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ENTRY MODE DECISIONS AND CHANGES OF FINNISH FOOD COOPERATIVES: REAL OPTIONS REASONING-BASED VIEW

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ABSTRACT

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Finnish food producers are known from their good quality and safe products which have interested consumers also in foreign markets. As Finnish markets are fairly limited many companies have seeked growth opportunities from foreign markets, usually from neighboring countries.

The purpose of this study is to increase understanding on how Finnish food producers choose their entry modes and later adjust their modes. This study takes Real options reasoning-based view on decision-making and investigates how well ROR theory can explain firm's behavior and whether it has a link to firm's profitability.

Qualitative research was selected as research methodology for this study because it is most suitable method to examine reasons behind the entry mode decisions. The study is carried out as a qualitative case analysis. Two Finnish Cooperatives within the food industry was interviewed.

The result of the research is that firms have quite similar approach to internationalization within the food industry as both companies preferred low-risk and step-by-step method. Both companies also showed some habits which could be considered as ROR – type of thinking. Study also found indication that ROR have potential to increase firm's performance.

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Suomalaiset elintarvikealan yritykset ovat tunnettuja korkeista laatu- ja turvallisuusstandardeista, mikä on herättänyt kiinnostusta myös ulkomaisilla markkinoilla. Koska Suomen markkinat ovat melko rajalliset, ovat monet yritykset etsineet kasvumahdollisuuksia ulkomailta, usein naapurimaista.

Tämän tutkielman tarkoitus on lisätä ymmärrystä, miten Suomalaiset ruokateollisuuden yritykset valitsevat entry modejaan, ja myöhemmin tekevät muutoksia niihin. Tämä tutkielma käyttää reaalioptio-ajattelua näkökulmana, ja tutkii kuinka hyvin ROR-teoria pystyy selittämään yritysten käyttäytymistä, sekä onko sillä yhteyttä firman kannattavuuteen.

Tutkimuksessa käytetään kvalitatiivista menetelmää, sillä se soveltuu parhaiten löytämään syitä kansainvälistymispäätösten takana. Tutkimusta varten haastateltiin kahta Suomalaista elintarvikealan osuuskuntaa. Tutkimuksen tulokset osoittavat, että yrityksillä oli verrattain samanlaiset strategiat lähestyä kansainvälistymistä. Molemmat yritykset suosivat matalan riskin ja vaiheittaisen kasvun metodeja. Molemmilta yrityksiltä myös löytyi tapoja, jotka voidaan tulkita ROR-teorian mukaiseksi käyttäytymiseksi. Tutkimuksessa myös tuli ilmi, että ROR-ajattelulla on mahdollinen yhteys parempaan kannattavuuteen.

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Table of Contents

1. INTRODUCTION……1
1.1. Background of the study……1
1.2. Research objectives and questions……..3
1.3. Theoretical framework……4
1.4. Definitions……6
1.5. Delimitations……7
1.6. Methodology……7
1.7. Structure of the study……..8

2. THEORETICAL REVIEW……..9
2.1. Transaction cost analyses……....10
2.2. Resource-based view……...…11
2.3. Institutional theory……..12
2.4. OLI framework……13
2.5. Uppsala model……...…14
2.6. Real options reasoning……15
2.7. Entry mode change……...……19
2.8. Stimuli and attitudes……..26

3. Empirical analysis……28
3.1.1. Research methodology……..28
3.1.2. Questionnaire design……29
3.1.3. Interview selection and data collection……...30
3.1.4. Validity and reliability……31
3.2. Case A……32
3.2.1. Entry mode change……35
3.3. Case B……37
3.3.1. Entry modes……38
3.3.2. Entry mode change……...40

4. DISCUSSION AND CONCLUSIONS……..43

4.1. Summary of main findings…….…….43
4.2. Managerial implications……..52
4.3. Limitations and suggestions for further research……...53

REFERENCES
APPENDICES

Definitions and abbreviations

Internationalization: Internationalization is the process in which a firm increases its involvement in international markets. This means the expansion of R&D, selling, manufacturing and other business activities into foreign markets.

Entry mode: Entry mode is the channel a firm uses to enter international markets. It is an institutional arrangement necessary for transferring products, services, technology or human capital into foreign markets. Choosing an entry mode is one of the most important decisions in the internationalization process a firm has to make. Entry mode for example decides the commitment level toward the market. Entry modes are divided into three categories: Export modes, intermediate modes (contractual modes) and hierarchical modes (investment modes).

Exogenous uncertainty: Uncertainty that cannot be affected by firm's own actions. For example, exchange rates present an uncertainty for firms but the firm cannot affect this rate in any way.

Endogenous uncertainty: Uncertainty that can be; at least partly, affected by the firm. For example cultural issues can be managed and controlled if not resolved and they still present uncertainties for companies entering foreign markets.

ABBREVIATIONS

ROR real options reasoning

JV joint venture

TCA transaction cost analysis

NPV net present value

MNE multinational enterprise

SME small and medium sized enterprise

FDI-theory foreign direct investment –theory

ABV attention-based view

1. INTRODUCTION

This chapter is an introduction to the study. First the background of the study is briefly presented, next the research questions, objectives and goals of the research are described. Then the possible delimitations of the thesis are pointed out and the methodology used in the empirical part is introduced. Thirdly, the theoretical framework of the research is discussed and illustrated. The chapter ends with presenting the structure of the whole study.

1.1. Background of the study

For the past few decades many researchers have tried to answer a simple question: How do companies operate in foreign markets? Especially entry mode decisions have been recognized as the key role in establishing the base for company's foreign market operations. (Benito & Welch, 1994,7)

Terpstra and Sarathy (1991, 361) argued that choosing entry and operation mode is one of the most important decisions in the internalization process since it determines company's involvement in the foreign operations and the control it has over the operations in foreign markets. Entry mode also affects how companies can deal with uncertainties and eventually how they perform in the foreign markets. There have been multiple theories explaining firms' behaviour and choices, yet none of them have been able to give a comprehensive explanation. Natural explanation is that many different kind of stimuli affects the decision making. These stimulis could be internal factors such as past performance or manager's attitude, or then external factors such as competition or legislative restrictions.

Decision-making and different stimuli usually refers to two larger themes that circle around internationalization; uncertainty and commitment. Commitment is a way of controlling the uncertainty. Higher commitment towards a market usually means higher costs if the internationalization isn't successful and vice versa. There can be two kinds of uncertainty; exogenous and endogenous. Exogenous uncertainty refers

to uncertainty that a firm cannot control such as exchange rates. Endogenous uncertainty on the other hand is something a firm can, at least partly, control. Cultural issues is one example of endogenous uncertainty.

What makes internationalization process an intriguing phenomenon is that companies seem to behave very differently. Some companies expand to foreign markets slowly and gradually – commitment increases step-by-step once signs of success appear. On the other hand, some companies expand straight after the company was born. And some firms don't seem to follow any structure in foreign markets – they might skip steps and sometimes increase and sometimes decrease the commitment. Therefore it is interesting to understand why firms behave the way they do.

This subject has managerial implications. Not to give straight forward answers or advice, but rather map out the options and different aspects that might have an influence on the decision-making. For managers that are thinking expansion to foreign markets it is important to understand what is affecting their decision-making. Potentially some managers could benefit from discovering their own biases towards internationalization.

Real options reasoning is one the newer theories of explaining firms' behaviour in internationalization. Many of the previous theories share common concepts and views of the market entry process but ROR tries to combine many of the previous views and also have more comprehensive view – for example acknowledging that part of the internationalization process can also be decreasing the commitment at certain times, without it being a failure. There has been few studies on ROR as part of the entry mode decision making but the area is still rather new. And especially ROR hasn't been used in the context of post entry changes. Many times theories only focus on the initial entry mode decision but the reality is that quite often firms make changes for whatever reasons that more closely inspected in this study.

This thesis was inspired from a doctoral research that investigated ROR as part of entry mode decisions in 2016. The writer of this study was part of that research in

the role of research assistant. That work inspired to continue the subject with focus on the changes done after the initial entry.

Focus on food industry and especially bakery business origins from writer's work experience on one company that is interviewed later for this study. Personal interest is coming from experience working with multiple countries in the Baltics area – Finland as the headquarters and operations in Estonia, Latvia and Lithuania. As bakery business is quite matured in Finland firms are looking for opportunities in markets that are developing and where is potential for growth.

1.2. Research objectives and questions

The purpose of this study is to examine how the Finnish food industry firms choose and have adjusted their entry modes over time. The aim is to map out factors that influence the decision making related to entry modes and see how firms' operations evolve in international operations. Then the results are compared against real options reasoning theory and see how the theory matches the enterprises' behaviour. The study enhances understanding of entry mode decision making especially in the context of mode changes and real options theory. This research examines industry specific challenges and trends that play a role in decision making and how well ROR is able to explain their behaviour.

Research question:

- How Finnish companies choose entry modes and later make changes to chosen entry modes, and how well real options theory is able to explain their behaviour?

Sub questions:

- What are the stimuli affecting decision making?

- Why firms change their entry mode?
- How different stimuli affect the decision making?
- What are the challenges in changing the entry mode? Exit and re-entry costs?

1.3. Theoretical framework

Majority of research agrees that entry mode decisions are imperative in establishing the basis of a company's foreign market penetration capacity. (Welch & Benito, 1994, 7) Entry mode also sets the levels for control, risk, commitment and resources.

Operating in a turbulent environment, firms doesn't have any guarantee that initially chosen entry mode will remain as the optimal way of serving a foreign market (Pedersen, Petersen and Benito, 2002). As markets globalize quickly and situations vary with fast pace in international markets, companies are likely to alter their operations as part of their internationalization process. As firm grows and gains experience from the foreign market operations, various strategic and organizational changes arise within the firm. (Calof, 1993, 97)

The theoretical framework for this study is adapted from proposed models by Benito et al. (2009) and Welch et al. (2007). The first one by Benito et al. (2009) is more linked to the entry mode changes and Welch et al. (2007) version focuses on entry mode strategy consisting three elements; company background, company mode concerns and foreign market influences. The framework presented below largely consist same or similar influences but are reorganized to serve the structure of ongoing international operations. Areas are split into four sections; past experience, company background, exogenous uncertainty and endogenous uncertainty.

Combined these four elements cover the influences affecting decision making regarding entry modes.

Past experience has a strong effect on decision making because if a manager has bad experiences related to one entry mode it might be difficult to re-use that even though some other factors might support it. Behavioural sciences has stated that humans' decision making isn't always logical and guided by cold facts. (Kahneman, 2011) Company background somewhat relates to past experience but from a firm's point of view and not from manager's point of view. Company background relates to matters such as size, financial and human resources, market experience, global strategy and past performance in the market. For example, a firm with strong financial position can acquire other businesses from foreign markets but firms with limited cash couldn't have this as an option. But it has to stated that financials are only a part of the equation. Usually firms with many acquisitions can face challenges with different ways of working, culture and standardization. This leads to other remaining elements.

Exogenous uncertainty relates to risk that happen in the environment and a firm doesn't have any control over. For example currency exchange rates, local legislation and law and industry conditions can be out of firm's control. On the other hand there is risks that firms can, at least partly, control. These are called endogenous uncertainties. Endogenous uncertainties could include risk management, control, firm's culture, profitability, and partners.

This framework is used comparing the founding's against real options reasoning. This framework which includes decision making over longer period of time and feedback during that time should be useful tool while evaluating the validity of ROR.

The main elements of the study and how they interact with each other is demonstrated in the figure 1.

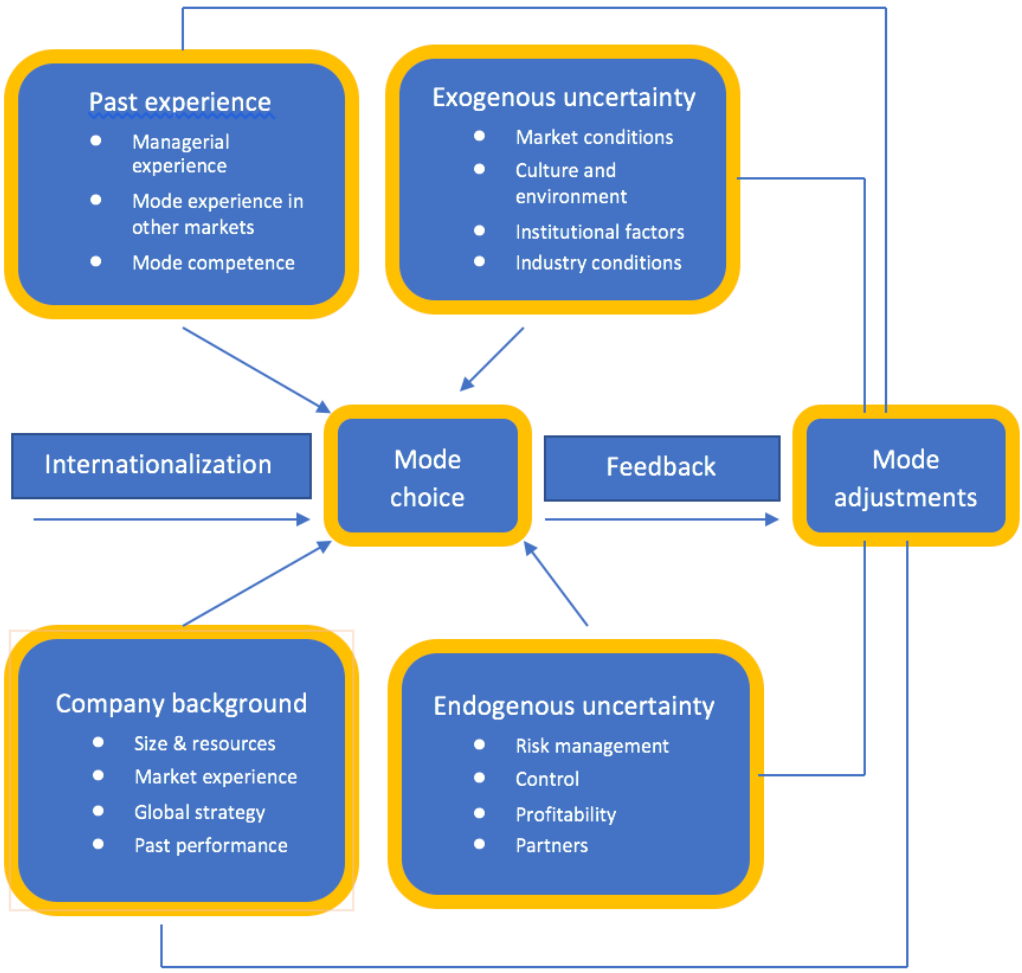

Figure 1. Theoretical framework of the study

1.4. Definitions

Internationalization: Internationalization is the process in which a firm increases its involvement in international markets. This means the expansion of R&D, selling, manufacturing and other business activities into foreign markets.

Entry mode: Entry mode is the channel a firm uses to enter international markets. It is an institutional arrangement necessary for transferring products, services, technology or human capital into foreign markets. Choosing an entry mode is one of the most important decisions in the internationalization process a firm has to make. Entry mode for example decides the commitment level toward the market.

Entry modes are divided into three categories: Export modes, intermediate modes (contractual modes) and hierarchical modes (investment modes).

Exogenous uncertainty: Uncertainty that cannot be affected by firm's own actions. For example, exchange rates present an uncertainty for firms but the firm cannot affect this rate in any way.

Endogenous uncertainty: Uncertainty that can be; at least partly, affected by the firm. For example cultural issues can be managed and controlled is not resolved and they still present uncertainties for companies entering foreign markets.

1.5. Delimitations

This study focuses on Finnish food industry companies and their market entry decision making when entering the market and also when making changes after the initial entry. The purpose is to examine and understand how selected companies behave and make decisions related to entry mode strategies, and compare those observations against real options reasoning theory. The focus on food industry was selected because that increases the odds of finding valid insights on decision making while selected firms deal with similar issues and opportunities.

The aim was to focus on few case companies that represent the food industry and can share experiences that benefit the research. However the goal is not to describe the best practises related to entry modes but rather examine similarities and differences between firms and against ROR. This study does not state or evaluate the success of different entry modes and results can't be generalized because qualitative research is not ideal for that purpose. The case interviews were conducted at a specific point in time and therefore situations and decision making could be different at another point. This research are would benefit from further studies and inspections from another industry for example.

1.6. Methodology

Qualitative research methods are most suitable when investigated area requires in depth and detailed understanding about the subject. Qualitative research seeks to answer questions such as why or how and not quantitative questions such as what and when. Qualitative research gathers the examined data through interaction with people and the researcher gains understanding from other's individual experiences. The data consists of quotations and observations from documents. Qualitative research's credibility depends strongly on the skill and competence of the person doing the study. (Patton, 2002, 4-5) Qualitative research doesn't aim to statistical generalizations.

Qualitative research method was chosen as the research methodology for this study because the intention is to deeply understand the reasons behind on how Finnish food industry firm's make their entry mode decisions. The study is conducted as case interview and selected firms were then compared between each other. Two selected companies were interviewed by phone. The companies chosen for this study are similar in industry, risks, ownership and business model which allowed a good base for comparison.

1.7. Structure of the study

The study begins with a introduction chapter which is followed by theoretical review in the second chapter. Theoretical chapter presents main entry modes their characteristics and also introduces real options reasoning theory which is used in this study. Second chapter also presents main theories around entry mode change which is also investigated in the empirical part of the study in chapter four. Third chapter presents more in depth reasons and credibility of the chosen research methodology. Third chapter also includes the analyses of selected companies. Main findings are presented through quotations and observations. Finally the study ends with conclusions, implications and suggestions for further research.

2. THEORETICAL REVIEW

Companies' internalization process has interested scholars and practitioners alike greatly for the past decades. Researchers have tried to answer a simple question: How do companies operate in foreign markets? Especially entry mode decisions have been recognized as the key role in establishing the base for company's foreign market operations. (Benito & Welch, 1994,7) Terpstra and Sarathy (1991, 361) argued that choosing entry and operation mode is one of the most important decisions in the internalization process since it determines company's involvement in the foreign operations and the control it has over the operations in foreign markets. Entry mode also affects how companies can deal with uncertainties and eventually how they perform in the foreign markets.

According to Benito, Petersen and Welch (2009, 1) entry modes are extremely widely studied subject frankly because it is the most concrete and empirically observable, forms of international expansion. This interest is reflected in, studies from many different perspectives and theoretical developments based principally on transaction cost analysis, resource-based perspectives, institutional theory and internalization theory (Benito et al., 2009, 1). Dunning (2000) quite usefully summarised these approaches in the ownership-location-internalisation (OLI) framework.

However, even aforementioned theories haven't settled the scholars' hunger to explain companies' international behaviour. Real options reasoning is one of the more recent theories that has been showing very promising signs in explaining decision making in internalization, or de-internalization for that matter. (ETSI VIITE) Canabal and White (2008, 272) noticed that entry mode research has originally leaned heavily on theories based economics and anthropological perspectives of cultural factors; however the modern studies have applied perspectives originating from other fields as well and have integrated multiple theories to provide better understanding on the phenomena, and also to provide valuable insights for practitioners aiming for international success. For example real options reasoning analogy stems from financial investment theories and it is used together with TCA,

and further this model was integrated with attention-based view (Barnett, 2008, 606). This goes to show the aim towards much more complex theoretical understanding of entry mode decision making.

Theory has typically treated entry modes as optimal choices between specified alternatives. Reality is usually much messier. (Benito et al., 2009, 1) More often than not, companies seem to use mode combinations, and mode role changes, and still these aspects have been relatively ignored by scholars. Based on these notions, this study aims to understand how managers make decisions, when dealing with international mode changes and how does real options theory explain this behaviour.

2.1. Transaction cost analysis

Transaction cost economic (TCE) was introduced by Anderson and Gatingon (1986) who linked TCE with strategic entry mode choice when company operates in foreign markets. During that same time Williamson (1985) came up with theory and explained why cost arise when using a market. In transaction cost theory (TCT) ownership decisions focus on minimizing the transaction and production costs (Williamson, O. E., 1985).

TCT became very commonly used theory in international entry mode literature. TCT is renewed of its capability of helping firms govern their cost of a partner in JV other alliance, and thus it has become very researched subject (Brouthers, K, D., 2002). In the TCT mode of entry varies from low level of control (export) to high level of control (WOS). This control correlates quite well with commitment that ROR uses, even though the meanings are different.

Even though TCT is widely used and it has been shown helping firms to survive, it is not without limitations. Main downside is the perspective of only focusing on cost minimization when a firm makes a transaction with a partner. In other words, it doesn’t count for value that firm can create from an entry mode. (Madhok, 1997)

Focusing on only costs instead of value creation is an issue for three reasons. Firstly, TCT cannot account for competitors impacts since it leaves out opportunity costs that are linked with the timing of the entry. Secondly, TCT does not recognize the value of potential future growth that origins from investments which are made under high uncertainty. Lastly, being a quite stiff theory it doesn't recognize the option of strategic flexibility. Firms indeed can create strategic options through earlier investments that enables them to redeploy assets as environment changes. (Brouthers, K, D., Brouthers, L. E. & Werner, 2008) Also it doesn't explain managerial attitudes as stimuli for certain entry modes or mode changes.

2.2. Resource-based view

Among with transaction cost analysis, Resource-based view (RBV) is one the most common theories used to describe and explain internationalization process (Peng, 2001) The essence of RBV is that it explores how companies can build, access, manage and leverage specific resources for competitive advantage (barney, 1991). Competitive advantage is more strong when resources are valuable, rare and difficult to copy.

In internationalization context, this framework suggests two options. Firms can either internationalize by exploiting resource-based advantages that exists in their domestic markets, or they can use internationalization to generate resource-based advantages by creating difficult-to-substitute resources in international markets. (Wright, Filatotchev, Hoskinsson & Peng, 2005)

According to RBV, firms seek to exploit their intangible and tangible resources in their foreign operations. Among the former, they leverage knowledge base, intellectual capital and reputation; while among the latter firms may seek to gain competitive advantage through new technologies, unique products or services. (Kazlauskaite, Autio, Gelbuda & Sarapovas, 2015)

However, RBV is able to explain internationalization process only to some extent. For example, SMEs from emerging markets are more likely to be driven by cost advantage, will to gain new knowledge and to enhance domestic market reputation. Therefore, the two options presented by RBV framework doesn't fully explain the behavior presented by firms entering international markets. (Kazlauskaite et al., 2015) RBV is better suited to describe internationalization process of large companies that can leverage their size and resources, but this leaves majority of firms under-researched or ill-suited for RBV.

2.3. Institutional theory

Institutional theory explains how companies enter and operate in international markets in an institutional context that has certain values, rules and norms. Each country has an institutional context which affects firms' options because the environment sets rules according to which companies must behave. In other words, country's institutional environment sets boundaries for firms' choices. (Bouthers & Hennart, 2007, 416) The theory also states that different pressures can have a strong influence on decision makers' entry mode selection. For example firms have the tendency to mimic local host country operations or com competitors actions in order to legitimize their own decisions and actions. (Canabal & White, 2008, 271)

Brouthers (2002, 4) stated that firm's capability to better its opportunities varies across in different national environments. It is possible that institutional structure acts as a barrier to entry. These barriers could be legal restrictions of foreign ownership, or difficult and bureaucratic entry process.

Original institutional theory focused on risk and uncertainty related to product, legal policy, macroeconomics, and competition. (Scott, 1995) Researchers have found that these risks and uncertainties were important factors on entry mode choice.

This research have been further developed by suggesting that country's environment have three dimensions: regulatory, cognitive and normative. These

dimensions are different in each country and they guide how operations are managed and therefore have an effect on manager's decisions. (Brouthers, Hennart 2007, 406) The regulatory dimension includes formal laws and rules, the cognitive dimension concerns cognitive structures (thinking process) while the normative dimension refers to social values, norms and culture.

Yiu and Makino (2002) studied how the aforementioned dimension affect entry mode decisions. The result suggests that all three dimensions have a direct impact on entry mode decisions. This was later confirmed by Brouthers et al (2007, 406). Xia et al. (2008, 196) states that institutional theory is especially useful in explaining firm's strategies on emerging markets. In their research Xia et al. (2008) studied mimetic mechanism that could potentially drive the success or decline of strategies in emerging markets where environmental support could be time and industry specific. They found that using the common entry modes in the host country could help the firm gain legal approval and legitimacy, but in the end be less successful in meeting the specific strategic needs of the entrant.

This information that firms need to gain may come from many different sources. Some firms study their competition in the home market simply because the information is easily available. However, due to the institutional changes in different countries the target market and operators there might be more relevant source of information. (Xia et al., 2008) To sum up institutional theory clearly emphasize external stimuli for entry mode decisions. Naturally these external stimuli has been proven relevant, but i.e. internal experience, strengths, attitudes and performance is left without deeper remark.

2.4. OLI framework

OLI framework also known as ecletic framework is one of the most traditional analytical frameworks in explaining a variety of testable economic theories of the factors influencing operations in foreign countries. The framework is simple; strategic position of the firm is set by interactions of three sets of interdependent variables; ownership (O), location (L) and internalization (I). These variables

provide, or don't provide, competitive advantage and the greater the advantage more likely the firm is able to engage in foreign operations. (Dunning, 2000)

Theory suggests that firms choose the most appropriate entry mode by evaluating the benefits related to these three dimensions of OLI framework. (Laufs & Schwens, 2004, 1118) The framework incorporates factors from RBV, institutional and transaction cost theories. Ownership advantage are firm specific, sustainable and unique. In other words, hard to copy. Differentiated product or service is an example of ownership advantage.

Location advantages are market or country specific advantages related to the most suitable entry location from for example availability and resources perspective. According to Dunning (2000, 178) modern view of location advantages refers to locations ability to offer clear and hard-to-copy assets, instead of traditional view where location advantages refers to immobile natural resources.

Internalization advantages refers to most suitable operation modalities that exploit firm's core competencies in local markets. Level of commitment is usually linked with internalization. Greater the benefit of internalization, the more viable option is to engage with high commitment modes rather than low, such as licensing. (Dunning, 2000, 174)

2.5. Uppsala model (Internalization process)

Uppsala model is the process in which firm's gradually increases their international involvement. In essence, as firm gains international experience and knowledge, it increases its' commitment of resources to foreign markets. (Johannson & Vahlne, 1990, 12) This assumption that firms' internationalization evolves step by step has later been proven inaccurate to describe every firms' actions, but it still holds a solid ground in internationalization field.

According to Uppsala model there are 4 stages of internationalization and the later the stage, the higher the commitment and involvement. (Johanson & Wiedersheim-Paul, 1975) Four stages are:

1. No regualar export activities
2. Export via independent representatitves
3. Establishment of a foreign sales subsidiary
4. Foreign production or manufactorin units

This model of progressive growth also implies that firms start their internationalization process in countries that have less psychic and cultural distance, and then step-by-step expand to more distant markets. (Hollensen, 2011, 74) The process relies on the assumption that market knowledge i.e. perceptions of opportunities and risks, which is crucial factor in internationalization decision making process, is acquired mostly through experience from current operations in the foreign country. (Johansson & Vahlne, 1990, 12) Usually born global firms are considered the opposite of Uppsala model. Some firm's start their international activities straight away and expand to countries that could be culturally very different, hence the name born global. A good example is online gaming firms that are able to offer products and services to multiple foreign markets without any prior international experience.

2.6. Real options reasoning

Real options reasoning concept origins from financial investment decisions, and it has stirred quite considerable excitement in management literature in recent years. (McGrath, 1997) The reason for excitement among scholars and mangers is quite natural. Adner and Levithal (2004, 74) argue that future is very much uncertain for firms, and opportunities they face are, to a severe degree, result of their prior commitments. They continue that theoretically real options reasoning appears to fit company's strategic landscape by linking current actions to uncertain futures.

Simply put real options reasoning means that a firm initially engages in low commitment investments and reserves an option for future to exercise that option,

or abandon it. By doing this, the firm holds an opportunity for positive future potentials while limiting the downside threats. McGrath, Ferrier and Mendelow (2004, 86) notes that ROR offers guidance for strategic decision making under uncertainty and that is the why it is poised to capture a central conceptual position in the development of theory. In essence, real options theory views uncertainties not as threats that should be avoided, but rather undisclosed opportunities. Higher the uncertainty, more valuable the option becomes. (Li, 2007) However, the reality is a bit messier.

What counts as a real option? That question still remains under debate. Despite great interest among researchers, real options reasoning definition hasn't yet been conceptually settled. Of course, revisiting the definition and testing the theory's boundaries is a crucial part of any theoretical development. Up to date real options reasoning has received quite mixing results. One reason for this is different views of what actually is a real option strategy and not some other sequential investment model for example.

According to Adner et al. (2004) real options theory offers better estimation of investments true value than does a net present value analysis, because of the latter's inability to include the value of delaying commitments. Real options analysis accounts for the sequential nature of choice processes, unlike NPV. Adner et al. (2004) suggests quite strict definition of real options. They argue that real options requires high degree of rigidity in the specification of the agenda, and strict criteria for their success. In other words, it should be very clear when to abandon a project and when to proceed with the option. Adner et al. (2004) suggests clear and calendar like clock time milestones in specifying the termination conditions (McGrath et al., 2004). Adner & Levinthal (2004) also suggests that situations with flexible market conditions or flexible technical agendas, or both, are nonoptions (McGrath et al., 2004). Adner et al. (2004) were also concerned what would happen to real options logic when the uncertainty could be resolved endogenously. Finally, Adner et al., (2004) noted that a firm operating under real options logic should abandon projects earlier and have higher project abandonment rates. In conclusion, Adner et al., (2004) were afraid that grouping all path-dependent activities under

real options label overextends the real options tool, framework and metaphor. A practical example of this threat is that it encourages firms to initiate too many projects that are essentially going to fail, and in doing so harming the company for being overoptimistic.

Other researchers have more liberal view of the phenomenon. Suggesting that Adner & Levinthal has unnecessarily strict view of the real options logic. McGrath et al. (2004) criticized that the rigid abandonment criteria is extremely difficult to be specified ex-ante. They argued that flexibility strategic change and resource reallocation often results from surprises among option investment outcomes. In other words, even though a firm cannot define strict abandonment criteria's or dates, it doesn't mean they are not using real options logic. And ex-ante criteria's for success and failure are just one practice among many associated with firm's ability to terminate projects (McGrath et al., 2004). (Adner et al. (2004) suggested that without the criteria abandonment cannot occur.) McGrath et al. (2004) also notes that even situations with flexible market application or flexible technical agendas have real options.

According to, Barnett (2008) real options alone isn't accurate enough to describe firm's decision making and there are organizational structures to be considered because there is a risk that real options tempt managers to overinvest in risky projects. Barnett (2008) states that ROR literature has yet to integrate a theoretical perspective that explains how managers ultimately make choices in light of their options. In other words, there are too many options to consider with limited resources and time. An attention-based view (ABV) outlines the structures within a firm that drive where its decision makers focus their attention (Barnett, 2008). Managers focus depends on the structural characteristics of their firm. Barnett (2008) suggests that once real options is well established at a firm and firm's structure supports this, the options will likely to be intentionally generated and openly and explicitly accounted for – not hiding in the dark. Barnett's (2008) view, in short, is that ROR is not able to recognize how managers' bounded attention affects their ability to notice, create and exploit the multitudinous opportunities initial real options logic provide access to over time. It is not surprising that managers

doesn’t make optimal choices all the time. However, ABV doesn’t provide optimal structures or cannot condemn or condone ROR, rather it highlights the fact that managerial behaviors vary and so does the effectiveness of ROR, for better or for worse (Barnett, 2008).

Brouthers and Werner (2008) studied real options logic combined with transaction cost economics and they had some promising results. TCE is traditional model to explain firms’ international behavior but it has few limitations. Simply put it doesn’t count for future opportunities. TCE focuses on uncertainties a firm faces when making an investment, but it doesn’t account for the future opportunity costs associated with not making the investment (small toeholds in ROR) (Brouthers et al., 2008). They found that combining TCE and ROR perspectives offers better predictive and normative model than does either alone.

Cuypers and Martin (2010) has also studied what makes and what doesn’t make a real option. Their view is that only exogenous uncertainty situations count as real options. In their research, they found that endogenously resolved uncertainty (ie. Cultural factors) didn’t have any correlation in equity in international joint ventures. According to real options, under uncertainty, equity should be kept at minimum. On the other hand, they found a strong linkage between exogenous uncertainty and real options logic. Cuypers et al. (2010) answers Adner’s and Levinthal’s earlier concern about real option applicability when endogenous uncertainty can be, at least partly, resolved by the firm’s actions. And when the firm acts to reduce the endogenous uncertainty it will often discover new and unanticipated opportunities and paths (Cuypers et al., 2010). Therefore, actions will not just decrease the uncertainty related to the initially intended project but also generates new information about other possibilities and introduce new goals (Cuypers et al., 2010). The application of this notion is that if a firm uses real option logic to value projects, when it is not suitable (endogenous uncertainty), it will likely to lead to suboptimal decision making. However, this doesn’t mean that real options research or application is pointless when uncertainty can be resolved endogenously. Rather the point is that the aforementioned condition needs extra attention and modeling. Also it might not be easy to distinguish exogenous and endogenous uncertainties, some

situations could be extremely murky and other uncertainties are more exogenous than others (McGrath et al., 2004).

Together with Klingebiel, Adner (2015) returned to real options logic. In their paper they aimed to distinguish real options logic from other resource allocation regimes in order to test the performance effects. Up to this date it is still unclear whether real options has positive effects or not, many studies show mixed results. One reason for this inconsistency might be unclear identification of what counts as a real option. Adner et al. (2015) are unable to confirm that real options provides severe advantage over other similar regimes that also display sequencing and fit. However, they distinguish real options from other resource allocation regimes that real options performance mechanism relies on the combination of low commitment, sequencing and reallocation. Adner et al. (2015) also gave another reason for inconsistent real option results besides the unsatisfactory boundary conditions. They noted that heterogeneity in a firms' complementary resources encouraging to real options theory.

In conclusion, these studies reviewed in this chapter reveal the fact that real options theory still has gaps and inconsistent results. The link between real options theory and empirical evidence is inconclusive, despite great promise agreed by several researchers. The theory's boundaries aren't clearly drawn and the definitions itself leaves question marks. Real options explanatory power seems best when combined with other decision making models. Brouthers et al. (2008) suggested that combining real options logic with growing literature on organizational learning could lead to new insights why firms differ in their ability to take advantage of opportunities offered by real options logic.

2.7. Entry mode change

To summarise, we define foreign operation modes as the organizational arrangements that a company uses to conduct international business activities. Foreign operation modes relate to the activities performed in particular locations at

a given time. Our definition hence extends beyond the point of entry into a given foreign market to take into account changes made after entry.

Operating in a turbulent environment, firms doesn't have any guarantee that initially chosen entry mode will remain as the optimal way of serving a foreign market (Pedersen, Petersen and Benito, 2002). As markets globalize quickly and situations vary with fast pace in international markets, companies are likely to alter their operations as part of their internationalization process. As firm grows and gains experience from the foreign market operations, various strategic and organizational changes arise within the firm. (Calof, 1993, 97) This area of internationalization has been excessively studied but similarly to entry mode decision making, little is known about the underlying logic of internationalization process. The factors leading to mode changes and the impact on stimuli are quite poorly understood. For example, it is not clear what stimuli are crucial for mode increases and what for mode decreases. And even though real options logic has been showing significant signs in explaining decision making when establishing modes of entry, it hasn't been studied in the context of mode changes. Therefore, ROR won't be mentioned in this section, rather ROR perspective will be applied to mode change theory in the empirical part of this study. Because the world is different – transferring information is quick and in globalized world every market is much 'closer' it is not viable to use earlier studies made on mode change. Rather this section uses studies made from 1993 and later.

Much of the earlier research has focused on revealing whether firms have formal and rational decision-making process or rather decision-making is based on intuition and gut feeling. (Calof, 1993, 99) Of course, another issue is to what extent gut feeling or intuition can be categorized as irrational. Similarly, earlier research supports the aforementioned "stages" internationalization model. This area of research suggests that firms move sequentially through stages as they develop their international activities and gain experience (Johansson & Vahlne, 1977) While stages model has been used in wider context of internationalization literature it has also been applied to mode change theory (Johanson & Wiedersheim-Paul, 1975). The idea of stage model is that a firm moves to the next stage because of an

increase in knowledge. In mode change context, the new stage could mean a mode with increased commitment, for example from using sales agent to establishing a sales subsidiary. In 1995, Calof et al. stated that stage research is the main form of the pattern-oriented approach in explaining mode change.

Indeed, the stage model has been proven by some empirical data but it is not without severe limitations. As the years have gone by, researchers have found more and more evidence that firms do not behave in a way suggested by stage theory. Firms can skip stages or they can start by using a high commitment model. Already in 1984, Bureau of Industry Economics found that in 228 FDI cases, 39% of the cases had no prior presence in the host market. Millington and Bayliss (1990) found that stage-wise internationalization was the exception rather than the rule. Calof et al. (1995) found that change in attitudes was the main reason for changing an entry mode, and according to stages model changing the mode results from changes in attitudes. However, they also noted that no current theory fully explains this complicated phenomenon. Calof et al. (1995) found that beliefs toward market potential, mode costs/benefits and/or stimuli that changed a constraint that previously limited firm's ability to select their most desired mode were the most crucial factors leading to mode changes.

In his study Calof (1993) found that quite severe number of managers trusted their gut feeling on decisions considering mode changes. Mostly managers had a priori belief about which mode would be the optimal choice for market in question. Changes arose when managers noticed changes in market's or mode's sales potential. Their perceptions changed because over time managers learned more about modes in general and the market in question. When finally they had come to a situation a change was in place, they already had gathered knowledge and experience through consideration of options and implementation, talked to others et cetera, and now they had an idea what could be the appropriate choice. This process of learning was informal by nature and not part of the mode change decision-making process, but rather an evolutionary learning process. (Calof, 1993, 115) This could be categorized as irrational or gut feeling decision-making since there is now evidence of using and analyzing data, but that classification would be

quite misleading. Managers just tend to gather knowledge and experience in an informal way and that gut feeling does have some background to it.

Few years later Calof and Beamish (1995) added new insights to mode changes. An important addition was that internationalization could mean also divestments and withdrawals from markets. Previous literature had defined internationalization as an increased commitment towards foreign markets (Welch & Luostarinen, 1988, 36). But often that's not the case. A company can do divestments as part of overall international growth strategy. In 1997, Welch and Benito studied the phenomenon of de-internationalization, stating that it is not well researched subject mostly due to its negative nature. Back then it was common to view divestments as failures, much like uncertainty was viewed as something to be avoided. Of course, singular divestments and withdrawals are difficult to see in a positive light – withdrawal costs, employee layoffs, impact on local communities, damage on image et cetera.

Much like in internationalization process, there are a lot of different cases and reasons for de-internationalization. Welch et al. (1997) gave examples that in some cases partial-withdrawal is part of the firm's overall growth strategy and learning from mistakes can be quite beneficial. But the other case could be that there is a severe need of a pull back and complete withdrawal. Therefore, these two actions have completely different reasons and results. It goes to show the complexity of de-internationalization process.

Welch et al. (1997) made interesting notion that a full withdrawal from international markets is less likely to happen when a company has higher commitment towards international operations. But, a partial de-internationalization was more likely to happen, when a company was a global operator and still had increased overall commitment towards international operations.

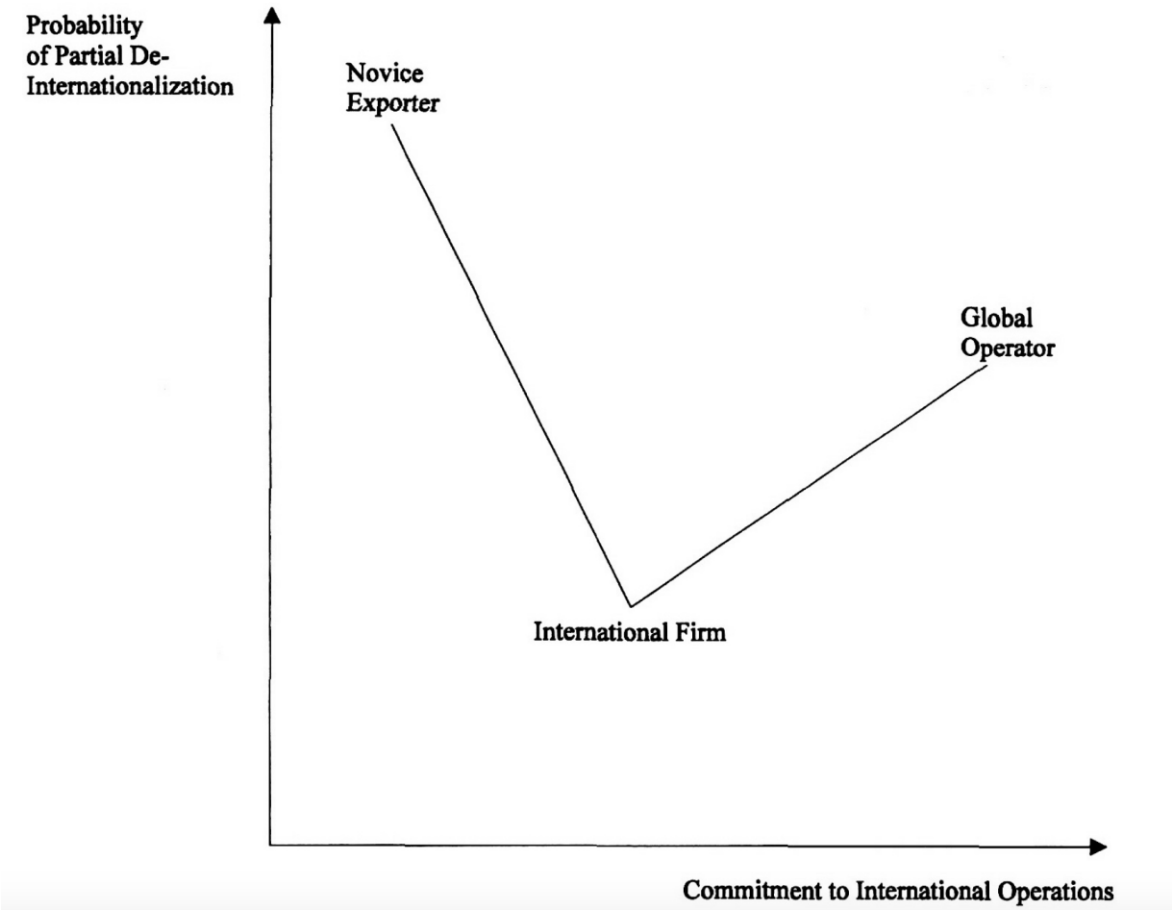

Figure 2. Probability of partial de-internationalization. Welch et al. (1997)

Welch et al. (1997) argued that once a firm has more flexibility and means, along with preparedness, it is likely to use its options in foreign markets. An interesting notion from the ROR perspective. However, Welch et al. (1997) highlighted that this visualization is quite far from an appropriate conceptual setting. Still it does suggest that de-internationalization is not to be researched in a vacuum, but rather as part of the company's overall strategy (Welch et al., 1997). Besides the fairly general perspective of de-internationalization, Welch et al. (1997) suggested that change of management might be the key factor in accommodating the de-internationalization process. New managers are usually psychologically unburdened by the actions and commitments of the past (Drummond, 1995). It is fairly logical that a manager that has worked hard to increase operations in certain market is reluctant to lead a withdrawal from that market.

Pedersen, Petersen and Benito (2002) draw attention to factors that might motivate making changes, and also factors that might impede such changes (switching costs). Mode change has an integral part in internationalization process theory, and quite naturally in real options perspective. But unlike internationalization theory originally suggests, some companies do not engage in high commitment modes even though their knowledge increases. Pedersen et al. (2002) explains this behavior via switching costs. Changing entry modes might include for example contractual restrictions and loss of customers, and without these costs many more companies would change their operations modes (Pedersen et al., 2002). In light of this research it would be very interesting how companies and managers especially prepare for switching costs. Should a company use real options reasoning in their international operations, they would likely to have processes to reduce switching costs far before the actual change is occurring. ROR suggests keeping options open for future decisions and switching costs are direct threat to such options.

Puck, Holtbrugge and Mohr (2009) used transaction cost economics and institutional theory to describe conversion from joint ventures into wholly owned subsidiaries. From the real options chapter, we remember how Brouthers combined transaction cost theory with ROR and found very promising results. Puck et al. (2009) found by combining TCA with institutional theory perspectives number of reasons to explain why firms change their operation modes in foreign markets. TCA argues that companies will choose a governance structure that minimizes transaction costs (Jung, 2004). For example, a firm internalizes when it can operate with lower cost than the market, and when other firms have a comparative advantage it will rely on the market (Puck et al., 2009).

Puck et al. (2009) argued that acquisition of local knowledge by the foreign JV partner increases the likelihood that an JV will be converted into a WFOE. Similarly, they suggest that a reduction in the level of perceived exogenous uncertainty increases the likelihood of turning a JV into a WHOE. However, they further suggest that there is a negative relationship between cultural uncertainty and the likelihood that JV will be converted into a WFOE. In other words, when cultural distance is high firms prefer JVs over WFOEs and when it’s low they prefer WFOEs. This last

result in inconsistent with the founding's of Martin et al. (2010). They argued that endogenously resolved uncertainty doesn't have an impact on the levels of equity in IJVs. This highlights the fact that there is still a lot of inconsistency in entry mode literature and further research is required.

Benito, Petersen and Welch (2009) enhanced the mode change literature by adding insights that firms commonly use mode packages, mode adjustments and mode role changes. Yet, literature has largely ignored these important aspects (Benito et al., 2009). The important question is what we consider as mode change? Are adjustments enough or mode role changes? The depth in which we view these decisions affects theory establishment quite severely. By considering only external levels of decisions it is possible to draw misleading conclusions. On the other hand, the lack of research on these issues could be explained by the difficulty to gather empirical data on such delicate actions.

Benito et al. (2009) proposed a framework that is presented in figure 3. The framework draws from behavioral theory of the firm, and implies that past experiences and current operations are influencing decision drivers.

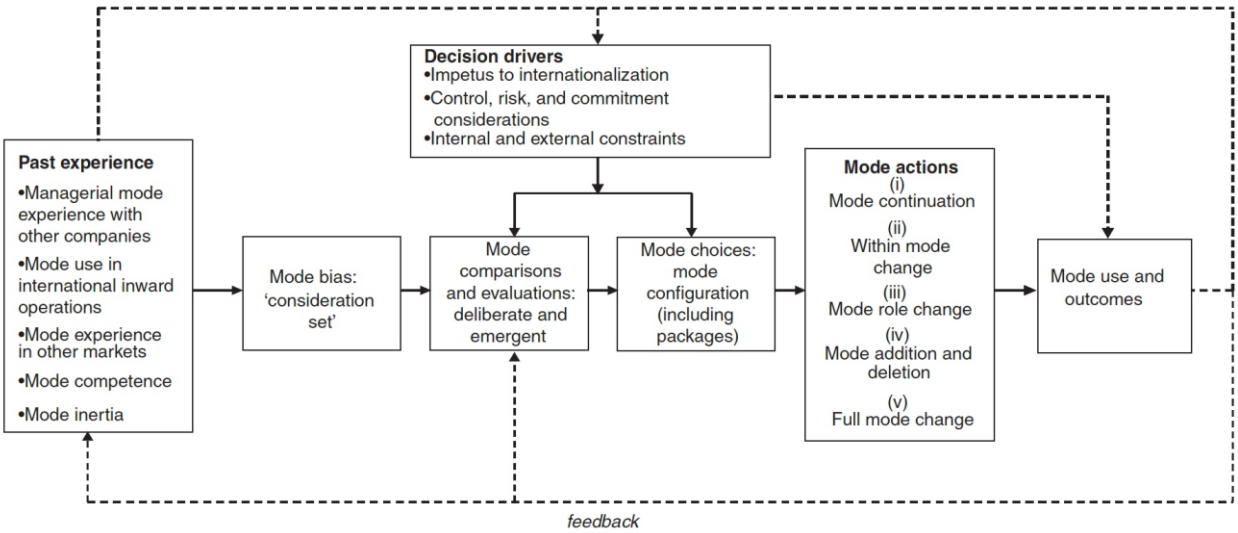

Figure 3. Decision-making framework. Benito et al. (200)

Drawn from the conclusion of Benito et al. (2009) it seems that in depth and qualitative studies are needed. Considering the nature of this study and qualitative

research method it is important to consider also mode combinations, within mode changes and mode role changes.

Santangelo and Meyer (2011) added insights to internationalization process (Uppsala) model by investigating institutional factors that affect entry mode changes. They also noted to commonly seen but rarely researched phenomenon of mode decreases or divestments. According to Santangelo et al. (2011) institutional voids increase ex-ante information search and adaptation costs that decrease the likelihood of early post-entry changes. On the other hand, they also found that under high institutional uncertainty, investors prefer low initial commitment but flexible modes that enable later commitment increases if market conditions take a favorable turn (Santangelo et al., 2011). Santagelo et al. (2011) focused on the internationalization process model but their notion of the institutional uncertainty reminds real options theory quite heavily. This too suggests that ROR should be studied in the mode change context.

2.8. Stimuli and attitudes

Swoboda et al (2011) continued on the same path as Calof et al (1995) and Santangelo et al. (2011) earlier. Swoboda et al. (2011) also recognized the phenomenon of mode reductions as integral part of mode change theory. They studied what stimulates these changes for increasing and decreasing commitment towards international operations. They found that mode reductions and increases have various stimuli and moreover, the stimuli differs from reductions to increases. External environment seems effect more strongly mode reductions, but internal environment and executives' attitudes are heavily linked on mode increases (Swoboda et al. 2011). Swoboda et al. study is built on Calof's and Beamish's study in 1995, which was presented earlier in this chapter. Swoboda et al. (2011) adds insights to this research by measuring both forms of mode change in two different way.

Swoboda et al (2011) came to conclusions that are largely in line with Calof's and Beamish's findings 16 years earlier. Both mode increases and reductions are crucial

in mode change context and the stimuli differs between these two. Performance is effecting mode reductions more than increases. And manager's attitudes are more strongly linked to mode increases rather than reductions. But it is important to notice that different stimuli still should be included on both mode reduction and increase studies. Only the magnitude varies. Swoboda et al. (2011) also found that major reasons for smaller incremental and radical changes differ. While external environment increases the likelihood of radical changes, performance and attitude is only connected with one-step reductions. Swoboda et al. (2011) also noted that economic mode change approaches are still incapable of including managerial attitude perspective into theory.

Vissak and Francioni (2013) also studied the process of de- and reinternalization. Their foundings are in line with other researchers that decreasing operations in international markets is not a sign of failure, but rather a part of overall process. Vissak et al. (2013) talk about serial nonlinear internalization, where company increases and reduces modes repeatedly. Of course, this phenomenon is more strongly linked to markets where exit and re-entry costs are low. They also found several external and internal factors - including changes in market importance perspectives, changes in business environment, low customer interest and problems with agents or partners – can cause nonlinear internationalization. However, Vissak et al (2013) only studied one Italian manufacturing company and therefore generalization of the results should be cautious. They also noted that this area of research needs more studies and companies to create more accurate theories.

3. EMPIRICAL ANALYSIS

The purpose of this study is to gain deeper understanding on decision-making regarding changes done on entry modes. Different entry mode theories are well covered by scholars but entry mode changes done post entry is rather new research area. Especially Real Options Reasoning hasn't been covered in this context yet. Also, entry mode literature usually utilize quantitative methods and qualitative methods are often neglected but still the importance of qualitative is well emphasized. Qualitative methods aim to generate deeper insights and answer questions such as 'why' and 'how'. '

This chapter explains empirical research method, how questions were designed, the reliability and validity of the research. Then the data analysis is covered.

3.1.1 Research methodology

This research is conducted as a qualitative research aiming to explain reasons behind entry mode decision making. The purpose of this study is to test the accuracy of real options reasoning theory in explaining decision making regarding changes of entry modes. Even though a quantitative method would also be suitable for this context, a qualitative interview will be more useful to drill down to the underlying reasons behind changes done in foreign market operations modes. A quantitative method would have a risk of over simplifying complex decisions and even mislead the respondent. Well conducted interview is better suited to cover reasons behind single firm's or manager's behavior.

Qualitative research method doesn't accomplish statistical generalizations but it does suit for gaining deeper understanding of complex situations. Qualitative methods aim to describe and understand a certain case and offer theoretical explanation of the phenomenon. In qualitative research the respondents are usually given the opportunity to display their perspectives and experiences. Data can be collected by several methods: structured or semi-structured or theme interviews.

Questionnaires or forms are also used. However the number of cases is smaller than in quantitative methods.

In qualitative method research data quantity is not decisive but rather the depth and quality of the data. Rather than having many informants it is more important to have knowledgeable respondents that have experience on the matter at hand. This is crucial to gain required depth and insight of the topic. Of course, more data gives more reliable results but the amount of data collected is largely related to research resources. In short, in qualitative method research data quality overrides quantity. (Sarajärvi & Tuomi, 2009)

In qualitative method, the researcher role as analyzer is emphasized. In quantitative method reporting results and outcomes is rather straight forward, but in qualitative study it is possible to draw misleading or inaccurate conclusions. Therefore, transparency and explainabilty of different steps or conclusions has very high priority. Without sound explanation of analysis and conclusions the study's reliability diminishes. (Patton, 2002)

3.1.2. Questionnaire design

This study utilizes semi-structured theme interview because leaves room for subjects and questions arising during the interview but helps keeping the focus on the major themes. Semi-structured interview is known to fit well answering questions such as "why" and "what". In theme interview it is important to allow the respondent answer questions with very limited control applied from the interviewee. However, it is important that questions such as "what" and "why" are answered before the technical questions "how". This is helps keeping the data organized and not losing the link between actions and reasons. (Hirsjärvi & Hurme, 2000)

Semi-structured theme interview progresses according to certain themes and not by detailed questions. Themes should be the same for all respondents, however the order and shape of questions may vary. It is acceptable that respondents answer and focus differently on different themes; some might explain certain subjects more

in depth than others. In other words, the interviewee has more freedom but also more responsibility during the interview. (Hirsjärvi & Hurme 2000, 48) In theme interview it is possible to pick most suitable persons that have experience and knowledge on the subject (Tuomi & Sarajärvi 2009, 74)

A common challenge in qualitative research is getting sufficient amount of data. However, there is no clear answer to that as the quality and depth of the data can vary a lot. Also in practice research resources and selected research area define to large extent the quantity of the data. (Sarajärvi & Tuomi, 2009, 85) Qualitative research is using individual's experiences to gain understanding and these foundings are presented for example by quotations, observations and excerpts from the data. Themes, patterns and insights are analyzed from the collected documents and allow to gain understanding of a certain phenomenon. (Patton, 2002, 5)

The questionnaire is divided into three sections; preliminary information, original internationalization and internationalization when the need for change occurred. There was also space and time for additional comments.

3.1.3. Interview selection and data collection

The companies were chosen for their experience and knowledge within the field of food industry and more accurately within bakery business, meaning that purposeful sampling was undertaken. The goal is to choose companies that are most likely to confirm or extend the current theory. (Eisenhardt, 1989, 537) Therefore it is not preferable to pick companies randomly. Also very different industries could vastly different views on for i.e. internationalization strategies. This might be due to foreign legislation for example. Then it would be difficult to compare the two different strategies because environmental circumstances are very different. Therefore, this study focuses only on food industry and bakery products.

The data was collected by semi-structured face-to-face interviews. All interviewees received the questionnaire in advance so that they could familiarize with the questions. All respondents were asked the same questions but since there isn't a

ready set answers, the respondents answered in their own words. This means that respondents answers' length and depth varied between questions. All the answers were transcribed and colored by the area of which the answer concerns. The data was then restructured by color and analyzed.

Due to the focused industry area (bakery products in food industry) size of the company was not limited but taken into consideration when evaluating the reasons for entry mode decisions. Picking companies from a specific field within food industry is aimed to create comparable data. When companies face similar challenges and opportunities within the market it is very intriguing to compare their decision-making. This will help separating different stimuli for decision-making especially for manager's personal preferences, which often is difficult to measure and detect.

3.1.4. Validity and reliability

Even though concepts of validity and reliability are originally created for quantitative research they are now quite generally used also on qualitative research to describe the credibility and trustworthiness of the study. (Sarajärvi & Tuomi, 2009, 136)

Validity means the ability of the research to measure what it is supposed to measure. In other words, to what degree the observations indeed reflect the area or phenomena that is investigated. For example poorly chosen questionnaires or poorly conducted interviews could harm the validity. Also a wrong research method could create misalignment with the research goals and analysis. Reliability refers to consistency on the study. Reliability should answer questions that whether the findings are repeatable at other times or by other scholars. (Kvale & Brinkman, 2009, 246) However, there is no single method to measure the validity of the qualitative research. Credibility is strongly related to skill, explicit, and competence of the person doing the research. (Patton, 2002, 14)

Even though the interviews are conducted in an open manner and respondents have the possibility to explain their behavior in their own words there is always a

possibility that some questions were misunderstood. Also, respondent's current feelings, motivation, work situation could have influenced the answers.

In the data collection, both companies were interviewed by phone. For both companies, it was crucial that they remained anonymous as they answered on sensitive subjects. Interviews were very similar by nature and in both the researcher didn't have very active role leading the conversation. Both representatives were unprompted in their answers. However, there is always a possibility that each respondent's feelings, motivation and background could have influenced the answers given in the interview.

3.2. Case A

Company A was interviewed on XX via phone. Live interview wasn't possible due to a sudden sick leave for CEO. Company A is also familiar with the researcher from two years of working experience. Company A operates in the food industry and produces bakery products. Company has three factories; two in Finland and one in Estonia. The firm operates in Finnish and in the Baltic markets including Estonia, Latvia and Lithuania. Company A employs close to 400 people and net revenue is close to 100 million euros. The company is part of large bakery industry enterprise that has its headquarters in Denmark. The Company started its international business in 2005 via exporting activities to Estonia. Back then the firm didn't have a subsidiary or any organization in Estonia. The firm has experienced substantial growth during the last 15 years; some from organic growth and some from acquisitions.

Before Finnish company started its internationalization process the parent company has had experience in international business and they talk about 'dolphin model' where the company starts it's internationalization process by exporting. The second stage is that the firm acquires a organization, typically a sales organization, at the foreign market and final stage is establishing or acquiring own production and expand through that. This 'Dolphin model' can be quite naturally linked to the

Uppsala model which was described in the theoretical review part of the study. The basic principle of the Uppsala model is step-by-step internationalization process to countries with low physical and cultural distance. The company expands in stages as they learn more about the country and as their presence grows stronger in the targeted country. It is very traditional method used and very common among the traditional industry businesses.

The CEO of the company A recalls that initial export business regarded the fast food (burger buns and hot dogs) and Danish pastry items which were considered as the 'stronghold' items in Finland. Those items had the most awareness and competitive advantage. The actual entry happened by establishing and contacting wholesalers or distributors in Estonia and through them the items found their end customers. The key was the items were known international products such as hamburger buns and not local Finnish products such as the Karelian pies. Then the company didn't have to worry too much about awareness and marketing activities.

The CEO said the products were sold as Ex works which means that the wholesalers picked up the products and were responsible of the deliveries. *"We didn't have any storage space or anything in the Baltics"* the CEO recalls. He also added: "*The starting point or the goal was to keep things simple and easy to manage when we used the Ex works method"* In other words the Company A kept their commitment and risks very low in the beginning. However, in few separate cases the company A handled the distribution but those were quite rare occasions.

In the beginning the operations were naturally very small and didn't bring sudden and large amounts of revenue. But during the last 12 years the operations has grown to a roughly 10% market share in the Baltics. The CEO didn't say if that were considered as quick or slow development.

Talking about strategy in the beginning the CEO said the geographical growth has been one of the leading ideas behind the parent company. The goal was to reach every country in Europe by local subsidiaries or organizations. When establishing own production sites were not an option then the firms used the local 'stronghold

items'. The CEO continues; "*Once the position got stronger and better then we could add other products as well".* He also adds that this international product portfolio will keep growing a little longer but eventually there will be a time to acquire a production site, establish local relationships with manufacturers or own production. The goal of this final stage is to be able to offer local products. Local products are unique to a local market; in Finland they would be for example the Karelian pies and in Sweden the Lussekatt buns. These local products are difficult to manufacture since they require specific skills and the markets are more fiercely competitive with local operators, but they also hold very large opportunities and volumes. Once again the CEO refers to the Uppsala model or very sequential way of approaching the internationalization.

When asked about how the internationalization ambition divides between the parent company and the local company A the CEO admits it's a combination of both. There is a drive from the parent company but also the local organizations have always been interested to tap into new markets next to their own. But the key is that usually the business close to a 'untapped' market were responsible of carrying out the market entry. Therefore it has always been the case that foreign markets were quite close geographically if not culturally. The CEO said; "*if we consider our local company and expanding to new markets it has to be viewed as part of the aggregated business. We can't for example reach out Swedish wholesalers, it has to be via the local company."* However the CEO adds that it is perfectly fine to reach out to local companies and offer items we consider as interesting opportunities for them. The CEO also says that even though the parent company supports the internationalization activities the responsibility is carried by the local firms.

Related to decision about the initial entry mode the CEO of company A says that the corporation did have experience about this chosen mode (ex works). He also adds: "*When we are in the first stage we want to keep the risks low and operations simple. If you would immediately set up a warehouse you'll have costs running even though you might have no customers or sales."* He continues that typically the operations develop step-by-step and with low risks. *"First you try to find partners that are willing to try and take your products into their portfolio. To have them in their*

warehouse and run the distributions. And once the scale grows you can start running the distribution and warehouses on your own."
The stimuli affecting the decision about entering the market seemed to be partly the headquarter's push and also strength in own production and products. *"In Petikko we can make high quality buns efficiently so it's natural that there would be demand for items also in the Baltics"* the CEO says. He repeats that without the strength in own resources there wouldn't be point to expand to foreign markets.

However, it was not only internal strength and stimuli that affected the decision making. Also market maturity played a role. The CEO says that early mover advantage is really good. That you need to be there driving the market among the first operators and then you have good chance of being a significant player in the future. In contrast, he says that if the market is already very competitive, then you would need to take the market share out of someone else. And that is always to more difficult option.

About challenges the CEO recalls mostly cultural issues especially regarding the market development. Compared to Finland which already was developed and well-functioning market and economy, Baltics had very different environment. The CEO picks up the reliability especially regarding distributors. Some issues were that distributors received the products but never paid for them or then they make promises or deals that they are willing to neglect. This put more pressure on the contract and risk management. Another issue were the quality of distributors – would they have distribution systems in place and were they able to follow the cold chain. And if the distributors would have issues with their equipment and processes they would blame the Company A and ask for refunds. The CEO says that they had to decide how to manage controlling versus risk based on the market potential.

3.2.1 Entry mode change

In the beginning company A had an export manager and as business took off they hired a local sales person. Now the sales weren't relying on a business trips conducted from Finland. This increased the market knowledge and shortened the

cultural gaps. After an acquisition of another Finnish company who already had business and organization in Estonia Company A also received a full sales organization. The acquisition wasn't made by Finnish Company but rather the parent company, therefore the acquired company wasn't completely merged with Company A. The CEO says that they currently have local sales managers in all three countries. They also have local legal entities in all three countries.

Currently the sales focuses on international products and therefore the next step is to build recognition and then start looking for local partners. The CEO says that "Currently we have a sales organization model and next we look to start own production for local Baltics' products. It just needs minimum volume for production to be worth of doing.".

The CEO says the reason for the change was that as scale grew larger so did their risk-taking abilities. However, also the market evolved and Baltic market's ability and interest towards these kind of bakery products grew. "You had to be ready increase the risks and apply more pressure on the market" the CEO recalls.

As for the risks regarding the new entry mode the CEO says that they don't still have own warehouse in the Baltics. That limits the risks and complexity, but if Company A's products are expiring in customer's warehouse then Company A is responsible of them. Sometimes that means scrapping writing down some volumes. The CEO also adds that nowadays they have more reliable distributors and their processes and equipment have got better.

The costs of the change and potential disinvestment remained quite low according to the CEO; "We have very modern and flexible business model in the Baltics. We don't really have too much assets tied up in the Baltics and there we don't have to deal with such tight co-operation negotiations and legislation as we have in Finland." The CEO says that would take approximately 6 months to drive down operations in the Baltics.

Currently the CEO is quite happy with how business has evolved in the Baltics. He says that it might have not been the fastest way of getting market share but it should be considered how the market has also matured in the Baltics. It has taken some time for the Baltic market to be receptive for international products. Even though company A wasn't extremely aggressive in its entry mode decision the CEO emphasizes the importance of timing. "If you fell behind of competitors who invest in new equipment and there is already over capacity in the market. Then if you are the third or fourth to upgrade your equipment, then you have to admit that this train already went."

In the end of the interview the CEO says that Company A is a specific example who has resources and is focused on international growth. If the company would be smaller Finnish owned for example, then the internationalization process would be different. Then you wouldn't necessarily have experience or wouldn't know every risk related to entering new markets. The CEO says that would make it much harder than what it was for Company A.

3.3. Case B

Second company interviewed was also from food industry in Finland but is much larger in size. Company B's net revenue is close 1,7 billion and international operations alone is close to 700 million euros, which is almost 50x what company A's international operations were worth. Company B has over 4000 employees and has been involved with internationalization for over 100 years.

The respondent is Company B's senior vice president of exports and has been working for the company for several years. Company B, even though much larger in size, has similar ownership base as Company A. Both companies are owned by co-operative, which are owned by many individual entrepreneurs. Therefore, both companies have the same goal: maximize dividends to the owners.

Company B started its international operations over 100 years ago. Even though technology, market and trading in general was different than in 21st century the basic

idea was the very same as it was with Company A. Also Company B started international trade by exporting exceptionally good products to neighboring countries. Company called these ‘stronghold’ items. However, Company A’s strength was the ability to make good quality products with very low price but Company B’s key to exporting was very high quality especially in product development. For them it was crucial to make products last longer by using natural methods. Even today their development has a major role in enabling longer expire dates and making products suitable for international trade. The SVP of Company B said that higher quality has a good correlation to the price they are getting from the market.

3.3.1. Entry modes

Company B uses the full scale of different entry modes. Due to the size, market characteristics and history in international business they’ve learned to use almost every traditional entry mode. The “heaviest“ entry mode they use is local production for their own brand. This requires the most resources tied in the operation and usually this mode carries the biggest financial risk. For company B it also means that they have local legal entity carrying out the operation.

One step down from owned subsidiary is that they purchase products locally and sell it forward to customers. This mode doesn’t have own production and therefore it is lighter version for company B. Third option is to produce locally in Finland and then export it to own subsidiary which usually is sales and marketing organization in the foreign country. One option for company B is also to export straight to customers for example to local store chains. It saves the cost of having local organization but also makes customer/consumer relationship management out of the question.

Company B also uses distributors who carries out the distribution and company B has an agreement with them on how marketing activities are handled. Similar mode to distributors is using a third-party agent who represents company B in the market.

Company B uses this indirect agent mode in countries which are geographically far away.

The SVP of exports explains that the mode they are using depends on the specific country and what kind of strategy they have for the market i.e. expand distribution or don't have any presence in the market. It also varies whether they are present in the foreign market with their industrial products or with consumer brand. The SVP adds that all modes have their characteristics and trade barriers. Company B estimates the possible entry modes against their investment towards the market. The biggest commitment is to establish local production and legal company. Lighter versions are then the agent setups that company B prefers.

The SVP of company B states that in their operations they have progressed step-by-step. In other words they haven't skipped modes based on its commitment level. Company B has always started with the distributor setup or similar setup with same commitment level. The SVP gives an example of China where they started to setup presence over twenty years ago and through time it has evolved through distributor and agent structures. One characteristic is distinctive for company B and that is that they have a long history in almost every country they currently operate in. That means they have setup presence slowly and patiently. The SVP adds that back in the days' distributor modes where very popular and companies rarely used other methods.

The SVP highlights one crucial factor that has played a big part in their foreign market operations – import licenses. He says that EU's free trade agreements aren't very old and they still have to manage with import licenses, which can be very long processes. He continues that import licenses are very linked to worldwide trade politics and many countries are very protectionist in this crucial agriculture business. "It is a very long road to negotiate these import licenses and EU has been a big help for us" the SVP of company B states. The SVP says that the import licenses or country registrations are apparently more political tools rather than anything else. He says that some countries don't give licenses or then increase custom fees radically. "The world is full of these barriers – Africa and South America are good

examples where these licenses are very politically supervised" he says. He also says that some countries might require setting up a local company and hiring people.

Once asked about company B's relationship towards risks the SVP says that the ownership structure largely determines acceptable risk levels. The co-operative ownership structure is built long-term orientation in mind and their owners require stable business as they carry out very large investments and turbulent business could potentially cause cash flow issues for the owners. For company B the ownership structure determines risk appetite and the SVP says that some other smaller and privately owned company could operate more dynamically. However, since the last closing of Russian trade towards EU the company B has been active in opening new markets and distribution channels. The SVP says that they have been trying out different things and methods that could potentially work in foreign markets. This sort of behavior does link to ROR as in ROR theory companies make small investments in international markets and see if they start developing in positive way.

3.3.2 Entry mode change

In the entry mode change part of the interview the SVP lifts Russia as an example of changes. In the beginning they had network of distributors and after a while they started to develop local company and with the company they started to look for direct customers and changing distribution to internally handled network. The SVP says that this evolution took about 15 year to complete and a big part of the evolution was also how Russia as markets has changed to more modern environment.

For company B big motivation to increase commitment was to increase controlling in the operation. The SVP says that once the products are meaningful for customers direct representation becomes reasonable. He continues that for them logistics and cold chain is important and that doesn't work it becomes very expensive for them. Company A had similar views on distribution and the impact of how this market area has developed over the years.

Company B also faced challenges during the process. The SVP says that solid agreements and ability to pick good partners is crucial in the distributor mode. For company B it is very crucial that their brand is used the right way and distributors know that they are representing company B. That was a risk for them that distributors would violate the agreements somehow. The second big risk relates to financial risk from customer receivables and customer reliability. The SVP says that big part of their internationalization has been evaluating customer credibility and solvency. This has been big deal for them especially outside of northern countries and also company A had similar experiences in the Baltics. The SVP says that even large companies has had difficulties and credit losses has happened. Third risk relates to trade relation changes in which Russia is good example.

The SVP brings up an interesting point that increased commitment doesn't necessarily mean bigger risk but rather commitment can be a tool to minimize risk. He says that it is generalization but usually it is much better to employ local people and be active in the market rather than export from another country. In this sense wholly owned subsidiary is more protected against risks in trade affair changes.

Company B has rather similar view as company A on fixed costs related to withdraws from foreign countries. They also have fast moving products that doesn't stood a long time in warehouses. The SVP says there are costs in opening new operations in foreign markets. These costs relate to trade licenses and country registrations mentioned earlier. "If you withdraw and want to back at some point in time you have to walk through the same road again" the SVP says. He adds that one way of dealing with this risk is that they don't completely withdraw from the country where they have trade licenses. He says that they rather limit the use of recourses to minimum because then it is much quicker and cheaper to increase commitment from a small flame that it is if they would've withdraw completely. This especially related again to the sales licenses. This was very interesting point as it links well to ROR theory. In ROR theory companies gain competitive advantage from having a small involvement in a country and once market take a positive turn they have easier task of increasing commitment. It seems that company B uses this

kind of logic and they have a practical reason for it – expensive and time consuming trade licenses.

4. DISCUSSION AND CONCLUSIONS

Finnish food industry is rather well developed in regards of product quality and production. This has opened possibilities for them to expand to foreign countries has there's been demand for high quality products especially because Finland's neighboring countries hasn't been very advanced until quite recently in food industry. Therefore especially countries such as Estonia, Latvia, Lithuania and Russia has been interested in Finland's food products. Finland also has a reputation on high quality and safe food production. However, as food industry is considered a 'core' industry in practically every country it also strictly controlled and holds a strong political base. Therefore, this industry's services and products aren't as free moving as for example some digital service providers offers could be.

Demand and interest towards Finnish food products has created opportunities and many companies has started entering foreign markets. At least in theory firms has multiple options on choosing the entry mode's and they might have multiple reasons and stimuli's for entering foreign markets.

This chapter presents all major findings of the study and answers the research questions. Also managerial implications are discussed based on the interviews and existing literature. Lastly limitations and issues of the study and suggestions for further research are presented.

4.1. Summary of main findings

The purpose of this study was to examine how Finnish food industry companies choose their entry modes for foreign markets, what drives decisions and changes and how well real options reasoning- theory is able to explain their behavior. The aim was to find stimulus's that affect the decision making and to see if the factors are the same when companies' make changes to their entry modes. Their decision-making process was then reflected by the ROR-theory. This study helps to understand firm's decisions and industry related challenges and phenomenon's. Also, the possibilities of ROR in foreign market operations is discussed.

The findings of the study were introduced and analyzed by using case analysis and comparisons between the interviewed firms. Major characteristics are presented in the figure 4 below. Moreover, the research questions are answered more in-depth below.

Company	nr.of employees	Turnover M€	Int. Experience	Entry modes	Nr.1 reason for initail entry	Nr.1 reason for change	Entry mode development	Indication of ROR
A	400	100	14 years	Export, local production, distributors	High quality stronghold products	Aquisition and market change	Step-by-step	Yes
B	4000	1700	+100 years	All major modes	High quality stronghold products	Growth and market change	Step-by-step	Yes

Figure 4. Summary of findings

Research question:

- How Finnish companies choose entry modes and later make changes to chosen entry modes, and how well real options theory is able to explain their behaviour?

According to the study the selected food companies have used step-by-step gradual method. This means that they haven't started with high commitment and high costing mode such as greenfield or JV. All interviewed companies decided to start with low costing and low commitment modes i.e. exporting and using agents or distributors. This method keeps the risk fairly low and doesn't require too much investments and expertise on supply chain and contacting foreign customers. Also, one clear observation is that firms' seem to follow the gradual approach throughout the foreign operations. In other words, they don't start with low resource modes and then quickly switch to high commitment modes. This method is mostly known in the Uppsala theory.

These decisions are influenced mostly by three factors; First the industry. Food industry requires delicate supplying systems, large warehouses (and therefore risk of products expiring), it is mature market and it's difficult to receive high demand upon entering a new market. Food industry is rather strictly controlled by officials.

Shortly put, the firms' felt that risk is too high compared to opportunities to start with high resource modes. Secondly, the ownership structure. This factor wasn't very much highlighted in the literature but it kept surfacing during the interviews. Both companies A and B were very much controlled by the owners. Both companies were cooperatives with very wide ownership base. The owners were in the agricultural business and require a steady and predictable performance from the companies they own. Quick and risky growth wasn't in their best interest. This factor was interesting point since much of the literature focuses on manager's desires but in this study owners' desires clearly trumped the managers experience and personal goals. Thirdly, market potential. Market potential had a significant factor in the decision-making process. This had a consistency throughout the international operations. It stimulated the initial entry process and also guided the changes firms' would make to their entry modes. Quite naturally the market potential had an impact on risk taking abilities. If the potential is high also firms were willing to increase the commitment and risk.

This leads to another important notion. Increased commitment can't only be viewed as increased risk. In this entry mode context researchers have the tendency to see them hand in hand; once commitment goes high also risk increases. This study shows that isn't necessarily true. As company B stated increasing commitment is also a way of reducing risk. This especially relates to external and political risk. Company that has an own subsidiary and production for example is more secured from political changes such as customs or import licenses than is a company that is only exporting. The reason for this is naturally the positive impact on local economies more jobs et cetera.

Another equally interesting notion was that firm's resources didn't seem to play a big role in the decision-making. Usually this has been identified as one of the key factors. Both companies A and B has very large resources yet they decided to move on cautiously and tying up as little resources as possible keeping the risks very low. Based on the results it would be unfair to state that smaller firms would act very differently only if they had the resources. This study suggests that good resources does give the needed tools for entering new market and it does allow a little more

optimistic approach to making small investments in foreign markets but it doesn't have a significant role in the entry mode decision itself.
Experience and knowledge is also quite much emphasized factor in entry mode decisions and indeed it was also picked up in this study. However, the role of experience and knowledge is perhaps a little different than expected. For example the Uppsala model suggests that once firm gain knowledge and experience they are able to increase the commitment. This study comes to similar conclusions. Experience with dealing with foreign agents, distributors and customers does give competitive advantage, reduces risks and therefore enables to also increase the commitment. Both companies A & B had dealt with risky distributors and customers with credit risks. Company without this experience is in danger of facing negative impacts at some point. However, in this industry the experience and knowledge isn't only linked to increasing commitment. The experience quite strongly points towards minimizing the risk and making gradual increases in the operations. This has an impact both on the initial decisions and the changes done later. However, it is difficult to separate what is managers personal experience and what stimuli is coming from the owners.

Biggest stimuli for initial entry was internal resources in form of high quality products. Both companies A & B felt that their top products had potential and demand from foreign countries. Company A said that they have strong international items that local markets in the Baltics were somewhat missing. Company B on the other hand had outstanding quality in making sensitive dairy products last longer. Both companies also had the desire to grow their businesses and had the required resources.

As for changing the initial entry mode clearly the most crucial factors were growing business with the current operations and positive market development. Both companies A & B felt that they needed more control over the operations as the volumes increased. Also with direct presence in local markets they could increase the business and make better relationships with customers. Both companies had dealt with risks related to using third party distributors. Also the markets changed to be more open towards international products. Especially the eastern-Europe

countries are still developing towards openness and also local distributors and working methods has come closer towards the Nordic countries.
Sub-question:

- How well real options theory is able to explain their behaviour?

As already noted in the theoretical review real options reasoning's definition varies and it's not exactly concluded what counts as real options reasoning especially vs some other sequential modes. The risk is that ROR-theory get over stretched and decisions are counted as real options even when they aren't. Few distinctive criteria were companies' reactions on uncertainties. In ROR firms limit the equity as a solution to uncertainty. Once the uncertainty decreases they will increase the commitment and equity. Another characteristic for ROR is that firms have multiple small ongoing investments and they constantly reallocate resources and as a consequence end projects that aren't looking profitable.

This study faced same difficulties as other scholars in the field. It is difficult to separate ROR-methods from other sequential and resource allocation methods. However, both companies had similarities to ROR. Company A started international operations by low equity mode; exporting via distributors. And once the market developed and exogenous uncertainty decreased they increased their commitment and equity. This behaviour applies to ROR but it also applies to other sequential modes. For company A it turned out successful yet rather slow process. However, for Company A the Baltic market was only market area where they had commitment. They didn't have multiple ongoing projects in other countries where they've made investments. Rather they had they opportunities in one market and waited until it turned out to be mature enough for further investments. This behaviour is mostly due to the corporate structure where many European countries already have sister companies.

Even though Company A didn't have direct and strong link to ROR the CEO said that usually first moving companies get a substantial advantage over competition as a new firm in the market would have to acquire the market share out of competitors which usually is very difficult and costly. In this context, the CEO admits that ROR-

type of behaviour could have a link to better profitability. But this mainly refers only to new markets which aren't matured yet.

Company B had a stronger correlation to ROR-behaviour. Company B is bigger and it has a long history in international business. Company B uses almost all major entry modes and international business represents a big part of their business. Company B has own department for exporting function and they continuously evaluate market changes and market potential. SVP of company B said that entry mode decision is based on market potential and their desired level of investment in the market.

Company B also has done resource reallocations in their international business. Some markets have been driven down while other markets has received more resources. For company B biggest risk is usually political. Import licenses are very controlled politically and might be expensive and hard to acquire. Their entry modes usually are designed to deal with these risks.

While Company B has reallocated resources they usually didn't withdraw completely from a country. The trade and import licenses are expensive and require a lot of work so for Company B it was best to leave some low resource activity in the country. The similar situation concerns brands. For Company B it's important to stay visible in the country even though it might not be profitable in the short term. In some countries brands are up for grab, if they are not used in couple of years. And if the future looks brighter they would have easier task to increase investments in that country. This supports the ROR strongly and indicates a real benefit for companies.

In essence, ROR-theory usually suggests that proper way of dealing with risk and uncertainty is to use low resource methods, sequencing and fit. However, there is exceptions to this logic. Company B indicated that dealing with certain exogenous uncertainties such as political risks might work best if resources are increased and not decreased. If a company sets up a subsidiary or acquires another company and hires local people to run the operations that company is more secured from increased customs or other political changes more than a company that only exports

goods from another country. In this sense, ROR shouldn't only focus on linear thinking that when risks increase resources should be decreased.

Sub-question:

- Why firms change their entry mode?

Both of the studied companies had changed their entry modes. And both companies admitted they usually follow step-by-step process, meaning that they don't skip commitment level. For example changing from indirect export to wholly owned subsidiary. It was understood that this sort of behaviour was linked to the industry specific conditions and owner's wishes.

Both companies A and B had similar take on the reasons behind mode change. First of all the markets matured and were more receptive towards foreign products and also distributors became more professional compared to the earlier years. Secondly, as their volumes increased they were looking for a way to increase their control on supplying the products as well direct contact to customers. Both companies felt that increasing their involvement and commitment to the internationalization decreased risk related to distributors and third-party agents. Previously both companies have had issues with distributors not honouring the agreements. Increased volumes were enabling stronger involvement in the business.

Company B also had decreased commitment in certain countries. Reasons for decreasing resources were political changes, and partly due that the country's possibilities in the future and internal performance. Reasons for changing the entry mode differs slightly from the reasons behind initial entry mode. Reasons for initial entry mode were competitive advantage in own products and quality. This led to using low commitment modes that would get products moving with low costs and involvement. Reasons for changes were more comprehensive and thought with more long-term view. In changes firms A and B had to evaluate country's future potential, the previous work that were put into the country as well as performance expectations. Shortly put, the initial entry required some resources and time for trade

licenses but the commitment stayed as low as possible. And then if the market showed potential the changes were more thoroughly considered.

Sub-question:

- How different stimuli affect the decision making?

As stated earlier in this chapter three main stimuli's for entry mode decisions were identified; the industry, ownership structure and market potential. These three factors gave the structure and guidelines for the decision-making. After these became internal resources, experience, home-country situation, and exogenous uncertainty.

The decision-making is represented as a pipeline in the figure below. Even though the picture represents a rough illustration of the decision-making process and can't be directly generalized it does give an outline of different stimuli affecting the entry mode decisions and what type of factors are more crucial than others. The picture would most likely look a bit different with a smaller sized firm, which doesn't have the same resources as did the two interviewed firms in this study.

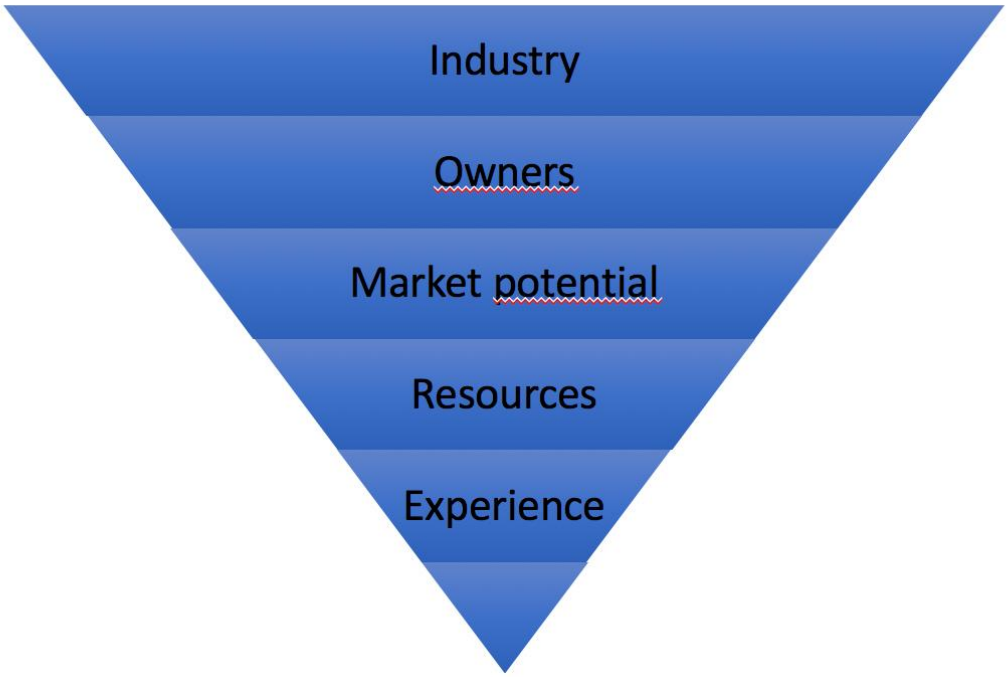

Figure 5. Decision stimuli pipeline.

As a summary firms in this study quite strongly felt that in their industry requires certain type of behaviour in international operations. Low risk-taking and gradual step-by-step approach was clearly seen in both companies. Second step was the owner's requirements. Being a cooperative seems to guide the framework in which the decisions are made. In both cases the owners were after steady growth but with low risks. Their business environment requires steady cash flow and optimally large deviations between years are not desired. After these stimuli's' came the market potential which clearly set the tone for risk-taking abilities. Firm's indeed were allowing slightly higher risks if the market potential was good enough. Also their approach was quite long term. Both firm's reactions to performance wasn't quite as drastic towards markets with good potential than it was towards markets with more modest expectations.

After the market potential was set then the resources were allocated accordingly. As said before these two companies had quite large resources across different markets. However, since they had multiple options to expand the market potential eventually decided where the resources were allocated. Finally, the firm's and managers own experiences were considered. Both companies had their own,

although quite similar, way of expanding to foreign markets. This method had been polished during the many year's these cooperatives were operating on different markets. For example, the experience could affect decisions such as whether to export directly or indirectly or is third part agent best option rather than setting up a sales organization in the target country?

Sub-question:

- What are the challenges in changing the entry mode? Exit and re-entry costs?

Both firms highlighted the fact that their entry modes despite being a large commitment modes could quite easily be divested if needed. With fast moving consumer goods their warehouse inventories weren't substantially high and also production sites were mostly rented our they could be sold onwards. Company B has divested many production sites and then moved the resources to other locations.

Both firms admitted that earlier when they didn't have much experience in foreign markets it increasing the commitment and making stronger partnerships with distributors or customers required some extra effort and also learning from mistakes. Both learned that in foreign markets customer credit risk could be much stronger than in Finland and same goes to third-part distributors. However, this risk seems to be resolved internally as the firms acquired experience.

Especially company B recognized the high cost of re-entry. For example trade licenses can be very hard to get and they are costly. Therefore, company B felt that it is better to stay within a market rather than withdraw completely because re-entry is a long and costly process. This behaviour is also noted in ROR-theory.

4.2. Managerial implications

Entry mode decisions has a significant role in internationalization process. The entry modes have a direct link on firms risks, control, performance and future possibilities. Therefore, it is crucial to acknowledge how the different internal and external factors affect the mode choices. At least managers need to know the differences between different entry modes and features each mode has on risks and controlling possibilities. However, in modern business where there isn't too many untapped markets and easy wins also firms' decision-making becomes more complex. Managers need to balance between moving quickly and potentially benefitting from first-mover advantage and the risks they might encounter. Also the risks are quite complex in today's environment. Firms need to evaluate political risks such as increased customs or trade wars, competitors, changing consumer behavior, market long term performance and potentially risky customers or distributor partners.

Managers also need to prioritize the different stimuli affecting the decision-making process. How they evaluate industry's, owners, market potential, resources and their own personal experience's impact on decision-making is already an important step setting up a successful business. To make implications even more complex managers should also continually evaluate where they should allocate resources and make investments that could in the future turn into great possibilities. Then managers need to evaluate suitable level of investments versus risks of overinvesting. ROR- theory could be interpreted in a way that it encourages making multiple investments in foreign markets. It should be noted that ROR doesn't yet have fully proven impact on better profits, even though earlier literature and also this study did find some positive aspects and impacts of it.

4.3. Limitations and suggestions for further research

The main limitation of this study is associated with the fact that this is a qualitative research with very narrow focus on Finnish food industry cooperative's decision-making. Therefore further generalizations shouldn't be made based on this study. However, the purpose was to examine the decision-making process in Finnish food industry companies and for that the research method and company selection suits well.

Another limitation is the small number of selected firms for this study. This is due to the fact that there are very limited number of firms in Finland that would have similar business environment with same ownership structure. The narrow focus was selected on purpose so that there would be as little as possible differences effecting the decision-making. Both firms have the same ownership structure, they operate in same industry and partly in same foreign countries and also the risks they face are very similar. Of course including more companies in the study could give valuable insights to different aspects of entry mode decisions.

Future research on entry modes could focus on different ownerships structures and industries. Also investigating further how ROR-theory could explain entry mode changes would be valuable. Another interesting path could be investigating the causal links between the different stimuli in the decision-making. It was only shortly touched in this study and further research could give valuable insights what stimulis are considered more important than others.

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Appendices

Appendix 1. Questinnaire design.

Perustiedot:

Yrityksen koko?
Liikevaihto ja henkilöstö?
Minä vuonna aloititte kansainvälisen liiketoiminnan?

Minkälaisia kansainvälistymisoperaatioita teillä on ollut?
Mihin maihin?
Minkä koko luokan?
Miten se on onnistunut?

Strategia:

Miten hoiditte kansainvälistymisen ja minkälaista toimintamuotoa käytitte (entry mode)?
Millainen strategia teillä oli?
Miksi valitsitte tämän strategian?
Mitä halusitte saavuttaa ja mitä kenties välttää?

Oliko teillä alkuperäisestä toiminta/vientimuodosta aiempaa kokemusta?

Miten silloisen johdon henkilökohtaiset ominaisuudet/mielipiteet vaikuttivat vientipäätöksiin? Esimerkkinä riskinottaja vs konservatiivinen lähestymystapa.

Millaisia firman ulkopuolisia paineita koitte kansainvälistymiseen liittyen? Esimerkkinä kiristynyt kotimainen kilpailutilanne.

Millaisia haasteita koitte matkan varrella?

Kehitys:

Miten yrityksen kansainvälistyminen on kehittynyt alkuajoista tähän päivään?

Jos toimintamuotoa on muutettu ajan kuluessa, mitkä olivat syyt muutokseen? Muuttuivatko markkinat?

Mitä haasteita tai riskejä tällä uudella toimintamallilla oli?

Millaisia kuluja toimintamuodon muutokseen liittyy? Esimerkiksi jos haluaisitte vetäytyä joltain markkinalta, niin liittyykö purkuun paljon taloudellisia menetyksiä?

Kuinka tyytyväinen olet ollut yrityksen kansainvälistymiseen? Onko uusia muutoksia näkyvissä?

Sana on vapaa: