumulated about the host country market, and the more confident they are in adopting equity modes”. Host and Home factors will have a large extent of influence to all firms; it is not dependent on what type of entry mode a firm will prefer.

Industry factors constitute of advertising intensity and capital intensity. Tse and Pan (2000) expect that host countries with high advertising intensity will attract firms because of the protection of brand names spreading the knowledge across the new market. Hence, host country firms will choose markets with a high advertising intensity. Exports and contractual agreements will not have the access to such capital needed for advertising campaigns, while JVs and WOS can start high intense advertising campaigns because they access more capital.

7.2.2 Firm Motivations

The main task at this level is to link the Extended framework to the Diamond framework. The assumption is that the Diamond-analysis should reveal the characteristics of the home-market. The firm will take advantage of these characteristics when expanding abroad. Besides firm objectives, the firm uses the strengths of the industry to encounter international competitiveness. In situations where the home market cannot fulfil all of the Diamond determinants, the uncovered needs will contribute in defining the company motivations.

The Diamond's function in the Extended Framework is basically a tool for the firm to reach the proper firm motivation.

VIII. Presentation of the Scenarios

This chapter gives a brief introduction of the three scenarios created for analysis-purposes. The first two scenarios have their origin in the Porter Diamond framework, while the third deals with situations where the Diamond may not be the most suitable framework to apply. In addition, a brief discussion on the connection of the Diamond framework and firm motivations in scenario 1 is given. This is done because as stated above in paragraph 7.2.2, determinants lacking in home base influence firm motivations for establishment abroad. The assumption is that what cannot be found in the home market, has to be searched for abroad.

8.1 Scenario I – One or More Determinants Lacking in Home Base

The first scenario takes place in a nation where the home market lacks one or more determinants of the Diamond-framework. The expectation is that the lacking determinant(s) will influence the main motivations of the firm to a large extent.

The firm for this scenario is IKEA. The firm has been chosen because of its unique international success and its impressive growth throughout the continents of the world. Although, when it started up in post-war Sweden, the entire furniture cartel opposed the newly established firm. They had no choice but to go international.

8.1.1 Diamond-determinants Connected to Firm Motivations

The priority of this paragraph is to outline how the Diamond analysis is connected to firm motivations. Below a presentation is given of which motivations best apply if the given determinant is lacking in the home base. The connection is based on the theory part in the thesis.

- **Factor Conditions** relate to Resource Access if the basic factors of production cannot be found in the home country. On the other hand, if highly skilled and specialized workforce is lacking, factor conditions relates to Learning Objectives instead, as expertise has to be taken from abroad. Also, Co-ordination activities may apply if logistics are of great significance for the firm.

- **Demand Conditions** cannot, according to Porter (1998), be absent in the home market because the competitive advantage of nations rests upon the home market demand. However, for firms located in small home markets, international expansion may be the only option to continue market growth as there is a limit for how much firms can mature in small home markets before no further growth is possible. The motivations which apply to this determinant are Market Development and Learning Objectives, as expertise and R&D are crucial for innovation.

- **Related and Supporting Industries** applies to Resource Access to secure firm supply. Also, Co-ordination activities as a supporting function for successful resource access are important.

- **Firm Strategy, Structure and Rivalry** forms the business context, and is therefore applicable to all motivations except for Co-ordination. The reason is that logistics are less culture-dependent than the other motivations.

8.2 Scenario II – All Determinants Present in Home Base

The second scenario is located in a nation where the home market accesses all the Diamond-determinants. Firms in such home-bases can fully concentrate on business development and growth strategies, and their motivations for going international will be solely driven by the visions and ambitions for the firm. The managers can concentrate on the advantages their home base provides and how to utilize them in the best possible manner.

The firm chosen for this scenario is the Lerøy Seafood Group. The firm has been chosen because of its corporate history, location and firm size. The LSG is one of the largest sea-food exporters in Norway when it comes to sales number, and has international experience from main markets like Asia, the US, Russia and Eastern Europe.

8.3 Scenario III – A New Business Context

Finally, in the last scenario, some critical objections to the Diamond framework are raised. Several scholars have argued that the nation as unit of analysis is too small; hence the concepts of the Double Diamond Framework and the Born Globals are presented as alternative notions for analysis-purposes.

To illustrate the concepts, Dell Computer Corporation has been chosen. Dell has grown rapidly over a very short period of time, defining its market as international from the very beginning. The firm has developed and used its Direct Model for reaching its customers, taking advantage of the e-commerce way of doing business.

PART THREE

APPLICATION OF THE EXTENDED FRAMEWORK

The main objective in this part of the thesis is to test the Extended framework. This is done by applying the framework to case scenario 1 and 2. First, the Diamond analysis is carried out to be able to identify firm motivations. Second, the cases are analyzed applying the Extended framework – according to what they *should* have done. Then the Extended framework analysis is repeated on the basis of what the firms actually *have done*. If any differences occur, it is discussed whether the theory is incomplete or if it is the company that has developed an excellent business strategy.

At the other hand, scenario 3 illustrates the Born Global Concept and the influence of e-commerce as an alternative way of achieving competitive advantage.

VIII. Scenario I

Traditionally, furniture has been regarded as very culture-specific in the sense that taste and preferences vary significantly among nations and ethnic groups. Therefore, the achievement of IKEA establishing warehouses in all major regions of the world which are selling more or less the same pieces of furniture, is overwhelming.

8.1 Case – IKEA

The IKEA- adventure started out in the Swedish region of Älmhult in 1943, but it was first in 1953 IKEA as we know it today, became a reality when the first warehouse opened in Älmhult. Its founder, Ingvar Kamprad, built the business from scratch inspired by his usually strong sales-instinct and by values like simplicity, cost-consciousness, enthusiasm, renewal, responsibility and humbleness. The IKEA name is actually an acronym of the initials of his name and origin; Ingvar Kamprad Elmtyrad (his home farm) Agunnaryd (name of the village where he grew up).

Kamprad’s vision and business mission is central to the success of the company. The vision sets the ambitious goal “To create a better everyday-living for the many people” (www.ikea.no). The vision is operationalized by the formulation that IKEA was to offer “a wide range of home furnishing items of good design and function, at prices so low that the majority of people can afford to buy them” (www.ikea.no).

To reach their goals, IKEA has in many ways revolutionized the furniture business with their innovation regarding product design, production, flat-packed knock down kits to make transportation both easier and more efficient, showrooms in their warehouses to demonstrate the functions and possibilities of their products, mass-print of the catalogue and effective channels of customer-feedback.

The first IKEA warehouse opened in the Swedish town of Älmhult in 1953; then the expansion continued through the Scandinavian market through the 1960’s. During the 70’s and 80’s the important markets in Western Europe followed. The 70’s were also the decade when IKEA established its first warehouses outside Europe, 1975 in Australia and in Canada the following year. In 1990 IKEA established in Poland as the first of the East European countries. The year after the first Middle East warehouse was opened in the United Arab Emirates. Then Asia followed in 1998 and 1999 with stores in Shanghai and Beijing.

Figures from the financial year 2004 (01.09.04-31.08.04) shows that IKEA worldwide had a turnover of 12.8 billion € - 81% of it in Europe, and that somewhat 90 000 employees worked for the company. There were 213 warehouses in 33 countries, but business presence like supplier-relations and logistics centre in even more countries. The IKEA Corporation itself owns 189 warehouses in 23 countries, whereas 23 warehouses are run as franchises. Many of these are located in countries very culturally different from Sweden, such as the United Arab Emirates, Greece, Hong Kong, Kuwait, Malaysia, Saudi Arabia, Singapore, and Taiwan.

8.2 The Diamond – framework – which determinants are lacking?

Although the Foundation which formally owns the IKEA Group (see appendix 4) is located in the Netherlands, it is no doubt that the home-base of IKEA is Sweden. The entire organization is built on the Swedish culture, norms and values. Also, the very important product design unit, IKEA of Sweden, is located to Älmhult, Sweden.

8.2.1 Factor Conditions

Human resources are one of the most important assets to IKEA. To be able to adapt quickly and properly to the values of the IKEA organization, the employees need to know Scandinavian culture and values. Further they should be able to communicate in Swedish. Although English is the business language, Swedish has remained the cultural language. To really understand the core values of the organization, the top management has stated that it is an absolute advantage that non-Scandinavian managers learn Swedish. The informality, the extreme cost-consciousness and the humbleness (Swedish *ödmjukhet*) can only create properly commitment if the Swedish culture, in which it is rooted, is well understood. The core values are believed to be *the* key to the success of IKEA and to spread across the ever growing organization, IKEA has created several management and corporate culture programs, the most famous one being “the IKEA way”. Employees here are taught in the history, the strategy and the product range of the company, often guided by Kamprad himself, and is expected to pass on what they have learned in their respective home countries. As the expansion has taken IKEA to areas culturally very different from Sweden and Scandinavia, such programs are very important to make sure that the corporate values remain alive.

Physical assets are of no importance as to whether or not the home base provides any competitive advantages. Most of production is outsourced and the warehouse-buildings are owned and financed by the parent company in the Netherlands.

As stated above, much of the firm-specific knowledge is rooted in Swedish culture and values. This also goes for the product design group of IKEA, which is located in Älmhult. This is to be inspired by the Swedish culture, as IKEA is trying to spread the image of Swedish design and preferences across the world. The designers do not necessarily need to be from Sweden, but it is important that they commit themselves to the core values of the corporate culture.

The capital needed is no longer accumulated in the Swedish market alone, but are now placed in the parent company, INKGA Holding B.V.

Ingvar Kamprad early showed that IKEA understood the development of infrastructure and the importance of warehouse location and how private cars were about to change people's shopping habits. The procedure has until recently been the same when establishing new warehouses: Finding rather inexpensive sites outside the city centre which is located near the main roads. It is easy for people to drive to the warehouses (instead of a city centre location), buy their furniture items and transport it back home in their cars. The warehouses are easily accessible for all the traffic passing by and the sites are big enough for large, free parking lots. This strategy and understanding of the impact of infrastructure development, turned out to be a great success in the early warehouse-establishments in Sweden and Norway. IKEA therefore brought this concept along the expansion that was to come.

However, this strategy has been changed to some degree when establishing in areas where private cars are not as common as here. Examples are locations of several warehouses in China downtown instead of suburban sites. The overall strategy, it seems, is to choose the location where most people can reach them in the easiest way.

Conclusion: Human resources, knowledge and infrastructure have, and still are, vital factors of production to the IKEA Group. The values of simplicity and humbleness have turned out to be of significant advantage. These, as they are implemented in the IKEA system, cannot be properly understood if not born and raised in the peasant communities of Sweden (or Scandinavia, as the three countries are rather culturally similar[13]), i.e. the home market has provided competitive

[13] Based on Hofstede's work on cultural dimensions. For an overview, see Trompenaars, Fons / Hampden-Turner, Charles: *Riding the Waves of Culture: Understanding Cultural Diversity in Global Business, 2nd ed,* McGraw Hill, New York 1998

advantage. Cultural identities cannot easily be imitated by competing firms originating from another national and cultural context.

8.2.2 Demand Conditions

The chaos on the opening day of the Älmhult warehouse clearly showed that IKEA had found a large and uncovered customer-demand for cheaper home furniture items. The overwhelming response from customers in Sweden, gave the confirmation and the belief the top management needed for going international. The demand for IKEA products and style has shown to be amazingly high also outside Sweden. Everywhere huge crowds turn up for the opening ceremonies, and the annual profit of the Group keep increasing for every year. The fact that IKEA keep on opening new stores, but never have had to close down any, is evidence enough for the demand of IKEA items.

According to the official website, approximately 410 million customers visited their stores worldwide in the financial year 2004. Although large quanta and low price is closely associated to IKEA, they have struggled against a label of poor product quality, especially in the early days. But, since IKEA only sells its own brand, they are very close to the end user and can more easily and direct catch up with customer preferences and opinions. In every warehouse, there are small questionnaires for the customers to give feedback on product range, services and suggestions for improvement. This is valuable information, and has led to remarkably better product quality over the years without any major price increase. Actually, IKEA every year *cut* prices on selected items they will focus on in particular the following year (e.g. this year they have cut the prices on wardrobes by 20% as the field of commitment is bedroom and bedroom furniture).

However, even if the Swedish demand has been, and still are, very high, Sweden is a rather small market. If IKEA were to continue to grow, they had to go international and seek new markets. They had faced great success within Sweden and Scandinavia, and had to rely on the customer response they had received there and to try to transfer the same enthusiasm for their products abroad. Their sales numbers show they have succeeded.

Conclusion: The enthusiasm and loyalty of its Swedish customer lay the foundation IKEA needed for expansion. The company also uses customer feedback very active in their product improvement and new product design to ensure that they offer items the customers demand and are satisfied with. However, the Swedish home-market soon turned out to be too small for the ambitious goals and vision of IKEA. Expansion to new markets was necessary to secure further growth and reach "*…the many people*".

8.2.3 Related and Supporting Industries

IKEA sells products under its own brand – IKEA of Sweden. When establishing its furniture business in the early 50's, the Swedish furniture industry was impaired by cartels of manufacturers and retailers. Supply contracts and agreements on competitive practice among cartel members raised barriers of entry for new entrants and disciplined those who failed to follow industry norms, particularly on price. Hence, there were no chances of getting any contracts with manufacturers or established retailers in Sweden.

IKEA had two choices – either to outsource its production or to set up production plants itself. The first alternative would be the least expensive choice, but also the most risky when it came to production and quality control and delivery reliance. The latter one needed a lot of capital as it meant building or acquiring production facilities. They chose a solution in-between. The Swedwood Group is the only production unit within the IKEA Group. Swedwood produces all the wooden furniture and wooden components (as most of the furniture is made of particleboard). But the majority of IKEA's production is actually outsourced. IKEA builds long-term relationships with its suppliers, and binds themselves to order large volumes over a certain period of time, often 3-5 years. The suppliers oblige to deliver the ordered volume at the agreed time to the agreed price and quality.

When searching for new suppliers, IKEA often turn to manufacturers in other industries. They may have the necessary production equipment and skills needed. IKEA then buy free production capacity, and gain a win-win situation for both parties. IKEA gets its products without major investments, and the supplier can utilize free capacity to earn some revenue. Examples of this are a table which legs were made by a car body manufacturer and some stuffed animals that were made by left-over fabrics.

The majority of the suppliers are located in Europe. Pr. 2004, 67 % of all purchases were made in Europe, according to the numbers on the official website. Many are located in the Eastern Europe. The second largest area of purchase is Asia with 30 %.

Conclusion: Due to the cartel activities in Sweden, IKEA were forced to go international to find suppliers and manufacturers. They have long-term contracts mainly in Europe and Asia, and often buy free capacity of production from its suppliers.

8.2.4 Firm Strategy, Structure and Rivalry

IKEA has a very distinct Scandinavian management style emphasizing an informal style when it comes to for instance clothing and the ways co-workers address themselves and the managers in. Further, IKEA uses its core values actively in everyday life and problem solving meaning that the co-workers easier can, and do, identify with the objectives of the managers and, hence, the company's (Björk 2000). A non-hierarchic, non-bureaucratic organization may be better suited for the retail industry where customer treatment and service and support are very decisive for the overall customer experience and total satisfaction with the retailer, than more formal organizations characterized by more formal rules for staff behaviour.

Another key factor to success is the entrepreneurial spirit and strong shopkeeping instincts which can be found in Sweden. This goes in particular for Ingvar Kamprad, who at a very early age began trading with whatever items he could find in his native village (Björk 2000). Thus, IKEA is not the only retailing business from Sweden experiencing great international success. Others are H&M, Lindex, Åhlens, Clas Ohlson among others.

Porter (1998b) stresses the importance of domestic rivalry. As discussed above, the industry structure was not favourable for IKEA, but by outsourcing the majority of the production, Kamprad and his crew were able to turn an obvious barrier of entry and market imperfection into an advantage. By exploring new methods of doing business, although at a high risk, he and the rest of the IKEA organization could stay true to its firm strategy and vision, and at the same time compete both efficiently and effectively with its home base rivals. As Kamprad saw that he was succeeding, he kept, and still is, pushing for an ever-going creativeness and product focus so that IKEA can continue to set the agenda for casual home furniture trends.

Conclusion: The business context of Sweden seems to be very much in accordance to the values, strategy and vision of IKEA. Its informal management style can be explained by the Scandinavian emphasis on equality and relative egalitarian society structure. Further, the cartel situation in the Swedish furniture industry turned out to serve IKEA's cause instead of harming it. Because it the cartel, IKEA had to think different than the traditional firms involved with furniture, and Kamprad himself to this day emphasize the great significance of daring to be different (Björk 2000).

8.2.5 Chance and Government

Important chance events for the birth and the development of IKEA were the Second World War and the emergence of private motoring. Post-war economy and expensive wooden furniture meant that only the wealthy could afford to renew their home decoration, while the vast majority had to manage with what they already possessed. By offering non-expensive furniture items and dare challenge the cartel structure, IKEA soon positioned themselves as an important actor in the Swedish market.

Also, by offering their customer the opportunity to bring the newly purchased items home with them in their cars, contributed to secure its growing popularity.

Government actions have been of little significance for IKEA.

Conclusion: It is chance events that have made the difference for IKEA. Post-war worries and private motoring also took place elsewhere, but it was in Sweden it happened, and the customer welcomed it.

8.2.6 Conclusion on the Diamond Consideration

It is quite apparent that Sweden as the home base provides competitive advantages so great that international growth could succeed. It has rather favorable business context (firm strategy, structure and rivalry), it clearly has a large home demand for IKEA's products (demand conditions) and because of the strong corporate culture, mainly managers born within the Scandinavian area have been appointed top positions within the Foundation (factor conditions – human resources). In other words, they are seeking highly specialized workforce, but the competence they seek cannot be learned by any education. The competence they want is learned as a child raised and socialized into a certain set of cultural attributes. Hence, mainly Swedes or Scandinavians have filled the top positions of the company.

The area where Sweden as the home base cannot satisfy is when it comes to related and supporting industries. Here, IKEA had to come up with its own solutions on how to overcome this obstacle.

Also, despite enthusiastic home customers, the fact that Sweden is a small home market, continued growth required that an international approach had to be taken. The firm strategy also implied internationalization.

8.3 What IKEA Should do According to the Extended Framework

The focus in this paragraph is to examine which entry strategy IKEA should choose according to the Extended framework, how the Diamond-analysis would impact on motivations, and hence, on entry strategies. Macro factors are not dealt with in this paragraph because they constitute of very industry-dependent factors, and it makes most sense analyzing them in accordance with the reality a firm faces, not the "reality" it *could* face.

When first acknowledging the urge for an international business strategy, the first step is to figure out *how* to get access to the most favorable markets. The framework can be seen as a tool for choosing the most suitable and secure entry mode for the firm under its given circumstances.

Deciding on Motivations: The first challenge is to figure out which motivation(s) is the most important for the firm's international expansion. The Diamond analysis reveals which competitive advantages the firm possesses due to its home market and national industry characteristics.

When performing the Diamond analysis on IKEA, the findings show that the firm had to go abroad to find supplier-relations, and that Sweden as the main market eventually became too small for the ambitious vision. It also shows satisfactory context and factor conditions.

Hence, the main motivations for IKEA for going international are *resource access* and *market development.*

Acknowledging Firm Type: The main task at this level of the framework is to decide whether or not IKEA is an MNE.

According to the first criterion of necessary active management of the foreign units, IKEA has a very strong and alive corporate culture which functions as overall guidelines for all actions, staff behavior and business decisions. Internal learning programs like *the IKEA Way* (Björk 2000) which nominates so-called IKEA Ambassadors to spread its values and management style to new areas and aspirant programs for local manager development, and more, clearly shows that the criterion of active management is fulfilled.

The second criterion of at least 10% FDI is also covered by IKEA. Total income for the FY 2004 was 12, 8 billion EURO (figures taken from the websites of IKEA). Asia and North America contributed with 19 %, whereas the rest, 81 % of total income, originated from sales in Europe.

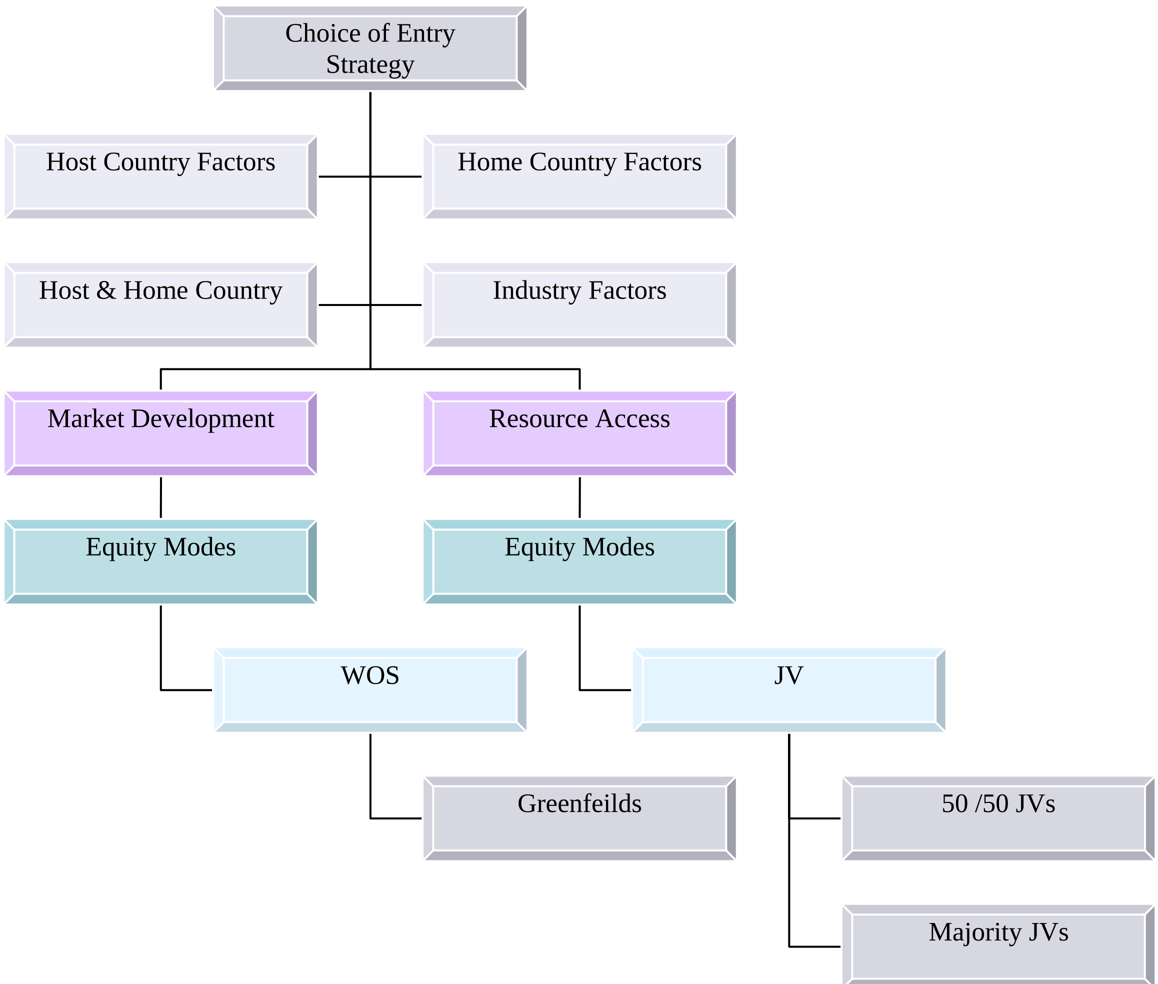
Hence, IKEA can be regarded as an MNE. The MNE classification is also supported by the firm size. According to the 2004-numbers, IKEA employed roughly 84 000 co-workers worldwide, spread across 44 countries.

Deciding on Entry Strategy: According to the Extended framework; MNEs should concentrate on equity entry modes, i.e. JVs or WOS. Taken into the consideration that IKEA requires to have ultimate control over its actions and operate independently, they should go for one of the WOS types, preferably greenfields, at least for the investments in physical assets. When it comes to production and suppliers, some kind of JV should be established, as IKEA has chosen not to have any major production units themselves. Most likely a 50/50 JV or a majority JV would be preferable due to the demand for control and independence, as described above.

8.3.1 Conclusion on Extended Framework Actions

When using the extended framework as a tool for deciding entry strategy for IKEA, the main findings are that the firm, as an MNE, should pursue equity modes – JV and/or WOS. More precisely, either a greenfield approach or a majority or 50/50 JV. This corresponds well with the main motivations of IKEA – Marked Development and Resource Access. In theory, all entry modes are applicable to market development, but the non-equity modes were rejected due to the classification of IKEA as an MNE. Also, resource access mainly consists of equity based entry strategies.

Following the Extended framework, this is what IKEA *should* do:



8.4 What IKEA Actually Has Done

The focus now shifts from what IKEA theoretically should have done to what they actually have done. However, some of the findings from the previous paragraph will be valid also for this analysis. Those are main motivations, as the results here draw upon the Diamond analysis, and the firm classification. Thus, this section starts with the macro factors.

Host Country Factors: When seeking land sites in HCNs, IKEA has developed their own search-criteria. They look for huge sites located next to busy main roads in the suburban areas of the larger cities. A part of their business strategy is that customer should be able to bring their purchased items home at once. Hence, the location near roads and massive land areas to cover both the sizes of warehouse and parking lot is needed.

This strategy has turned out successive wherever it has been applied[14]. Thus, IKEA does not have the need for locating in particular fields arranged by the HCN governments.

Home Country Factors: According to Hofstede's (2001) findings on Sweden in his research on cultural dimensions, the country can be characterized as rather risk averse (high uncertainty avoidance score) and a relatively small power distance, which means emphasis on equality and informality. These results go very well along with the organization and corporate culture of IKEA.

Host and Home Factors: The international expansion of IKEA can easily be described as slow, sequential stages. The first warehouse in Sweden opened in 1958, followed by Oslo in 1963 as the first store outside Sweden. The second store outside its home base opened in Denmark in 1969, and the first location outside Scandinavia happened in Zurich, Switzerland, in 1973, 30 years after the foundation of IKEA. The interwoven cultures and histories of the Scandinavian nations and their long diplomatic ties made the neighbouring countries natural expansion areas for IKEA. Entering into known territory constitutes a lower risk than the unknown.

Industry Factors: Neither of the Scandinavian markets may be characterized as very advertising intense during the 1960's – this goes in particular for Norway. However, IKEA had already in 1951 published their first furniture catalogue, which has become one of their main sources of product display, brand building and information towards its customer.

Motivations and firm type are market development and resource access, and IKEA is classified as an MNE, cf. previous paragraph.

---

[14] However, some local adjustments have been made. In China, several warehouses are located downtown, as cars are not the main type of transportation yet, as it is in Europe and North America.

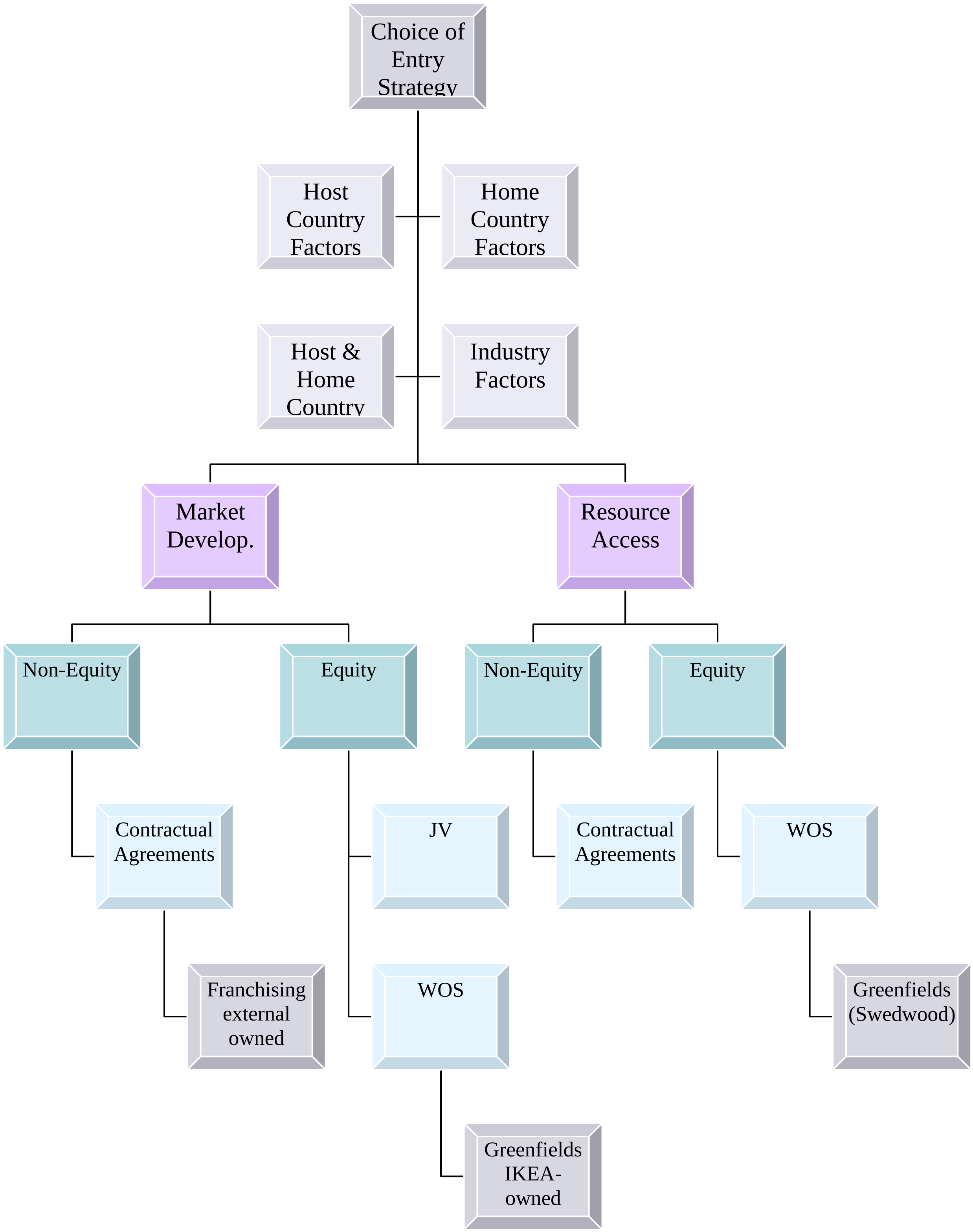
Deciding on Entry Strategy: IKEA has chosen three different modes of entry; for outsourcing production they sign long-term sourcing contracts with their suppliers; but for warehouse operation, the main entry strategy is greenfield engagement. However, 23 of the total 212 stores are run as franchisees, owned by external investors. Over half of these are found in markets regarded as difficult to get access to, and which are culturally very different from Sweden[15]. Also, their own production-unit, Swedwood, is operated as greenfields. Swedwood has 35 factories located in 9 countries.

8.4.1 Conclusion on Real Actions

This examination has revealed that IKEA stresses the importance of commitment and control over its subsidiaries, hence the strong aiming for greenfields start-ups. However, it has also shown how the firm concentrates on keeping cost at a minimum level, locating its property sites in suburban areas instead of the often more expensive down-town locations, and by circulating its own catalogue instead of relying heavily on external advertising channels. The famous cost-consciousness also contributes to the choice of long-term sourcing contracts with its suppliers instead of a more expensive JV-structure.

[15] These are the UAE, Hong Kong, Israel, Kuwait, Malaysia, Saudi-Arabia, Singapore and Taiwan.

Following the Extended framework, this is what IKEA *have* done:



8.5 Comparative Analysis

The Extended framework is in its entirety based upon theory and theoretical considerations. In order to test the framework, it has been applied to the IKEA-case (and later, to the Lerøy Seafood Group-case) to explore if there is some kind of match between what the firm should do and what it actually has done. If not, a closer discussion is needed to figure out if it is the framework which has certain shortcomings, or if the firm has put some genius strategy into action.

The findings differ in two ways; one regarding macro factors and the other regarding equity / non-equity modes. Concerning macro factors, IKEA has chosen different approaches than the theory suggests on host country and industry factors. When establishing new stores today, the brand name IKEA is so well-known and consolidated in the market that the customer mainly will follow the firm wherever it chooses to locate. Several places the situation is actually that other actor choose to locate near IKEA because of the unique attractiveness of customers to the area.

Also in the field of marketing IKEA constitute a unique position. The catalogue is their main marketing tool. In 2004, 160 million copies were printed in 52 editions and 25 languages, according to the websites of the IKEA Group. New catalogue launches are usually accompanied with large media exposure and media interests. Another important marketing channel is the internet. During 2004, approximately 153 000 visits a day were made to the IKEA website. This is why IKEA does not have to rely upon good external advertising opportunities in HCNs.

However, the most significant distinction was found at the level of equity / non-equity decision. The Extended framework suggested only equity-based modes due to the fact of IKEA being classified as an MNE, while the firm in real life has a much more varied style engaging both equity and non-equity modes. One of the reasons, and probably the most credible, is that the framework may seem a bit too rigid on the classification on firm type and size as the main principles for deciding upon equity or non-equity strategies. Besides, the fact that these two groups function as mutual exclusive groups contributes to reinforce the rigidity.

The choice to go for franchise-stores may have a quite natural explanation, though. As stated above, a majority of the franchisees are located in culturally very different nations than the Swedish. Being a foreigner, it may be particular hard to consolidate in these markets and to train staff into the very strong and distinctive corporate culture of IKEA. By letting local investors and managers take control over the everyday operations, they can manage to penetrate very different, but important markets, in a smoother and more elegant way than if had been the mother company.

The non-equity choice of resource access can also be explained by conscious actions chosen by the firm. The fact that IKEA have chosen contractual agreements in form of long-term sourcing agreements instead of equity based options, is because of its extreme focus on keeping costs at a minimum. By buying production capacity, they secure the production of their products at very low rates of investments. This practice also allows IKEA to choose their partners carefully, signing those who are known for their skills and reliability. The drawback is that they loose control over the production process and the daily quality inspections. At the same time, they are totally dependent upon reliable delivery. If some of these actions fail, it can severely damage IKEA’s reputation and goodwill. Still, this is a risk the company is willing to take because of the cost benefits it provides. Several arrangements have been made to prevent unpleasant surprises to take place, i.e. product inspectors traveling around on the many production sites to control that everything is done in accordance to the instructions from the IKEA management.

8.6 Scenario Conclusion

The intended actions of IKEA and the actual actions differ on two matters; macro factors and equity / non-equity considerations. Some of this can be explained by a somewhat rigid framework, and some by unique company performances.

IX. Scenario II

The home market of the Lerøy Seafood Group is small; hence, the firm has achieved market development by expanding its international involvement. The case study also illustrates well that when a complete diamond is applicable, clusters are suitable for discussion on how to improve and gain new competitive advantages for the firm.

9.1 Case – The Lerøy Sea-Food Group (the LSG)

The LSG can trace its existence back to 1899 when Ole Mikkelsen Lerøen started as a fisherman and fish wholesaler in the city of Bergen and then expanded operations to export live shellfish, herring and other fresh fish. Since that time the firm has been a pioneer in the Norwegian seafood business in two respects – in the commercialization of new species and in developing new markets. In 1939, two of his employees, Hallvard Lerøy sr. and Elias Fjeldstad, established the company that today is one of Lerøy Seafood Group's principal companies - Hallvard Lerøy AS. Since its establishment, the firm has been a pioneering enterprise within a number of fields in the Norwegian fishing industry. The main focus has always been on developing markets for fresh and frozen fish products, and the firm has frequently led the way into new markets or been the first to commercialise new species. The pioneering spirit is still very much alive in the Group, which was the first to export fresh salmon to the USA and to establish direct air-borne deliveries of fresh salmon to Japan.[16]

Up to 1997, the Group was a traditional family company, until the company was reorganised as a public limited company. The firm was listed on the stock market in June 2002. Since then, the firm has introduced several stock issues, most recently in July 2005 when Aurora Salmon was acquired. Stock exchange listing of the parent company Lerøy Seafood Group ASA provides access to venture capital. This has facilitated considerable investments, which already have contributed towards a significant strengthening of the Group. Since 1999, the Group has acquired substantial interests in various domestic and international enterprises, and at the end of 2003, the

[16] www.leroy.no/uploads/LSGAnnualReport2004.pdf

Group controlled all the shares in Lerøy Midnor AS.[17] Through this acquisition, the number of employees in Norway once again exceeds those in the Group's overseas companies.

Today the Group is well situated for continued profitable development and growth. It is the number one exporter of Norwegian salmon due to strong partnerships with some of the most dynamic, and cost efficient salmon farmers in Norway. Hallvard Lerøy is also the leading exporter of Norwegian salmon into the Japanese market. This was achieved amongst other things by building up an air bridge tonnes, and fresh whole fish or fillets are being flied directly from Norway to Japan. This system is also being used to develop markets for other species and the company has done some trials with blue mussels, with crab, and even with sea urchin.

Hallvard Lerøy AS is the largest company in the Group measured in sales, with a turnover of NOK 3,083 million in 2004[18]. The figure above represents the Group's sales network where many countries are included. The company has sales offices in France, Spain, Italy, China, Japan, Portugal and the USA, and the company is continuously working to establish a presence in new markets in the future. They have had an extreme growth in the US, China, Central and Eastern Europe (Russia and Poland), Japan and in the EU countries.

The product range is mainly value added products such as fillets, portions, and fresh products while frozen products form a more limited part of the business. As fresh cod is a specialty and supplies have been decreasing the company has provided a lot of encouragement to the new wave of cod farming sweeping Norway. Ten years ago a number of cod farming trials were carried out which were mostly unsuccessful. The company's own contribution has been on the sales side to position the fish at the upper end of the market as fresh whole fish or fillets rather than the less lucrative dried or dried salted fish.

[17] See in appendix for company structure

[18] www.leroy.no/uploads/LSGAnnualReport2004.pdf

9.2 The Complete Diamond - Cluster Discussion

The Lerøy Seafood Group operates through subsidiaries in Norway, Sweden, France and Portugal, as well as through the network of sales offices that ensures its presence in the most crucial markets. The firm strategy is to meet the ever increasing demands of the markets for quality, product range, cost efficiency and continuity of supply.

9.2.1 Factor Conditions

Although knowledge and competencies have been inherited from one generation to the next for centuries, the fish farming industry adventure demands a more advanced and specialized competency. The fish farms require knowledge and expertise of technical art for the facilities, but the most crucial is the research on biology, diseases that may occur and on satisfactory nutrition. For this highly qualified employees are needed. Several Norwegian Colleges and Universities offer educations related to fish farming research and studies, i.e. the University of Bergen, the Institute of Marine Research, the Bergen University College, the University of Tromsø and others.

This expertise has led the industry to the position it enjoys today as one of the world's largest producers of Atlantic salmon. Although, most associated with salmon, research continues for the development of fish farming methods also valid for other species, like different types of mussels and other fish species.

Norway has had fish farming industry since the 60's, and has continuously improved and innovated the physical assets of the industry – like the feeding procedures, farm facilities, deep freeze technology for transportation and other effective logistics.

When it comes to infrastructure, Norway has a disadvantage in relation to location and the most important seafood-markets (like the EU, the USA, Japan, Russia and South-East-Asia): long distance. But, the Norwegian industry has met this challenge by developing very good methods of logistics – both by trucks and aircrafts – so that the infrastructure now seems to work very well.

The Norwegian climate and location is well suited for fisheries and fish farm industry with its long coast line and access to open sea. The cold and pure water are important for the high quality of Norwegian fish.

Conclusion: Norway is able to offer the fish farming industry and its actors very favourable conditions, in particular when it comes to human resources and beneficial natural resources.

9.2.2 Demand Conditions

Fish has always been an important ingredient in the traditional Norwegian diet. Strong preferences for taste and quality have developed over the years, and turned the Norwegian customers into highly demanding and sophisticated consumers. These demanding preferences have served as guidelines for the Lerøy Seafood Group, making them understand the importance of outstanding quality. Also, Norwegian seafood abroad has a good reputation.

In recent years, new demands for seafood have been created by the focus on health benefits. The fatty acids of fatty fish, like salmon, mackerel, herring and trout, are good for many reasons, like preventing heart diseases and some types of cancer and it is good for the blood circulation. In addition, fatty fish is good for the mental health.

New food-habits from other corners of the world, also creates demand for other types of seafood than have traditionally been cultivated in Norway. This in particular goes for mussels and shell fish like scampi. Such new demands make excellent opportunities for innovation and research for new fish farm species, and during the last decade, several producers have experimented with new and non-traditional products. And, the political trade barriers that have been forced on the Norwegian fish farming industry by the EU-authorities, underline the need to open up new markets.

Conclusion: Norwegian customers are highly sophisticated and demand excellent quality on the fish they buy. This has sharpened the producers, knowing that if they wanted to sell their fish, it had to be at least as good as their competitor's, or even better. Hence, the Norwegian fish and fish products enjoy a good reputation also outside the country. However, due to political sanctions from the EU, most growth and new market share capture seems to take place in markets outside the EU, like Russia and South East Asia.

9.2.3 Related and Supporting Industries

Related industries present in Norway are suppliers of technical devices for the fish farm facilities, for the cold storages and manufacturers of fish nutrition.

9.2.4 Firm Strategy, Structure and Rivalry

Throughout the year 2004, Norway has succeeded in sustaining its position as the world's leading producer nation of the company's main product, farmed Atlantic salmon. Even when the figures include wild salmon, Norway remains the largest supplier of Atlantic salmon. However, Norway is now in danger of losing this position due to political sanctions like punitive duties (see paragraph on government).

The Lerøy Group's level of activity is good, and the Board believes future prospects for the company to be favourable. Considering the international nature of the Group's activities, developments in the world economy will always have an impact on the Group's activities. The improvement in the commercial operating environment has developed more rapid than expected in 2005. The price level of Atlantic salmon in the third quarter and so far in the fourth quarter of 2005 is significantly higher than the average price levels for the same period of 2004. This together with a very satisfactory productivity development in the Group's production gives a basis for a continued positive profit performance.

The Group's vision is to be *"the leading, most profitable Norwegian supplier of seafood."*

To achieve this, the company states it has to focus on alliances, market orientation, quality, risk management and know how.

Conclusion: The Lerøy Group's vision clearly shows that the company have an ambition of being among the best actors in the industry. Their leading position in the Norwegian market is a good starting point.

9.2.5 Chance and Government

Government has played an important role for the Lerøy Seafood Group and other fish farming industries in the EU- area. According to the Norwegian Ministry of Fisheries, several trade political. This has limited the companies' opportunities for chance and growth[19].

The fish farming and processing industry in Norway and in the EU is exposed to the risks represented by EU's continued threats of long-term political trade barriers. The EU Commission's decision to implement temporary minimum price on Norwegian salmon is not a problem as long as the market price is higher than the politically set minimum price. The EU Commission's decision to implement penal action in order to affect the import of Norwegian salmon into the EU market is negative, and is disturbing the global salmon market. The Group regrets the EU's continuing processes against salmon producers in Norway.

Conclusion: Although the EU creates barriers for further growth within the common market, new market entrants have arisen in other areas. Lerøy has already established in Russia beside several East-Asian countries.

9.2.6 Conclusion on the Diamond Consideration

The discussion above has shown that Norway can be considered as favorable home base of all the determinants. This means that Norway constitutes a solid home base for the fish farm industry.

[19] www.odin.dep.no

The home base obviously allows for highly sophisticated knowledge accumulation, it provides good feedback on customer preferences and the actors within the industry have a vital attitude towards competition.

9.3 Cluster Discussion

Lerøy Seafood Group has a home market where all determinants are present; therefore they have specialized in more sophisticated products with help from acquisitions in other countries.

Like Porter (1998a) discusses, a cluster is an alternative way of organizing the value chain. When the company started with Hallvard Lerøy as the core business, it saw the need to find new markets and develop productivity and innovation. It is obvious that The Lerøy Group has got related similarities with a typical cluster. The Group has already expanded its production in the domestic market to have the possibility to increase production, thus increasing exports to both old and new foreign markets. Further on, a cluster's restrictions will be defined by the linkages (and complementarities) across industries and institutions that are most important to competition. Clusters promote both competition and cooperation, but with a static competition, the cluster will fail. Competition has to be dynamic and clusters may involve cooperation with other related industries and local institutions. The Lerøy Group has for instance managed to cooperate with Sweden and Scotland establishing distribution in these countries.

Productivity rests on how companies compete within clusters, and not in the particular field they compete in. However, the sophistication with which the companies compete in will be influenced by the quality of the local business environment. The Lerøy Group has gained a lot of new know-how in the new markets, using the host country markets to understand how demand conditions are, and try to adapt to these demands. The traditional fish species will no longer be the competitive advantage for the industry, but the development and research of new fish farming facilities.

First, the Diamond framework implies that clusters affect competition by increasing the productivity of companies based in the area, for instance Midnor AS will have a great advantage compared with all the other 350 fish farming facilities situated in the along the Norwegian coast, being one of the largest fish farming companies in Norway. Second, Porter states that clusters affect competition by driving the direction and speed of innovation, thus strengthening future productivity growth. This coincides with Lerøy's history and choice of action, trying to focus on innovation with a wider product range, in addition to the traditional products. Third, clusters affect competition by stimulating the formation of new business, which expands and strengthens the cluster itself. Hallvard Lerøy developed from being a family owned company to a stock market registered company in the expanded Lerøy Group ASA. This has provided the Group with venture capital, and made the cluster expand both national and international.

The Lerøy cluster gives better access to employees and suppliers. This is due to the Group's opportunities in the international markets, where it is easier to attract talented people from other locations. Formal alliances with distant suppliers will moderate some of the disadvantages of distant outsourcing, for instance a large supply of salmon is being sent to China for processing filets due to lower costs. The Group could not have accomplished this without the formal alliances with China. Additionally, the relationship the Group has got with customers in host country markets facilitates the access to specialized information. Trust ties will result in transferable information flow.

The competition in the fish farming industry in the home market is highly motivating for the company, and the cluster will make it easier to measure and compare performance because the local rivals along the Norwegian coast usually share general conditions. Since the Group is Norway's leading exporter of seafood, they differentiate from competitors. The company produces, processes, distributes and sells the product, while other Norwegian companies normally only have one process they concentrate on.

Sophisticated buyers are often part of a cluster, like the customers who likes sushi which requires a mixture of different raw fish, mussels etc. These customers will provide the company inside the cluster a better insight on the market than the isolated competitors do. As mentioned in the theory description, a cluster will provide the capacity and the flexibility to act rapidly, in addition to enhance innovation. When the Lerøy Group relies on distant suppliers, it will face greater challenges because innovation can be harder being a vertically integrated company if it has not yet established a good relationship with the new market. A cluster also contributes to new business formation because individuals working within the cluster can easily distinguish gaps in products or services that may occur, resulting in building new businesses. The Lerøy Group has taken advantage of this situation. As Norway is one of the few salmon and other seafood producers, the company can extend their product line to satisfy the sophisticated buyers.

9.4 What the Lerøy Group Should do According to the Extended Framework

The focus in this paragraph is to examine which entry strategy The Lerøy Group should choose according to the Extended Framework. The cluster analysis relates to motivations and the macro factors.

When performing the Diamond-analysis on the Lerøy Group, the findings show that the firm had to go abroad to find new markets, and that Norway and the rest of Europe as the main market eventually became too small for the ambitious vision. It also shows satisfactory context and factor conditions.

Hence, the main motivation for the Lerøy Group for going international is *market development.* Acknowledging that the Lerøy Group is formed as a cluster, the main motivation for going international is not the necessity for determinants. Macro factors will set the restrictions for how far the company may go. The main motivation for the Group's international expansion was to find new markets. The cluster formation made it possible to expand because Norway and even Europe as the main market became too small. Now the company has reached other continents.

Acknowledging Firm Type and Size: The main task at this level of the framework is to decide whether or not the Lerøy Group is an MNE.

When deciding whether the Leroy Group is an MNE or not, it is important to understand its development from being only a direct exporter of fresh fish, to a WOS situated in several continents. Regarding the two criteria for being an MNE, the criterion of active management is fulfilled. HQs engage in the active management of their overseas subsidiaries, not only holding them as passive financial portfolio.

The second criterion of at least 10% FDI is also covered by The Lerøy Group. Total income in the financial year 2004 was NOK 3 559 399 billion, of which only 9% of the total revenue comes from the Norwegian market. The Lerøy Group is divided in three departments; sales and distributions, production and affiliations. Affiliates are companies in which the Group holds an interest of between 20% and 50%, and where investment is long-term and of strategic nature[20].

The parent company Lerøy Seafood Group ASA has its main offices in Bergen, Norway. In addition to the Group's managing director the parent company has two employees. Administratively, all personnel functions are handled by the wholly owned subsidiary Hallvard Lerøy AS. At the end of the year 2004 there were 576 employees in the Group; 379 work in Norway and 197 work abroad. This information tells that the Group is an SME according to its employee number.

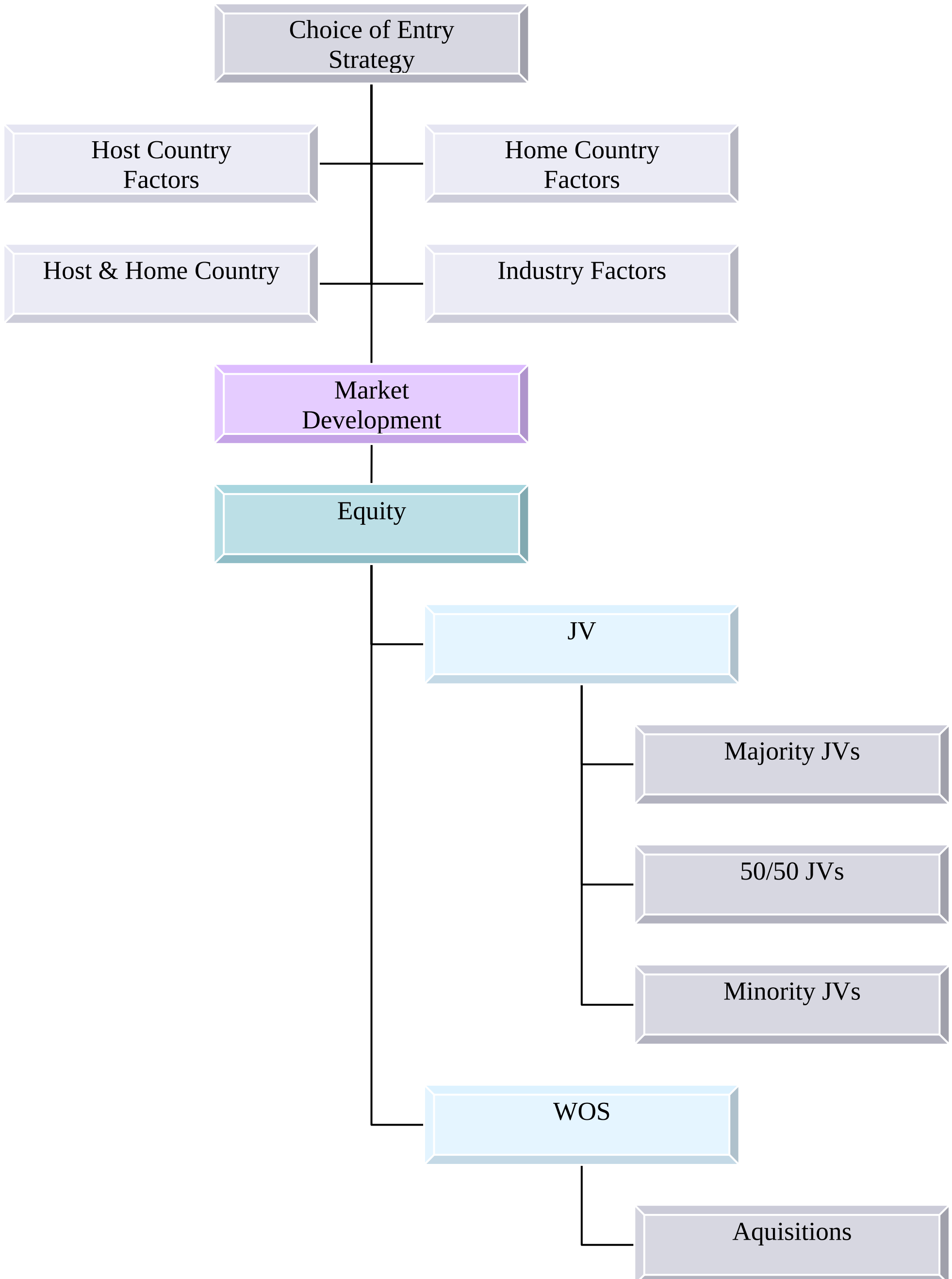
Deciding on Entry Strategy: According to the Extended framework, MNEs should concentrate on equity entry modes, i.e. JVs or WOS.

9.4.1 Conclusion on Extended Framework Actions

When using the extended framework as a tool for deciding entry strategy for the Lerøy Group, the main findings is that the firm, as an SME, should pursue equity modes – JV and/or WOS. This corresponds well with the main motivations of the Group – Market Development. In theory, all entry modes are applicable to market development, but JVs and acquisitions are preferable since the Group can share costs and risks with the local partners in the cluster. Most importantly, the group will learn from the partner's knowledge about the host countries. The Group can manage a faster entry speed and complete equity and management control if it in particular concentrates in expanding with help from acquisitions. All forms of JVs should be applicable as equity mode, and acquisitions as the best entry mode for WOS.

[20] www.leroy.no/uploads/LSGAnnualReport2004.pdf

Following the extended framework, this is what the Lerøy Group *should* do:



9.5 What the Lerøy Group Actually Has Done

As in the IKEA – analysis, some of the findings from the previous paragraph will be valid also for the Lerøy Group analysis. That is why this section starts with the macro factors.

Considering host country factors the Lerøy Group has prioritized location in Western Europe, but the last decade they have expanded to new exotic markets like Asia. When it comes to host country risk, they have used a lot of capital in getting to know new markets within different cultures. The American market has been a challenge because they belong to a high country risk, i.e. low uncertainty avoidance (see Hofstede, 2001). For Lerøy, it has been more complicated with establishment in areas where political relations and trade relations have been decisive for the choice of host country location. This may be the reason why the Group started offices in EEA – countries, then later focusing on long lasting relationship with distant markets in other trade areas within WTO.

Referring to the theory discussion, host country factors will have less influence on exporting firms because location will not be of the same importance as demand conditions. The Lerøy Group has direct export of both sales and distribution. Since location will be more important for contractual agreements location, the Group has focused in transmitting knowledge with the host countries. Subsidiaries like Hallvard Lerøy will be more dependent on the localization of host countries because it operates like a WOS (see annual report). The responsibility involved is large, especially nowadays that the Russian and the American market are sceptical to Norwegian salmon (see the part recent events in the Seafood- industry).

Production and affiliations consist in acquisitions and joint ventures in near countries, which facilitates the long lasting ties, and institutional similarities. These ties are present to strengthen the Group's production development. Formal alliances with both near and distant markets have allowed delivering products of high quality and on developing binding, long term, profitable and cost effective collaborations both within suppliers and in the market.

Industry Factors: The home country nation is not of high advertising intensity. All advertising and capital intensity is operated by the retailers in the host country. It is important for Norway to maintain the relationship and commitment with host countries because Norway as a producing nation has lost market shares for several years now, and is constantly being challenged by countries that provide a much better political framework. Political authorities and others determining the conditions under which the Group works, must accept that the industry is global and that the companies have to act accordingly (see annual report).

Motivations and firm type are market development and Lerøy Seafood Group is classified as an SME, which means that it operates as an MNE, with fewer employees but with active management in subsidiaries.

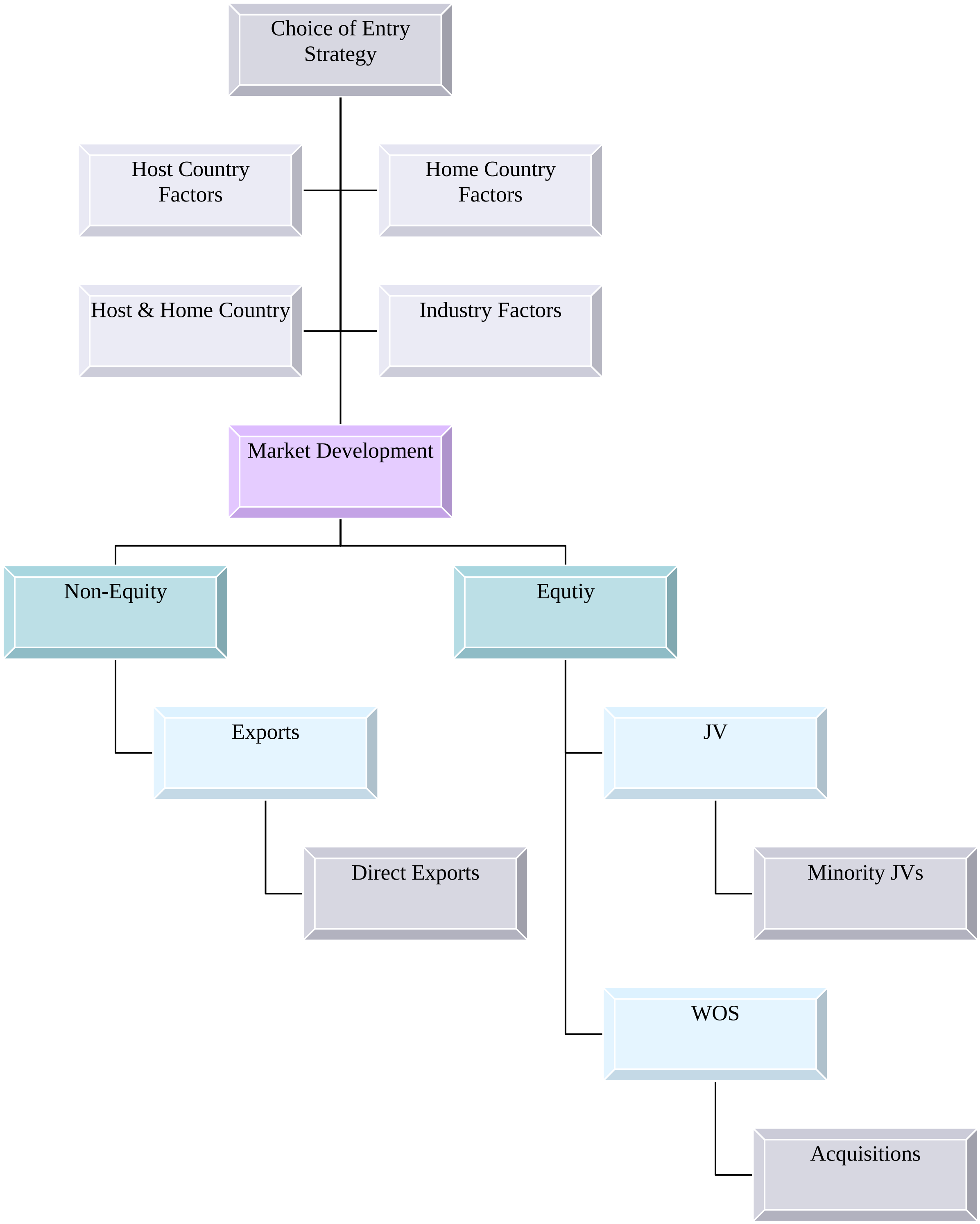
Deciding on Entry Strategy: The Lerøy Group has chosen three different modes of entry; one for sales and distribution, one for production and one for affiliated (See appendix 5 for full organizational chart).

9.5.1 Conclusion on Real Actions

This examination has revealed that the Lerøy Group stresses the importance of commitment and control over its subsidiaries. Findings show that they have gained new markets, even if it has taken some time in the distant HCNs. However, what obstructs the Group from developing new markets is the political system in HCNs.

According to the corporate governance (see appendix nr. 5), the company's history has been decisive for how the company is structured today. The reason is that Hallvard Lerøy, now a subsidiary within the Group, was established almost 100 years before the Group emerged. This implies that the company pride and tradition lies with the main subsidiary instead of the parent company.

Following the extended framework, this is what the Lerøy Group actually has done:



9.6 Comparative Analysis

The findings from the difference between what the Lerøy Group should do and what they actually have done seems to be the following; regarding macro factors and equity / non-equity modes. Concerning macro factors, Lerøy has chosen different approaches than the theory suggests on industry factors. HCNs have taken care of high advertisement intensity factors, with help from local retailers. The Lerøy Group's strong position in the industry is due to the North Atlantic seafood cluster. Additionally, The Group's commitment with HCNs in both EU and WTO has facilitated the reach of new customers.

A significant distinction was found at the level of equity / non-equity decision. The extended framework suggested only equity-based modes. But since the Lerøy Group has been classified as an SME, the company is an exception. The main reason is that the framework may seem a bit too rigid on the classification on firm type and size as the main principles for deciding upon equity or non-equity strategies. Production and affiliations consist in acquisitions and joint ventures in near countries. Long lasting ties and institutional similarities is then of great importance for the company's future international involvement.

The non-equity choice of marketing development can be explained by the brand management of Norwegian seafood. The Group's reputation as being the leading Norwegian seafood company has helped retailers in HCNs finding new customer segments in the distant markets. A lot of research and development is the explanation of why seafood products have become so popular, resulting in a worldwide demand which the Lerøy Group has to keep up with.

9.7 Scenario Conclusion

The Lerøy Group has focused on direct exports because it has got the know-how in the domestic markets. The company is a SME, they focus on direct export for sales and distribution mainly, but they also have joint ventures and acquisitions for the production. Findings show that the Diamond framework is not good enough because it only applies to MNEs. From the analysis it can be seen that the company does not have a lack of any of the determinants in Porter's diamond. It is more obvious that some of the determinants are not of any crucial importance for the business. Since the Lerøy Group has clusters within the fish farming industry, by i.e. settling down in Sweden, the company has managed to expand the market.

9.8 Comments on Recent Events in the Seafood Industry

Norwegian sea-food products have in many years had a good reputation abroad, well-known for its excellent quality. Recently, this image has been undermined by several assertions questioning the quality, in particular on farmed salmon.

The Russian Federal Agency for Veterinary and Phytosanitary Inspection announced in December 2005, that it had introduced temporary restrictions on fish imports from four Norwegian fishing enterprises. The 1st of January 2006, a total import - restriction of Norwegian farmed salmon were put into practise. The Russian Agriculture Ministry cited excessive pollution of the fish as the reason for the prohibition due to asserted high concentrations of lead and cadmium. According to hygiene requirements for the safety and nutritional value of food products, the discovered concentrations of were not permissible[21]. A researcher at Norway's NIFES (National Institute of Nutrition and Seafood Research) believes that Russian claims of high toxin levels in Norwegian farmed salmon may be correct[22]. Senior researcher Claudette Bethune believes it is likely that the claims of cadmium contamination in Norwegian farmed salmon found in Russia can be traced to tainted fish feed in Norway, the Dagbladet newspaper reported the 13th of January 2006.

American researchers share the Russian view on the toxin problem, and suspect Norwegian salmon to possibly be carcinogenic and harmful to pregnant women[23]. These recent events have turned out very unfortunate for The Lerøy Group and other Norwegian seafood companies. The companies can risk loose its solid market positions in these important markets because their brand name and reputation are being associated with health danger and poor quality.

---

[21] www.vg.no/pub/vgart.hbs?artid=299687
[22] www.dagbladet.no/nyheter/2006/01/13/454671.html
[23] www.vg.no/pub/vgart.hbs?artid=112240

The Norwegian Government is currently doing its best to solve these threatening issues for the sea-food industry, including the Minister of Fishery visiting Russian authorities. The conflict has in the beginning of March 2006 still not been solved.

X. Scenario III

This scenario differs from the two previous because it does not engage in a Diamond analysis or the Extended framework for identifying entry strategies. Instead the success of Dell is analyzed and explained according to the Born Global Concept and characteristics of e-commerce.

As stated above in chapter 4.3, the connection between the Diamond framework, the Double Diamond framework and the Born Global Concept can be viewed as a development from focus on nations, via regions, to a worldwide approach. Porter (1998b) assumes that firms consolidate their home markets before going international, emphasizing the role of home nations in the internationalization process. Born Globals, at the other hand, are companies that already at the start-up define their target areas as the key markets of the world. These firms typically do not depend on a strong home market, and therefore, the Diamond framework is not applicable.

10.1 Case – Dell Computer Corporation

Dell Computer Corporation is a premier provider of products and services required for customers worldwide to build their information-technology and Internet infrastructures. Dell, through its direct business model, designs, manufactures and customizes products and services to customer requirements, and offers an extensive selection of software and peripherals. The company’s climb to market leadership is the result of a persistent focus on delivering the best possible customer experience by directly selling standards-based computing products and services. Revenue for the last four quarters totalled $54.2 billion and the company employs approximately 63,700 team members around the globe.[24] B2B counts for approximately 85% of total sale, while B2C has the last 15%.[25]

Dell was founded in 1984 by Michael Dell, at that time only 18 years of age. This makes him the computer industry's longest-tenured chief executive officer and a visionary leader. Much of the company’s success can be traced back to its founder, who early saw the opportunities in e-commerce as logical supplement to a direct model.

The direct model eliminates retailers which add unnecessary time and cost to the value-chain. It allows the company to sell directly to the customer. The advantages are many. First, Dell can introduce the latest relevant technology faster than competitors with slow-moving, indirect distribution channels, turning over inventory every four days on average.[26] Second, direct contact with its customers allows Dell to customize all computers and systems exactly to the customers’ preferences, i.e. the customers get a tailor-suited computer to a lower price than other manufacturers can offer. And third, dealing directly with suppliers minimises costs (i.e. the JIT-concept). In other words, it is because of the direct model Dell has been able to grow so rapidly, and capture the position as one of the leading manufacturer worldwide.

Dell expanded into a worldwide MNE by using a selective expansion; the direct model was introduced country by country. A basis assumption was that all countries in the world accept the direct model given the right time and market maturation.

Dell's corporate headquarters are located in Round Rock, Texas, which is the company's birthplace. Central Texas is also the home to Dell Americas, the regional business unit for the United States, Canada, South America and Latin America. Dell also has regional headquarters in Europe (England), Middle East, Africa and in Singapore, which is supposed to serve the Pacific Rim, including Japan, India, China, Australia and New Zealand. Besides the regional headquarters, Dell also has several production sites around the globe: 3 in the US, one in Brazil, one in Ireland, one in Malaysia and one in China.

---

[24] www.dell.com
[25] Maguire, James, Case study at North Carolina State University 2006 http://ditialenterprise.org
[26] See appendix page x for Dell’s Direct Model

10.2 Analysis DELL –related to the Born Global Concept

Looking at the definition of the Born Global Concept, it is clear that Dell can be labelled a Born Global. Dell started exporting already after three years when establishing its first overseas subsidiary in the UK. The annual report from the FY 2005 confirms that over 30% of the net revenue is from export outside the Americas.[27] This satisfies the conditions for a Born Global classification as having an export percentage of 25% or more.

According to the Born Global Concept, the founder has a very strong impact on the formation of the company and its performance. This also goes for Dell. In 1983, at the age of 18 and with US $1,000, Michael Dell realized his life ambition and started out selling upgraded PCs and components from his dormitory room at the University of Texas, Houston. The dorm-room sales practice officially became Dell Computer Corporation in May 1984. With the rapid growth of the company, Dell went public in June 1988. Ten years later, Dell was ranked number two and the fastest growing among all major computer systems companies worldwide, with more than 26,000 employees around the globe. Michael Dell earned the reputation of being the youngest CEO ever of a Fortune 500 company. Without this visionary leader, the company could not become an MNE after only 15 years. These facts illustrate how crucial Michael Dell has been to the company's expansion.

The Born Global Concept also discusses the importance of considering the networks in which its founder(s) is active during the founding period. Michael Dell was early on anticipating the great potential the Internet had and was the first to start online-sales of computers.

10.3 DELL Analysis – related to E-commerce

Dell taking its business activities online can be viewed as a logical extension to the direct model, making it even more direct. The result was the launching of the site www.dell.com in 1994. From 1996, customers could configure and order a computer directly through the website, and it was

[27] www.dell.com/downloads/global/corporate/annual/2005_dell_annual.pdf

the first computer company to provide a comprehensive on-line purchasing tool. Dell’s application of Internet technology to its direct model created a fully integrated value chain. It allowed a three-way “information partnership” with suppliers and customers by treating each player as a collaborator to improve efficiency across the entire supply and demand chain, thus sharing the benefits.

The online business has turned out very successful, and the direct model has been widely used in marketing classes as the core example of e-commerce. A large profit source for the firm is the B2B model. While Dell's consumer sales are highly visible, in part due to a high profiled TV campaign, its business sales are a much bigger revenue source. "About 15 percent of our total revenue is consumer business and the rest is B2B. Our major focus in the IT marketplace is selling servers, storage products, network switches and services to corporate customers. A lot of the e-commerce engine revolves around that."[28]

To facilitate B2B sales, the Dell site offers each corporate customer an individualized interface. Using what Dell calls a Premier page, purchasing managers log on and order using an interface customized for their company's needs. They place the order, it gets routed up to whoever in their firm needs to approve it, and then the order is sent directly to the firm. The efficiency of the B2B system works in synergy with the consumer sales. Corporate customers are also consumers, so if they have a good experience, they can buy a system for their home, or vice versa.

But while this trend so far has turned out well for Dell, the B2C segment is showing signs of reaching the saturation point. Besides, second hand sales of computers now constitute a growing market share. Auction sites like eBay and uBid are enjoying thriving growth rates in PC sales, in contrast to new PC vendors like Dell.

The traditional approach to innovation tends to produce proprietary technologies and products that are often hard to migrate from as a customer. In contrast, Dell has a more open and effective approach to R&D. Dell innovation starts with customers. The company gathers requirements directly through tens of thousands of customer interactions daily, organized events, and customer

[28] Interview with Dell Management: Case Study, James Maguire.

panels. These requirements drive Dell technology initiatives, innovations, and product directions. Additionally, The R&D is effective. Dell products may be developed in house or by working closely with strategic partners. Customer feedback throughout this cycle reinforces Dell's focus on relevant technologies that address real customer requirements. Dell also practices an open innovation strategy. Dell R&D organizations steer enabling industry standards and technologies through industry groups and strategic partners, and develop innovative, non-proprietary, open standards-based products.

But it is not only the customers who benefit; the firms also gain advantages from the internet, particular in the field of marketing and customer feedback. The web and its search engines give firms a way to be found by customers without expensive, national advertising. Even small actors can reach a global market. Web technologies also allow merchants to track customer preferences and produce individually tailored products. Here Dell will be an excellent example of how to do good e-business. By online orders directly from its customers, Dell is able to deliver a computer exactly made by the customer’s demand. And by shipping it directly to the recipient, they significantly shorten the value chain and, hence, are able to cut prices and offer a very up to date PC.

10.3.1 Conclusion on the Born Global and E-Commerce Consideration

It has been demonstrated that Dell has not developed its international activities in time consuming processes starting in cultural homogenous areas and expanding to further distant markets. Instead, Dell has followed the internationalization patterns of the Born Globals, using the internet and e-commerce activities as tools to gain its leading market position.

10.4 Scenario Conclusion

The analysis of Dell has shown how the firm gained its success from rapid international growth and the use of e-commerce, i.e. making country borders less important. Porter (2001) himself has argued that online business makes country borders less important. Hence, the very foundation of the Diamond falls apart. Further, this also proves that the Diamond assumption of home base location is no longer being of any significance. For Dell and other firms which early engage in international business activities, case scenario 3 has shown that the Born Global Concept may be better suited to explain firm success than the Diamond framework.

XI. Critical Reflections and Further Research

When applying the Extended framework on the scenario cases, in general, two weaknesses became apparent. The first regards the lack of flexibility within the framework. The decision to let equity and non-equity modes depend on firm type seemed reasonable because it provided the framework with clear lines of decision hierarchy. However, as the framework was applied on the cases, it soon became evident that the framework was unable to deal with the complexity and diversity of options pursued in real life actions. For further research we suggest that the decision of equity / non-equity modes should be dependent on other variables than just firm type.

The other difficulty relates to time perspective. The Extended framework assumes a chronological time perspective. That is, the parent company should establish in the home market before they settle down in distant markets with their subsidiaries. The core capabilities, skills and knowledge often accumulate with years of experience. It can easily create confusions on what is to be considered as the corporation’s main activities, the ones of the parent company or of the main subsidiary. Case scenario 2 shows such an opposite chronology, as The Lerøy Seafood Group was established almost 100 years after its main subsidiary, Hallvard Lerøy AS.

Finally, some statements regarding sources and the use of references are needed. The number of articles the thesis rests on can be perceived as too narrow. Ideally, it would be appreciated with some more support based on research and publications. However, not much literature was found on the issues regarding entry strategies and the connections to the competitive advantages of nations.

XII. Concluding Remarks

The contribution of this thesis has been to connect Porter's Diamond Framework to entry strategies. An extended framework has been developed as a tool to help firms adopting the most sufficient entry strategy.

The internationalization process has been presented with the following stages; the starting point is the motivational factor, followed by the Diamond-analysis to decide if reasons for expanding into foreign markets exist. If the reasons exist, a proper entry strategy should be chosen to secure a firmly establishment. Once the subsidiary is established, the challenge is to consolidate the market position.

Four questions is raised in the literature; *why* (firm motivations), *how* (entry strategy), *when* (timing) and where (macro factors). The thesis has discussed the *how*, with contributions from *why* and partly *where. When* has not been discussed.

Entry strategies were linked to the Diamond-framework by examining the influencing variables on both entry strategies and the Diamond. The variables identified were on macro level (country- and firm specific) as well as firm level, including political arrangements, judicial systems, human capital, risk orientation and more. These are variables discussed by Porter when explaining the Diamond Framework, i.e. a connection exists.

The connection is illustrated in the design of the Extended framework, which is based on the Hierarchical Model by Pan and Tse (2000). The Extended framework consists of the following variables; choice of entry strategy, macro factors, firms motivations, equity/non-equity choice, main category of entry strategy and subcategory of entry strategy. The added features to the framework are macro factors and firm motivations. The framework has a hierarchical structure, implying that the number of options is narrowed as the hierarchy levels are followed downwards.

The connection to the Diamond framework goes through the firm motivation level; it is the outcome of the Diamond analysis which is decisive for firm motivations. Also, a section on academic criticism of the Porter Diamond is included, emphasizing the Double Diamond Framework by Rugman and D'Cruz (1993) and the Born Global Concept by Rasmussen and Madsen (2002).

The Extended framework has been applied to case-scenario 1 and 2, while the alternative theory on the Diamond was applied to case-scenario 3. The findings showed that the Extended framework has an average capability to predict suitable entry strategies. The weakness is mainly due to the choice of pursuing either on equity or non-equity mode, while the analysis of the firm's real actions showed that MNEs / SMEs often engage in both types.

The findings on scenario 3 strengthen the assumption that the Diamond framework is not applicable to all industries. E-commerce and the early international approach used by many firms nowadays, do not apply to the Diamond framework context of a strong consolidated home market as the foundation for international activities.

For further research proposals, it is suggested that the Extended framework needs to be modified to be able to deal with more complex strategies of foreign market entry.

References

Bartlett, Christopher A. / Nanda, Aisha: *Ingvar Kamprad and IKEA,* Harvard Business School case 390-132, 1990

Bartlett, Christopher A. / Ghoshal, Sumantra / Birkinshaw, Julian: *Transnational Management: Text, Cases, and Readings in Cross-Border Management*, McGraw-Hill, Boston 2004

Björk, Stellan: *IKEA – Entreprenøren – Forretningsideen – Kulturen.* Index Publishing AS, Oslo 2000

Cartwright, W.R.: *Multiple linked "diamonds" and the international competitiveness of export-dependent industries: the New Zealand experience,* Management International Review, 2, 55-70, 1993

Davis, Peter S. / Desai, Ashay B. / Francis, John D.: *Mode of International Entry: An Isomorphism Perspective,* Journal of International Business Studies, 31, 2 (Second Quarter), 2000

Dunning, John H.: *Internationalizing Porter's Diamond,* Management International Review, Special Issue 2, 1993

Dunning, John H.: *The eclectic paradigm as an envelope for economic and business theories of MNE activity,* International Business Review, Vol. 9, Issue 2, 2000

Ellis, Paul: *Social Ties and Foreign Market Entry,* Journal of International Business Studies, 31, 3 (Third Quarter), 2000

Gooderham, Paul N. / Nordhaug, Odd: *International Management – Cross-Boundary Challenges,* Blackwell Publishing, 2003

Hill, Charles / W.L.: *International Business: Competing in the Global Marketplace, Int.ed.*, McGraw-Hill/Irwin 5th edition, 2005

Hofstede, G.: *Culture's Consequences.* London: Sage Publications. 2nd ed. 2001, Ch. 1
(Values and culture, pp. 1–40, compendium in INB403)

Javala, Jukka / Pohjola, Matti: *Economic Growth in the New Economy: Evidence from Advanced Economies*, Elsevier Science, 2002

Jijang, Ruihua Joy: *Entry Strategies and Subsequent Foreign Expansion Path*, Academy of Management Best Conference Paper, 2005

Keillor, Bruce / Davila, Victor / Hult, Tomas: *Market Entry Strategies and Influencing Factors: A multi-industry/multi-product investigation,* The Marketing Management Journal. Vol.11, Issue 2, 2001

Kotabe, Masaaki / Helsen, Kristiaan: *Global Marketing Management*, *second.ed.*, John Wiley & Sons Inc. New York 2001

Lasserre, Philippe: *Global Strategic Management*, Palgrave Macmillan, New York 2003

Laudon, Kennth C. / Laudon, Jane P.: *Essentials of Management Systems – Managing the Digital Firm, 5th edition*, Prentice Hall, 2003

Lovelock, Pauline Ng. P. / Farhoomand, Ali F.: *Dell; Selling Directly, Globally*, University of Hong Kong 2000

Madsen, Tage K. / Rasmussen, Erik S. / Servais, P.: *Differences and similarities between Born Globals and other types of exporters*, Advances in International Marketing, vol. 10, 2000

Malhotra, Naresh K. / Agarwal, James / Ulgado, Francis M: *Internationalization and Entry Modes: A Multitheoretical Framework and Research Propositions*, Journal of International Marketing. Vol.11, No.4, 2003

Moen, Øystein / Servais, Per: *Born Global or Gradual Global? Examining the Export Behaviour of Small and Medium-Sized Enterprises,* Journal of International Marketing, vol.10, No.3, 2002

O'Shaughnessy, Nicholas: *The Idea of Competitive Advantage and the Ideas of Michael Porter*, Strategic Change, Vol.6, John Wiley & Sons, 1997

Pan, Yigang / Tse, David K.: *The Hierarchical Model of Market Entry Modes*, Journal of International Business Studies, 31, 4 (4th Quarter), 2000.

Parsons, June Jamrich / Oja, Dan: *New Perspectives on Computer Consepts, 8th edition,* Thomson Course Technology, 2006

Peng, Mike W.: *Global Strategy, int.ed,* South-Western, 2006

Porter, Michael E: *Clusters and the New Economics of Competition,* Harvard Business Review, 1998

Porter, Michael E.: The Competitive Advantage of Nations: with a new introduction, Macmillan Business, 1998

Porter, Michael E.: *The Competitive Advantage of Nations,* Harvard Business Review, March-April 1990

Porter, Michael E.: *Strategy and the Internet,* Harvard Business Review, March 2001

Rasheed, Howard S.: *Foreign Entry Mode and Performance: The Moderating Effects of Environment,* Journal of Small Business Management. Vol.43, No.1, 2005

Rasmussen, E /Madsen, T..: *The Born Global Concept,* Paper for the EIBA conference, University of Southern Denmark, 2002

Rodriguez, Peter / Uhlenbruck, Klaus / Eden, Lorraine: *Government Corruption and the Entry Strategies of Multinationals*, Academy of Management Review. Vol.30, No.2, 2005

Rugman, Alan M. / D'Cruz, Joseph R.: *The "Double Diamond" Model of International Competitiveness: The Canadian Experience*, Management International Review, Special Issue 2, 1993

Rugman, Alan M. / Verbeke, Alain: *Foreign Subsidiaries and Multinational Strategic Management: An Extension and Correction of Porter's Single Diamond Framework,* Management International Review, Special Issue 2, 1993

Servais, Per / Rasmussen Erik S / Nielsen Bo B. / Madsen, Tage K.: *Internationalization of Danish SMEs,* Paper from the Reference Book on European Entrepreneurship which is to be published in 2006 by Edward Elgar.

Zhan, Sherrie E.: *Choosing a Market Entry Strategy,* World trade, 1999

Websites:

www.dagbladet.no
www.dell.com
www.godfisk.no
http://highered.mcgraw-hill.com
www.ikea.no
www.ikea-group.ikea.com
www.imf.org/external/np/exr/center/students/hs/think/lesson6.pdf
www.imf.org/external/pubs/WEOMAY/02ADVAN.HTM

www.leroy.no

www.odin.dep.no

www.vg.no

Appendix

Appendix no. 1

190 The process of globalisation

Table 7.1 Entry strategy objectives

	Market	*Resources*	*Learning*	*Co-ordination*
Expectations	▪ Market penetration and development. ▪ Capture a share of market	▪ Access to natural resources ▪ Access to skilled low-cost labour ▪ Access to suppliers	▪ Understand state-of-the art technology ▪ Close to best practices ▪ Learn to compete in difficult and sophisticated markets	▪ Set up base for global or regional development ▪ Establish logistic centres ▪ Close to financing institutions
Key Performance Indicators (KPIs)	▪ Growth ▪ Market share ▪ Gross margin	▪ Costs ▪ Quality ▪ Supply access	▪ Know-how ▪ Process improvement	▪ Speed ▪ Control ▪ Synergies
Timing	▪ Window of opportunity ▪ First-mover versus follower	▪ First mover in order to pre-empt resources	▪ As soon as country is recognised as 'competence' centre	▪ Three stages: Initiation Growth Co-ordination
Type of countries	▪ All types prioritised as a function of market potential, quality and competitive context	▪ Resources-rich countries	▪ Countries with strong technological and know-how infrastructure	▪ Hubs
Mode of entry	▪ Depending upon risks, opportunities, timing and skills. ▪ All modes of entry may apply	▪ Wholly-owned (if allowed and if low risk) ▪ Joint venture (if requested) ▪ Long-term sourcing contracts	▪ Joint venture ▪ R & D centre ▪ Observatory	▪ Representative office ▪ Global HQ ▪ Regional HQ ▪ Logistic centre ▪ Training centre ▪ Financial HQ

Source: Lasserre, Philippe: *Global Strategic Management*, Palgrave Macmillan, New York 2003

Appendix no. 2

Table 1: Born Globals and similar concepts

Authors	Background	Conclusion/result
(Hedlund & Kverneland, 1985)	**'Leapfrogging'** Firms that jump over stages in the traditional models	More and more homogeneous export-markets. Internationalization as a part of the firms strategy.
(Young, 1987)	Theoretical discussion of the results from (Hedlund & Kverneland, 1985)	Agrees in the conclusions regarding leapfrogging, but only for high-tech firms
(Ganitsky, 1989)	**Innate exporters**. 18 exporters from Israel which are Born International	Firms which are Born Global adapt to a high degree their strategy to the foreign markets. Lack of resources and experience
(Jolly et al., 1992)	**High Technology Start-Ups**. Four case studies of high-tech start-ups	From the start these firms have their strategy pointed towards the global niche markets. Founder with an international experience
(McKinsey & Co., 1993)	**Born Global**. Survey amongst 310 production firms with a new export	25% of the firms had an intensive export within the first two years after the foundation of the firm. Export in average 75% of their sales
(Cavusgil, 1994)	**Born Global**. Interpretation of (McKinsey & Co., 1993)	Small is beautiful Gradual internationalization is dead
(McDougall et al., 1994)	**International New Ventures**. 24 case studies.	A strategy from the birth directed towards the international markets. The stage models are not usable any longer
(Oviatt & McDougall, 1994)	12 case studies – same as in (McDougall et al., 1994). Firms with a proactive international strategy	An INV is *a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries*
(Bell, 1995)	Small producers of computer software. Most of them have to be international from the start	'Psychic distance' is no longer usable. No support for the stage models.
(Bloodgood et al., 1996)	Firms with a **'high potential'** for growth	Internationalization depends on the international experience of the founder. Even small firms in the USA have the possibility of being international from birth
(Knight & Cavusgil, 1996)	**Born Global**. Summary of existing research + articles from newspapers. Firms with an export of 25% or more within the first 3-6 years	Factors that lead to the existence of Born Globals: Growing number of niche markets all over the world. Changes in production and communication technology. Growing number of international networks.
(Madsen & Servais, 1997)	**Born Global**. Summary of existing research + a number of Danish case studies	The classical stage models are valid for the Born Globals if the founder's experience and the internationalization of the markets is taken into consideration.
(Jones, 1999)	**International Entrepreneurs**. Firms with a large international network at the foundation. Questionnaire amongst high-tech firm in England.	Internationalization of the firms often starts with networks, which does not have anything to do with sales. Many different roads to the internationalization of these firms.

Source: Madsen & Rasmussen, 2002: *"The Born Global Concept"*

Appendix no. 3

Figure: Dell's Build-to-customer Order

Start Here with the customer
Dell customers communicate and buy from Dell in three ways:
www.dell.com Voice-to-voice Face-to-face

Just-in-time Inventory
Dell receives only the materials it is immediately ready to use and only those specified as desirable to that particular customer

Custom-Designed Computers
The traveller is a sheet that contains all of the customer's unique configuration information. This document travels with the system throughout its assembly and shipping

Kitting
Based on the Traveller, all internal parts and components required to make the system are picked and placed into a tote

Build-to-Order
A team of workers uses the kit to assemble and initially test the entire system

Testing and System Integration
Systems are then extensively tested using Dell diagnostics. Standard or custom hardware and software is factory installed and tested

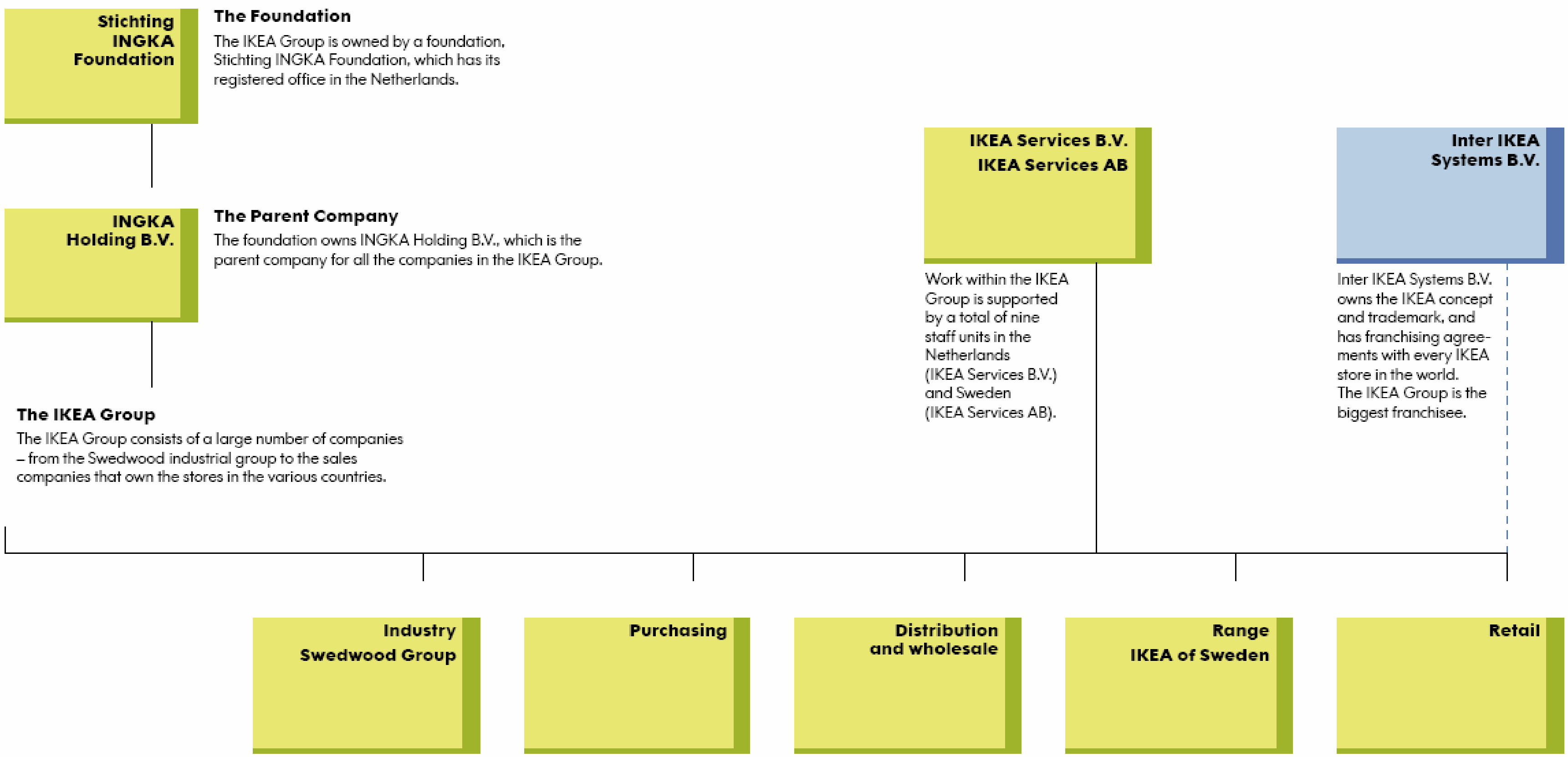
Boxing, Shipping and Delivery
The build-to-order cycle takes less than five hours from start to finish

Source: Pauline NG, 2000 Centre for Asian Business Cases. School of Business, The University of Hong Kong (Originally from Dell's homepage www.dell.com)

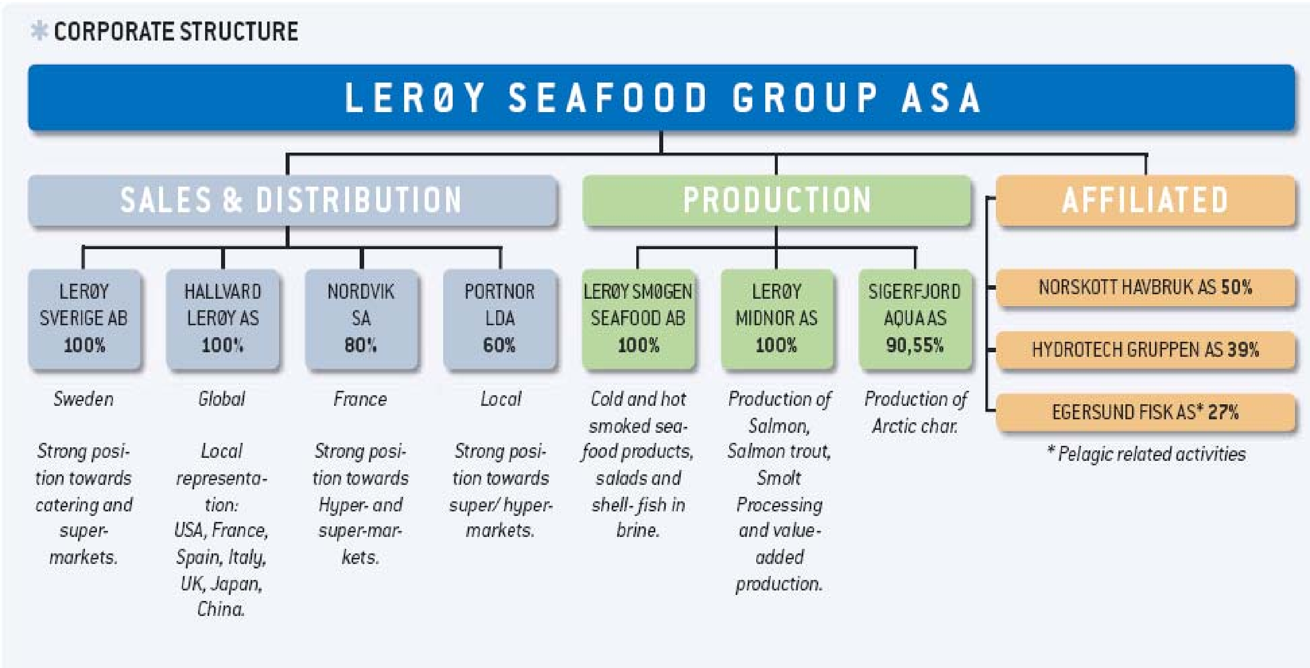
Appendix no. 4 Source:www.ikea.com

HOW IKEA IS ORGANISED

The founder of IKEA, Ingvar Kamprad, has been eager to create an ownership structure and an organisation that safeguard long-term independence.

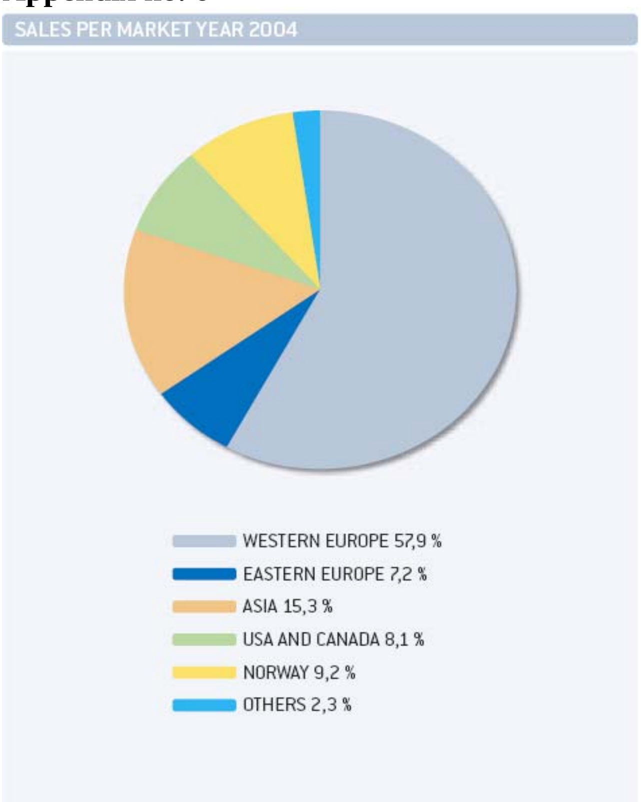


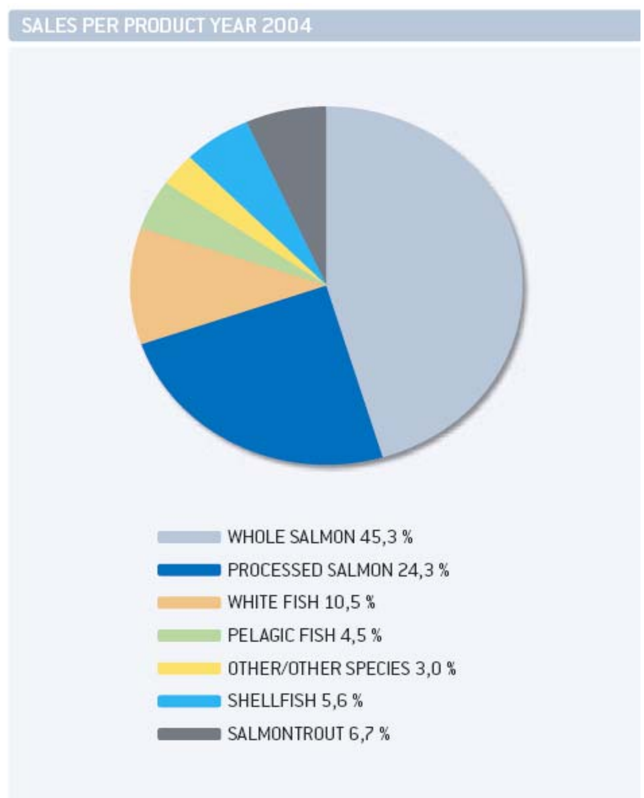
Appendix no. 5



Source: Annual report 2004, Lerøy Seafood Group ASA

Appendix no. 6





Source: Annual report 2004, Lerøy Seafood Group ASA