



Department of Business and Economic Studies

**A process of internationalization and foreign market entry mode selection in
service industry**

‘Case study of Via SMS Group Company’

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Master thesis in Business Administration

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Abstract

Title: A process of internationalization and foreign market entry mode selection in service industry 'Case study of Via SMS Group Company'

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AIM: The aim of this study is to investigate the causes that stimulate service companies to cross boundaries of its home country and open new subsidiaries in other countries. In addition we also examine what type of foreign market entry mode the service company selects when it enters another market. The topic of market entry strategy is of current interest among researchers and has been widely discussed for a long period of time, but there is still limited number of studies about the service industry. Therefore it might be interesting to look into why the companies in service industry strive to internationalize its operations and what mode of entry do they prefer in terms of choosing foreign market entering strategy.

METHOD: We used a qualitative research approach to explore the internationalization process procedure of our case company and we adopted a case study method. Both secondary (textbooks, scientific articles and the website of our case company) and primary data (interviews with two branch managers of the case company) were used in order to fulfill the purpose of this study.

CONCLUSION: Our study shows that the firm's reason of internationalization depends on the motives such as: to increase the number of clients, to improve customer loyalty and to get additional profit. We also understand that the company's executives prioritized wholly owned subsidiary entry mode among others. From our empirical findings we concluded that the firms' decision about going abroad requires a preparation and implementation of well developed strategies, in order to succeed in foreign markets and to achieve company's goals and objectives

CONTRIBUTION OF THE STUDY: Taking into consideration limited number of researches in this area for the financial service sector, this study can be perceived as valuable complement to the existing researches in this field. Moreover the companies in service industry, that have plans for entering other countries, might consider this study as useful and beneficial for them in terms of getting relevant information. Undoubtedly the research may increase awareness about new financial service products, provided by the Via SMS Group.

KEY WORDS: Globalization, process of internationalization, entry mode, short-term loan, IT platform.

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1. Introduction.

The following part describes the importance of the topic in terms of providing the background for the particular issue, as well as stimulating discussion about the problem. The purpose and research questions were highlighted in order to give the reader the first insights into this study.

1.1 Background.

In our days a term globalization is a well known and highly recognizable trend in the world economy. Globalization it is neither good nor bad in itself; in the long-run it is a step towards efficiency; in the short-run, however, it involves all kinds of painful social and cultural adjustments. Every country has to meet the challenge of globalization in its own individual way (Mundell, 2000, Nobel Laureate 1999). The clarification for a phenomenon of globalization might be found in the definition of the process, as stated by Hammond and Grosse (2003). It is the homogenization of people's tastes and demand patterns around the world, due to raised access to international communication of information about products and services as well as increased access to transportation of products and people across borders. However according to Appelbaum, Roy and Gilliland (2011), globalization has become the mainstream for many industries and with it comes the difficulties associated with social, political, environmental and cultural consequences. Despite of those difficulties, the process of globalization has many benefits in terms of enhancing firm's competitiveness and opening new more profitable markets as well as accessing to the latest technologies and innovations.

It is obvious that in the process of globalization the companies are facing a tough competition internationally and hence have to consider the possibilities of entering other countries accurately. Selecting and going into the right countries for foreign operations is an important managerial decision and has a major impact for success or failure in international operations. In recent times there is a growing interest in researching the process of selecting and entering new markets. In addition it has been reflected in research paper by Rodriguez-Pinto, Gutierrez-Cillan and

Rodriguez-Escudero (2007) that both scholars and practitioners agree in the interest of the research on market entry strategy and its impact on the success or failure of products or services. There are various ways of entering foreign markets and therefore choosing the appropriate one can be considered as a crucial decision what a company should make in order to succeed globally.

1.2 Problem discussion.

Although the topic of market entry strategy is of current interest and has been widely discussed for a long period of time, there are still limited number of researches about the financial service industry that were done recently. According to authors Gray and Hooley (2002), service firms represent an increasingly important business sector, yet the new product development literature is inclined towards production firms. The majority of the researches were made about market entry from manufacturing perspective, and thus insufficiency of certain studies about other industries can imply a lack of reliability.

With respect to that, our knowledge can be considered as deficient in terms of applying foreign market entry modes as well as selecting target market for particular industry. Therefore it might be interesting to investigate if there are systematic differences within the financial service industry in terms of choosing foreign market entering strategy. Since entry modes involve great resource commitments, and change of them will cause considerable loss of time and money, entry mode selection is a very important strategic decision (Agarwal and Ramaswami, 1992) and has been a topic of strong interest and considerable inquiry in the international business and marketing literature. Undoubtedly the way of choosing market entry strategy plays a significant role in order to succeed in international arena and that's why additional research about this issue might represent a keen interest.

In terms of global competition the companies tend to conduct a deeper research before selecting and entering foreign markets. Certainly that conducting a preliminary research on new markets is a helpful and constructive way in order to design all aspects of suitable marketing strategy. Besides that it also can help to understand customer preferences and attitudes towards particular

products or services. Nevertheless there are some complications regarding the process of gathering the necessary data in terms of availability and comparability of such data as well as cultural differences. Generally speaking a reliability of data has a significant value for the company who is considering a new market for entry.

Additionally in nowadays the majority of different industries are experiencing difficulties because of continuing recession and financial instability in many developed countries such as countries within a Eurozone. And it is mostly because financial organizations have sufficiently decreased its financing on the new projects and thereby many companies tend to cut its budgets in order to sustain in the market. However the coin always has two sides and in our days we are able to see that new companies are actually appearing and developing. Among them we would like to emphasize companies who are working in financial service industry and particularly providing short term loans to its customers. The demand for such type of service can be considered as moderate and it can give an additional incentive to growth and development not only domestically but also internationally. Taking into consideration all these facts it brought us huge appetite, high interest and motivation in terms of making the research and learn more about this topic.

The case company that we have chosen for the study called Via SMS Group and the head office is located in the capital of Latvia, Riga. Besides that, it has 7 branches at the moment in other countries within Eurozone. Via SMS Group is that one of a kind company operating in the financial service industry, not only in terms of providing its customers possibilities to get short-term loans in fast and convenient way, it is also a kind of born global company that started expanding its branches to foreign market within short period from its birth (Hollensen 2007 page 77). Deeper about the particular organization (Case Company) we describe later in one of the following chapters.

1.3 Purpose and research questions.

The aim of the study is to investigate the process of entering foreign markets from the very beginning to the final stage. First of all, we would like to identify the objectives of the company, working in the service industry, in terms of going abroad and opening new branches in other countries. Second, by taking into consideration such aspects like preliminary screening processes and effects from governmental regulations, we want to discover what foreign market entry mode the service company prefers in terms of penetrating to other markets. Therefore we decided to draw attention to the two research questions in order to conduct the research and reach the aim of the study:

1. Why do the service companies internationalize their operations?
2. What type of foreign market entry mode the service company selects when it enters another country?

1.4 Limitations.

In order to accomplish the research, the service industry was taken into consideration. Furthermore the study is concentrated on the company, operating in financial service sector. It is obvious that the service industry requires a deeper investigation due to the lack of information about the process of doing business. Our study consists of the procedure of revealing the reasons why do the service companies internationalize its operations and analyzing market entry modes selection from the service firm perspective. However the aim of the paper is not to measure the possible outcomes regarding certain processes.

2. Theoretical Framework

In order to make the analysis regarding the research question, the following theoretical framework was constructed. The authors of this paper have included literature reviews from various theoretical sources such as books, scientific articles and journals.

2.1 Internationalization process.

There has been a lot of interest in internationalization process in international business research (Barkema and Drogendijk 2007). Internationalization is a topic at the core of the international business field, as most questions dealt with in international business research emerge as a consequence of the interaction between the firm and the different locations (Hutzschenreuter *et al.* 2007). There is a growing interest in researching a process of internationalization among various types of industries in our days. Apparently the companies internationalize its activities for various reasons. According to Bradley (2005) there are some major reasons for internationalization and they are the followings: better opportunities abroad, shortening product and technology lifecycles as well as excess capacity. Ohmae (1990) mentioned that some companies internationalize due to external reasons, like their rivals or customers have become globalized. Another occurrence why do companies internationalize is for internally-driven factors, such as to improve the firm's profitability (Geringer *et al.* 1989). Furthermore, firms with operations in international markets acquire other competitive benefits such as foreclosing entry by rivals, competitive avoidance in home markets, etc. (Elango, 1998). Additionally, and by observing on the findings by Hamel and Prahalad (1993), it seems like the authors claim that in the process of internationalization, firms can leverage its capabilities across markets, which will improve its ability to enlarge operations and grow a solid revenue base. The authors also declared that capabilities developed in foreign markets may then be leveraged to strengthen the business activities in the domestic market.

However, taking into consideration a relationship between internationalization and performance, Lu and Beamish (2004) were able to reveal some negative aspects related to increased costs and risks of internationalization, which based on three sets of factors: liability of foreignness, newness, and increased coordination costs. In addition some other authors also pointed out specific reasons for the increased costs and risks associated with the process of internationalization, such as the need for managers to work in unfamiliar environments, thus increasing the chances of committing managerial errors in business decisions (Hymer, 1976). Bae et al. (2008) talked about increased operational risk due to changing political/economic situations in the host countries and fluctuations in currency exchange values. And finally Zaheer (1995) referred to the costs due to the lack of legitimacy and economic nationalism in the host country, as well as host country restrictions on operations which reduce managerial freedom for foreign firms.

Certainly there is a significant dissimilarity between well-established companies and immature ones in the way these firms are attempting to generate new capacities. According to Lumpkin and Dess (1996), young firms are more likely to exhibit an entrepreneurial orientation to internationalization, which results in a higher risk-taking proclivity, greater propensity to innovate, and a more proactive stance. Nevertheless, the authors indicated that these ventures have very limited reserves, which makes them extremely vulnerable if organizational mistakes are made. Moreover the authors quarreled that the age or the relative youth of firms entering new markets is likely to influence the rate at which they develop and deploy their capability. Undoubtedly the process of internationalization requires companies to adjust. It is obvious that these labors can be considered as costly and since young firms usually have limited reserves, wrong decisions could put at the risk the company's very existence.

2.2 Foreign market selection.

According to the authors Andersen and Strandkov (1998) it seems like an increasing dependence of companies on international business and growth and the intensity of competition makes selection of non-domestic markets one of the most critical decisions in international strategy. In

addition Ellis (2000) mentioned that regardless of its significance, however, knowledge about the initial market entry decision is limited.

The general and context-specific approaches to foreign market selection view the process of evaluating the viability of overseas markets as composed of stages like preliminary screening, identification and final selection (Johanson, 1997). Preliminary assessment or screening stage identifies potential markets as candidates for subsequent thorough analysis (Root, 1994). Kumar et al. (1994) stated that macro-level indicators are used to eliminate countries that do not meet the firm's objectives. He also pointed out that market size, growth rate, fit between customer preferences and the product and competitive rivalry constitute proposed screening criteria. Johanson in his paper declared that identification stage involves assessment of industry attractiveness and forecasts of costs and revenues for the short-listed countries. Moreover the same author described the final selection stage as determines the country market which best matches the company's objectives and available resource leverages.

Wild (2012) in his book argued that two important issues concern managers during the market and site-screening processes. First they want to keep search costs as low as possible. Second they want to examine every potential market and every possible location. In order to accomplish these two goals managers can segment the screening of markets and sites into the following four-step process as can be seen below in Figure 1.

Johanson and Vahlne (1977) described market selection as a process which is constrained by two interrelated key concepts: psychic distance and experiential learning. The concept of psychic distance exemplifies the knowledge and information lack that increases the ambiguity of undertaking overseas business and the costs of coordination. Evans and Mavondo (2002) argued that psychic distance, defined as the distance between the home country and a foreign country as a result of the perception of both cultural and business differences, is significant for the companies when evaluating the viability of foreign markets and determining the most appropriate entry mode. As a result, companies select foreign markets that show signs of similar economic, cultural, and political systems.

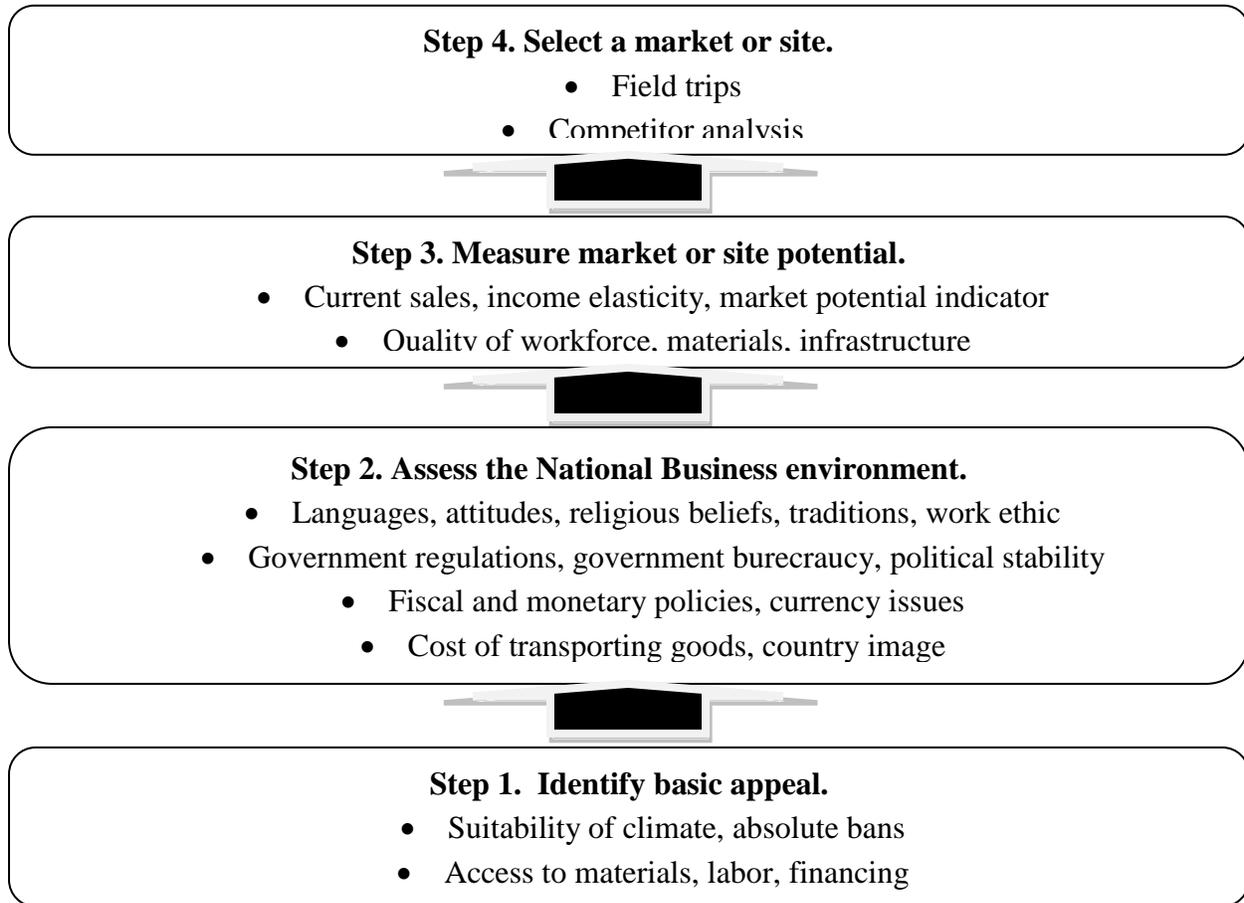


Figure 1. *Screening process for potential markets and sites.* Source: Wild, J.J. and Wild, K.L. (2012) *International business: the challenges of globalization.*

Obviously that a lack of previous experience outside their home country can put a relevant damage on firms in terms of expanding into new foreign markets. As it was mentioned in the Hymer-Kindleberger paradigm (Kindleberger, 1984), foreign firms face fundamental disadvantages in comparison with domestic firms due to distance as well as different legal regulations, culture and economic conditions. Therefore the companies have to take into consideration many factors in order to successfully penetrate foreign markets. Porter (2004) in his book also described that more and more companies decided to go in to new markets and this actually demands the right type of action to be implemented to succeed abroad. In addition Birkinshaw (2000) argues that foreign market entry gives firms direct market-specific knowledge on competitors, customers, suppliers, and innovation, all of which help the firm to build positional advantages regarding their competitors.

2.3 Foreign market entry modes.

Selecting an institutional arrangement, a mode for entering or expanding in a foreign market is one of the most crucial strategic decisions that an international firm has to make during its internalization process (Root, 1994). The same author stated the definition for foreign market entry mode and it is an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country. According to early studies of entry mode, based on theories related to internalization, it seems that they were mainly focused on decisions making with regards to licensing or foreign direct investment (Buckley and Casson, 1976). In our paper we are interesting in describing two main groups of entry modes such as contractual and investment entry modes which will be depicted below.

2.3.1 Contractual entry modes

Some company's product offerings in the international market place are intangible and cannot be traded openly. This means the company can neither use importing or exporting to exploit existing opportunities in international markets. Therefore certain companies normally take benefit of contractual entry modes such as licensing and franchising. According to Root, (1998) p7 this form of entering another market can be described as a non equity association between an international company and an entity in a foreign target country that involve the transfer of skills and technology from the company towards the entity in the target country.

There are many reasons why a firm usually enters into a foreign market and they are the followings:

- a desire to have close interaction with foreign customers
- reduction a cost of production
- favorable tariffs and quotas
- other factors like government support to foreign investors.

In addition contractual entry mode is a manufacturing means use by foreign firms to outsource for external partners that are specialized in production and production technology for production

of goods and services without the firm making a final commitment (Holleesen, 2007). There are few types of contractual entry modes which have been briefly described below. The study limits its range to entry mode choice in contractual group, and further shortly investigates only three typical kinds of contractual entry modes such as licensing, franchising and management contracts.

Licensing

Licensing is a means of extending production and establishing a local production in a foreign market without direct capital investment. Hollesen (2007) described licensing agreement as an arrangement between licensor and licensee whereby the licensor offers valuable thing to the licensee in exchange for particular performance and payment from the licensee. More specifically licensing can be determined as a wholly owned entry mode since the ownership of firm title or technology entirely belongs to an entrant for a definite market or project. Daniels et al. (1976) in its paper detected a tendency to move to licensing and contract-based entry modes with increasing experiential knowledge abroad.

Franchising

According to Hollesen (2007), the term franchising is a French word which means “to be free from servitude”. Franchising is a business concept whereby the franchisor issues out a right to the franchisee against payment, e.g a right to use their intangible property such as trademarks, brand names, copyright, business know-how and so on, rendering assistance along with for a specific period of time (Holleesen, 2007).

Management contracts

Within the framework of a *management contract*, one company supplies the other with managerial expertise over a period of time.(Wild,2012) The form of payment is usually a lumpsum or a fee based on continued sales. These management contracts are commonly undertaken in public utilities to initiate the transfer of managerial or technical skills. However, this transfer of skills can in the end create a competitor for the contractor (Holleesen, 2007).

2.3.2 Investment entry modes.

Entry modes within this category involve companies taking a greater level of commitment in the target market by directly investing in it. The entry modes in this group can be considered as high control entry modes. According to Root (1994) the investment in new country can be made using the following approaches: by establishing a wholly owned subsidiary, by choosing a joint venture as an entry mode or by making acquisition. In general, a joint venture is the most suitable way to acquire the local partner resources as well as to reduce environmental and cultural risk. Acquisition offers the fastest way in order to build an occurrence in a foreign market, but actually the company risks to overpay and to face the challenge related to cultural and national differences. Below we have presented a literature review about one of the investment entry modes such as wholly owned subsidiary. The reason why we have chosen this entry mode is that the researched company uses this approach in order to enter other markets.

Wholly owned subsidiary

Stopford and Wells (1972) mentioned in its paper that less experienced firms usually prefer wholly owned subsidiaries in terms of choosing an appropriate entry mode. In addition Davidson (1983) stated that an experience of producing in a market is positively related to a firm's preference for wholly owned subsidiaries. On the contrary authors such as Gatignon and Anderson (1988) described in their paper an increasing propensity to select wholly owned subsidiaries as experiential knowledge increased. This actually might mean that companies with high foreign market experience seem to prefer entry modes which can be considered as high control modes. The findings with respect to experience of the companies are contradictory in terms of choosing a specific entry mode. Furthermore the same authors revealed that the probability of using wholly-owned subsidiaries declined with increased country risk. Therefore it might be assumed that companies typically are reluctant to go alone when entering high risk countries. Davidson (1983) in its study observed that companies who have relatively weak experience in international markets tend to overstate risks and underestimate return on international markets. The wholly owned subsidiary can be described as having high investment which also brings high risks and possibility to high returns (Agarwal and Ramaswami, 1992). Obviously it has certain consequences for selection of entry mode. Agarwal and

Ramaswami also mentioned that in terms of choosing wholly owned subsidiary as an entry mode, the company tries to develop a foreign market by directly investing in that market.

2.4 Choice of foreign market entry mode

The selection of foreign market entry mode can be considered as important issue and generally related to control. Control guarantees an achievement of the ultimate purpose and goals of the organization and therefore might be crucial. In addition, control is the single most significant factor that determines risks and returns, the amount of relational friction between buyers and sellers, and ultimately, the performance of the investment abroad (Barkema et al., 1996). In terms of control entry modes can be differentiated as having low and high control. The various entry modes can be considered as a continuum (Sternquist, 1998), ranging from low control (e.g. export) to high control (e.g. wholly owned subsidiaries), which vary in the degree of investment risks, resource commitment and financial returns. According to Anderson and Gatignon (1986) the high control entry mode offers the highest mode of integration or control, while low control entry modes, for instance cooperative agreements, offer the lowest. Hastings and Perry (2000) mentioned that high control entry modes may be preferred in order to build up personal relationships, conduct on-site research, and adapt to the needs of the foreign buyers and markets. On the contrary Gatignon and Anderson (1988) noted that firms select low control entry modes and low resource commitment when they are exposed to risk, or when the demand conditions are uncertain. The discussion about high-low control entry modes is summarized in Figure 2 and can be viewed below.

<u>Entry mode</u>	<u>Form</u>	<u>Control</u>	<u>Relational friction</u>	<u>Commitment</u>
Wholly owned subsidiary	Subsidiary	High	Low	High
Partly owned subsidiary	Minority/majority ownership, affiliates, etc.	High/moderate	Low/moderate	High/moderate
Contract, alliances	Relationship	Moderate	High/moderate	Low
Market	Export	Low	High	Low

Figure 2. Characteristics of firms entering foreign markets. Source: Anderson and Gatignon (1986)

According to the authors Daniels (1970) and Vernon (1983), different entry modes require different resource commitments. Resource commitment is widely used at the moment to differentiate between shared and wholly-owned entry modes, the greater the degree of ownership in the entry mode, the larger the resource commitment. Successful growth requires substantial financial, managerial, and informational resources, but these resources are difficult to acquire in a short period (Dant et al., 1992). The certain view enlightens that companies which are deficient in resources will choose franchising and organizations that have plenty resources prefer the wholly owned entry mode. As illustrated by the continuum in Figure 3, high control entry modes demand greater resource commitments abroad, and the foreign operation is exposed to a higher degree of uncertainties. Low control modes require a more limited resource commitment, thus reducing investment risk, but the fashion retail firm has little power over foreign operations, which could result in reduced financial returns (Hill et al., 1990).

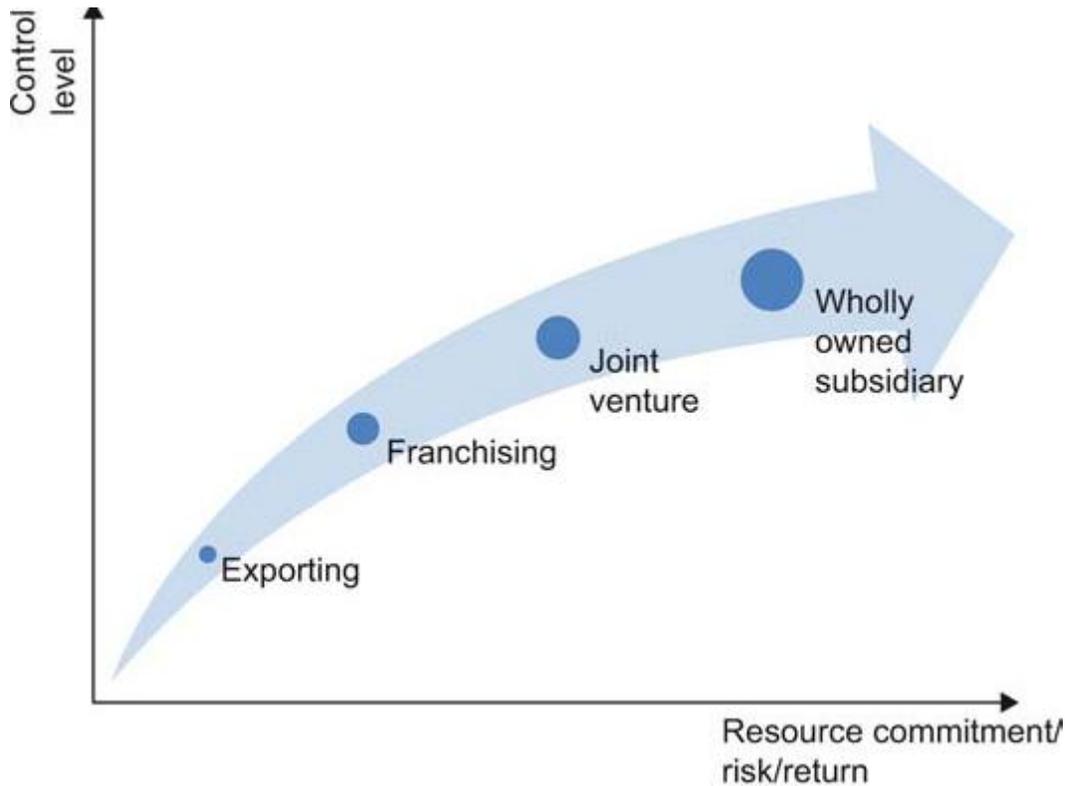


Figure 3. *Entry modes characteristics*. Source: Adapted from Sternquist (2007)

2.5 International staffing policy.

According to Wild (2012) staffing policy can be described as the customary means by which a company staffs its offices. Obviously that staffing foreign subsidiaries with competent personnel can be considered as relevant issue for the companies in order to develop and sustain competitive advantage in foreign markets. The staffing composition of foreign subsidiaries is one of the most critical strategic decisions for the organizations, in which they decide the optimal composition of parent country nationals and host country nationals (Belderbos and Heijltjes, 2005). Since organizations first internationalized their operations, they have faced the vexing question of who is the best candidate for managing these operations – expatriates, locals or, more recently, local-hired foreign managers (Collings et al., 2007). Indisputably the human factor can be considered

as instrumental to the success of a company, even in today's technically advanced and developed business environment.

Wild (2012) in his book mentioned that there are three different staffing policies and they differ on the level of involvement of the company into international operations. Thus the main approaches to the staffing of international business operations are: ethnocentric, polycentric and geocentric.

In ethnocentric staffing, the persons from the home country supervise operations related to company's subsidiary management abroad. Wild (2012) noted that this particular policy tends to appeal to companies that want to maintain tight control over decision making processes in branch offices abroad. Consequently, those companies work to formulate policies designed to work in every country in which they operate. On the contrary polycentric staffing approach assumes that individuals from the host country, different from company's home country, manage operations abroad. Companies can implement a polycentric approach for top and mid-level managers, for lower-level staff as well as for nonmanagerial workers (Wild, 2012). A compromise between those two extreme staffing cases can be found by implementing the third policy, geocentric. As Wild stated, this exacting staffing policy can be described as a method when best-qualified individuals, regardless of nationality, manage the operations abroad. This policy is typically reserved for top-managers and the choice between specialists from home, host or third country is usually depends on the operation's specific needs.

Undoubtedly each staffing policy has its own advantages and disadvantages related to organizing the operations abroad. In order to give a reader a better overview on this issue, we have summarized pros and cons of these staffing approaches by presenting the table below. Therefore, the Figure 4 sums up the advantages and disadvantages of international staffing policies described by Wild (2012) in his book. Taking into consideration other authors views we can see that the existing literature has discovered the relative positive and negative aspects of each type of staffing policy with the assumption that every company has to determine its own optimal ratio of candidates for managing operations in foreign countries. It is obvious that expatriates represent the interests of headquarters and may improve communication between headquarters and subsidiaries and assist headquarters' staff to understand the local business environment (Boyacigiller, 1990). Additionally there is a growing recognition that employees with

international expertise do make a difference in contributing to achievement of competitive advantage in the international business environment (Stroh and Caligiuri, 1998). On the contrary Dowling et al. (2008) mentioned about the factors connected to expatriate failure such as under-performance and maladjustment to the foreign environment, which certainly has implications for both individuals' psychological adjustment as well as corporate performance.

<u>Staffing policy</u>	<u>Advantages</u>	<u>Disadvantages</u>
Ethnocentric	<ol style="list-style-type: none"> 1. Locally qualified people are not always available. 2. Re-create home country operations in the image of host country operations. 3. Managers from the home country will look for company interests more earnestly. 	<ol style="list-style-type: none"> 1. Relocating managers is expensive 2. The particular policy can create barriers for the host country office.
Polycentric	<ol style="list-style-type: none"> 1. Managers from the host country intimately are more familiar with the local business environment. 2. High cost of relocating managers with their families from the home country can be eliminated. 	<ol style="list-style-type: none"> 1. Potential for losing control of host-country operations.
Geocentric	<ol style="list-style-type: none"> 1. Managers can adjust easily to any business environment, particularly to cultural differences. 	<ol style="list-style-type: none"> 1. High expenses related to salaries and relocating people.

Figure 4. *International staffing policies, advantages and disadvantages*. Source: Wild, J.J. and Wild, K.L. (2012) *International business: the challenges of globalization*.

2.6 Summary: the importance of the literature.

The preceding chapter describes the literature about various topics in order to give the reader an understanding about the research topic. The literature can be considered as useful and reliable option since it reflects many authors' thoughts. For example, taking into consideration the

process of internationalization, we've mentioned few authors, who described the reasons why do the companies internationalize its operations. Therefore there is no bias opinion about the particular issue. In addition, the negative aspects of the process of internationalization were demonstrated and it gives the reader another perspective on the topic. Since the research company is relatively young, we have used literature concerning company's behavior in the international area in terms of its maturity.

Obviously the entry mode selection plays a crucial role in company's future growth and sustainability in the market. Hence the choice of foreign market entry mode selection requires a deeper analysis before its implementation. Regarding our literature part, we examined this issue by providing a theoretical background related to the level of control of entry modes. In addition, screening processes were exemplified in order to show what companies should take into account before making final decisions about certain mode of entry. The last part of our literature review demonstrates a variety of staffing techniques typically used by international companies. Each policy has been depicted in terms of having advantages and disadvantages for the company.

Although the number of researches about service industry is increasing, there is still lack of literature concerning a process of internationalization and entry mode selection in service companies. The aim of doing the research is to get a closer look why do the companies in service industry internationalize its operations and what mode of entry foreign markets do they choose. Therefore the study might help to reduce the gap in the literature regarding these issues. The literature that was included in the theoretical framework guides the study to complete the paper by answering the research question which was stated above in the introduction part.

Generally speaking the main objective of this chapter is to familiarize the reader with the area of doing specific research as well as to give a literature background in order to proceed with empirical and analysis chapters. In terms of accomplishing the research we have chosen certain methods which help us accumulate and examine the data, and it will be described thoroughly in the following chapter.

3. Methodology

The forthcoming chapter provides a reader with research modes descriptions, which were used in terms of conducting the research. In addition the reasons of why the specific approach has chosen also have been highlighted in this part of the paper. The idea behind this is to avoid ambiguity and uncertainty of the study.

3.1 Introduction.

This chapter has been divided into several parts and they are the followings. Firstly, we employed exploratory research purpose and the method used was Case Study. Secondly, we outline the differences between qualitative and quantitative research approach and we chose qualitative research approach for our study. Thirdly, we discuss the data collection; both primary (interviews) and secondary data (textbooks, journals, scientific articles and the website of our case company) were used. Lastly, we chose explanation building analytical technique for the data analysis.

3.2 Research Purpose

When writing a thesis, the choice of method to use depends majorly on the research question(s) and the purpose that the thesis wants to answer. The extent of questions of ‘how’ or ‘why’ the research questions demanded or the higher the degree of desire to understand some complex social phenomenon, the more suitable it would be to use case study method (Yin 2009, page 4). This is the reason why we adopt case study in our thesis, because we want to have an in-depth understanding of a complex social phenomenon, in other words, we adopt case study because our study is suppose to answer questions that involved ‘why’ does the case company internationalize its operations and ‘how’ does the company convey its internationalization process procedure, which are complex social phenomenon and to be able to answer these issues a case study on two branches (Latvia Branch and Sweden Branch) of the case company was conducted.

3.3 Research Method

According to (Yin 2009, page 8), Research method could be used for three purposes, which are exploratory, descriptive and explanatory, and there may be exploratory, descriptive and explanatory case study or experiments respectively. How to use each one of these methods depend on, firstly, the type of research questions that were raised, secondly, the degree of control that the researcher has over the actual behavioral event and lastly, the extent of focus on present time as opposed to historical event.

Furthermore, Yin (2009), stated that when asking a research question that is focus on ‘what’ questions, in order to have an insight, assess and find out information about prevalent issues the research purpose is often focus on exploratory purpose and any of the five research method (Experiment, Survey, Archival Analysis, History and Case Study) can be used. A descriptive purpose can sometimes be a second type of ‘what’ question, ‘who’ or ‘what’ questions which often leads to sub-questions of ‘how many’ or ‘how much’, which are always applicable when on survey. When it comes to asking question of ‘how’ and ‘why’, explanatory purpose is usually applied and the research method that could be used could be a case study, an experiment or a history (Yin 2009, page 11).

Therefore, we adopted an exploratory purpose and used a Case Study as our research method, since the purpose of our study is to acquire a better understanding in terms of selecting and choosing an appropriate entry mode from the company working in financial service industry perspective.

3.4 The two research Approaches: Qualitative versus Quantitative.

Qualitative research approach is a vast complex area of methodology, which focuses on exploring issues, understanding a phenomenon and answering questions. This type of research approach also find out the ‘why’ and ‘how’ of an issue by the means of analysis unstructured informational measures such as interview transcripts, emails, photos and video, notes and

feedback forms Ghauri and Gronhaug (2005). On the other hand, the quantitative research approach is based on testing the hypothesis (Holme & Solvang, 1997).

The figure 5 below illustrates the differences between the two approaches: Ghauri and Gronhaug (2005, p.110)

Qualitative Approach	Quantitative Approach
<ul style="list-style-type: none">• Emphasis on understanding• Focus on informant's point of view• Interpretation and rational approach• Process oriented• Observations and measurement in natural settings• Subjective insider view• Closeness to data	<ul style="list-style-type: none">• Emphasis on testing and verification• Focus on facts or reasons• Logical and critical approach• Result oriented• Controlled measurement• Objective outsider view• Distant from data

Therefore, we adopted qualitative research approach because of its characteristics and importance that made it suitable for the purpose of our study, which is to acquire a better understanding in terms of selecting and choosing an appropriate entry mode from the company working in financial service industry perspective. Using a qualitative research approach makes us 'the researcher' to be very close to the data, for example, conducting and analyzing data from interview makes us to be closer to the data than using a survey method and analyzing data with SPSS which could be regarded to as quantitative approach.

3.5 Data Collection

According to Yin (2009), who stated that case study source of evidence can come from six sources which are; documentation, archival records, interviews, direct observation, participant observation and physical artifacts. Amongst all these sources, interviews is one of the most important source of case study, because interviews give essential information due to the fact that interviews give room for conversations rather than following a rigid, structured way of inquiries (Yin 2009 page 106).

Secondary Data

The secondary data used in this thesis was collected through textbooks, journals, scientific articles and the website of our case company (Viasms Group). We made use of the University library database in searching for reliable literatures to use, both the journals and books used in this study are from reliable database source and we used keywords that are relevant to our thesis research question in searching for the literatures like; Globalization, Internationalization, Entry mode, and Staffing Policy

Primary Data

The primary data were collected through schedule interview with two managers from the case company (the Latvia and the Sweden managers). We chose interviews because of its advantages, amongst others, interview allows more detailed questions to be asked and a high response rate could be achieved and with interview we could be able to ask vital questions and explore deeply within the area of our research question and purpose, since our research purpose is exploratory. We constructed our interview questions in regard to our theoretical framework, that is, the theories stated in our framework guides us to structure our interview questions (see Appendix 1). We later analyze our empirical findings around these theories, in order to be sure if our findings confirm to the theories, and which in turn helps us to explore deeply around our research questions.

3.6 Data Analysis

This aspect of methodology could be done by examining, tabulating, categorizing, testing or putting responses or feedback together to draw conclusion on initial proposition of a study (Yin, 2009). Since statistical analysis is not commonly use in all case study and case study techniques is yet to be thoroughly defined, (Yin 2009 page 126) suggests that every case study analysis should follow a general analytical strategy and priorities what to analyze and why because the researchers need to rely on the literature to present the case study evidence.

Therefore, out of the five analytical techniques (pattern-matching logic, explanation building, Time-series Analysis, logic Models and Cross-Case Synthesis) presented by (Yin 2009 page 136), we chose explanation building analytical technique because it is appropriate to use when analyzing a case study data by building an explanation about the case in a narrative manner and also in accordance to some theoretical propositions. Alas, the technique is quite difficult because it required full attention; any slight loss of focus could lead to a problem.

3.7 Research Validity and Reliability

The quality of a research design can be presented in a variety of logical test but the researcher(s) must not neglect the fact that the quality must be judged properly in order to ascertain the credibility, reliability and validity of the research. According to (Ghauri & Grönhaug, 2005, page 65), the validity of a research is to show whether the research answered the purpose and the research question postulated to answer and see to that the results or findings are true or could see if the study can be generalised (external validity). In addition (Yin 2009 page 42) stated that there are two types of validity which are internal and external validity, he proceeded by saying that internal validity see to that the research answer the study questions, and external validity must see to that the study can or cannot be generalised while reliability of a study shows the degree of trustworthiness that one can find on the procedure or the instrument used and to ensure that if the same study had to be carry out by another researcher it will be almost exactly the same result.

To assure validity our research question had been carefully designed in accordance with our framework and literature, in order to have a substantial data that could validate our work. We attained reliability by conducting face to face interview in order to minimize error in the process of collecting our primary data, though, our study cannot be generalized but if the same study has to be replicated by considering the same case company and the two branches that we used, almost exactly the same result could be gotten.

4. Empirical findings

In this part we have gathered historical and operational information about the case company. After reading the data about the Via SMS Group, a reader might be able to understand better firm's strategy as well as goals for achievement. The process of getting a specific service from the company is described. In addition the persons who we have interviewed are presented and the general meaning of the collected data is explained. In case of discrepancy in answers among the interviewers the comparison is done according to disparities.

4.1. Case company.

According to the company's homepage on the internet (www.viasms.eu). Accessed on 2012.04.18), the firm was founded in 2008 and the main field of operations of the Via SMS Group is short term non-banking loans for individuals. Majority of the loans are given for a period of one month and its amount is up to 400 EUR or approximately 3600 SEK. The main focus of the company is to be in touch with the customers and local society in the fast developing market of quick short-term micro loans. The general idea is to provide online service that allows meet clients' needs in terms of offering high speed operational activities and effectiveness.

Taking into consideration the technical issues, the company's service is based on the advanced IT platform that generates fast interaction and communication with clients. The platform is secured and constantly updated to ensure the highest level of service.

Using competence and high standards of service, VIA SMS Group has grown rapidly. In fact it has opened 7 branches across Europe recently, including Sweden, and the company has further plans in terms of expanding to other markets.

VIA SMS Group is committed to provide clients with fast and convenient financial services. The company claims that there are only 3 steps to receive money and they are the followings:

- First the customer has to fill in an application form on VIA SMS group company website;
- Second he/she has to apply for a loan on website notifying desirable amount and maturity of the loan or send an SMS with loan application;
- And finally the money is transferred to customer's bank account;

Considering the procedure, the company claims that it is simple and the client needs only 15 minutes from the moment when the potential consumer visits VIA SMS Group company website. Additionally no unnecessary documents have to be submitted in order to apply for a credit.

Customers can apply for a loan from its mobile phone simply by sending SMS and this feature ensures that clients are able to receive money at any time and at any place – even in shopping center or in a restaurant. This makes the service of receiving short term loans very convenient and easy to use. Below we have presented three steps in order to give a reader a better understanding how the process actually works. Information has taken from the company's homepage and has shown in Figure 6. The information reflected in this part was gathered from the company's homepage on the internet available at www.viasms.eu. (Accessed 2012.04.18)

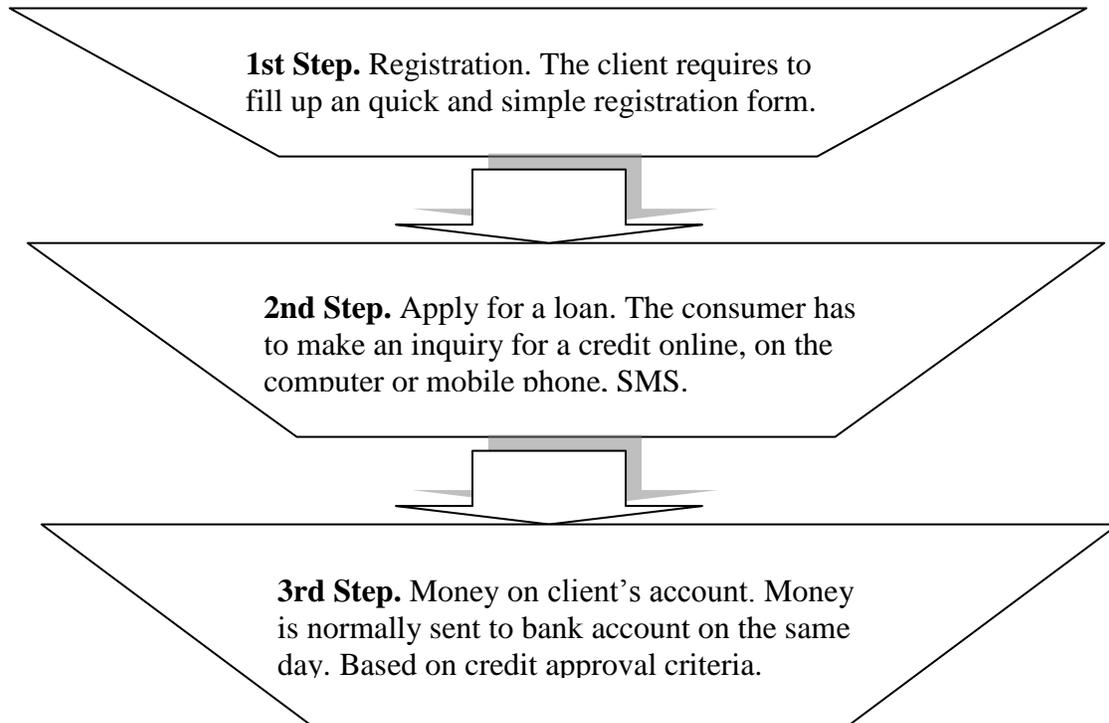


Figure 6. The process of getting a short-term loan. Source: The company's homepage available at www.viasms.eu. (Accessed 2012.04.18).

4.2 Introduction of interviewers

The empirical data was collected from two interviewers who both working in Via SMS Group and their names are the followings:

- 1) Dmitrijs Rozvadovskis. CIO of Via SMS Group. Head of the IT department.
- 2) Airisa Lindsterma . General Manager of the company's Sweden subsidiary ViaConto Sweden AB.

At the beginning of the interview we asked our respondents to introduce themselves and tell us about their position and role that they play in the organization; what responsibilities do they have in their workplace. A total number of two interviews were conducted with two respondents. We had prepared a list with questions concerning main aspects of the research prior the interview. The same questions were asked to both our interviewers. The question list for the interview can be found in the Appendix nr.1 at the end of the paper. First we took the interview with Mr. Dmitrijs Rozvadovskis, CIO of the company and the head of the IT department, who has 11 subordinates at the moment. The department responsibilities are to support the IT platform operations as well as establishing and developing new subsidiaries in new countries. Secondly, an interview was conducted with Ms. Airisa Linsterma, who is the General Manager of the company's subsidiary, which is located in Sweden, ViaConto Sweden AB. She is managing one of the company's subsidiaries operations together with three more subordinates.

4.3 Globalization and the process of internalization

Within the interview with the CIO of the company, which took place in the head office of the company in Riga, the interviewer answered general questions about globalization and the industry itself, as well as specific questions regarding research aspects of our study. Dmitrijs mentioned that he considers globalization as a process which can help many countries' economics in various aspects; it can lead to standardized jurisdiction; and it also can improve international communication and understanding. In general he believes that the process of globalization is good for the business since it possess some possibilities for companies to enter new markets. When we asked the same question to our second interviewer, she said that globalization is inevitable and there are both positive and negative sides of the process. However, in the long run the effects of the globalization should always be positive and the recent development is hard to stop. Airisa also mentioned that many companies and governments are not yet able to manage the risks that may occur in more and more globalized economies and as an example, she provided the fact about the last financial crisis which started with Lehman Brothers bank in the USA and generated a snow ball effect in the whole financial world.

In terms of providing us with the reasons why the company decided to internationalize its operations, Dmitrijs emphasized the main reason as to get additional profits from these actions.

In addition he also stated that markets are different and by working in the international arena the company has gained valuable experience in marketing planning, product improvement and business strategy. Certain activities help the company to increase the number of clients, improve customer loyalty and get additional profit. Airisa stated that Latvian market is very limited, only 2 million inhabitants, and it means limitations on ability to grow. The short term loan business is still a very new industry, however in Scandinavia it has been running for a while. The banks were no longer able/ willing to offer loans/credit cards in the same extent as before but the people were still in the need for loans. The general manager also described about financial crisis consequences that changed the consumer behavior in favor of short term loan industry. Therefore it was important to use this opportunity in order to grow and take market shares in new and existing markets. Moreover she added that late market entry is often connected to larger entry costs, since the company must fight and take the market shares from the existing players.

According to our first interviewer it is obvious that the process of going beyond the borders can have both pros and cons and he also talked about the positive aspects such as the ability to get more potential clients and receive additional profits from international operations. Moreover the firm gets international experience which helps to reveal weak business/marketing strategy planning. On the contrary the headquarters of the company usually are facing with difficulties in subsidiaries controlling and managing. Particularly for the IT services there is also a negative feature such as non- stop improving of front-end/back end systems and support.

Airisa talked about risks associated with expansions outside the borders of one's own home market. One of the risks is not understanding the new market and thinking that the new market is similar to one's home market. By overlooking just one tiny detail, the company may sometimes put itself to considerable risk. Other negative aspect may be that fast expansion requires strong financial muscles and a lot of administrative resources in order to manage potential bottle necks in the company. If the expansion is built on borrowed capital, there is always a risk that failures can be very costly and may affect even the mother company. Another risk is that expansion goes too fast and the company does not have time and resources to deliver the quality of the service/product as planned, and gains less favorable reputation in the new market. Some other companies can learn from these mistakes and take over the market shares by offering the same service with a better quality. On the contrary Ms Lindsterma illustrated the positive aspect as the

company can be more innovative and use the knowledge gained in all the markets. By coordinating the administrative resources, the company can be more productive and use economies of the scale. The company with business in different countries will also have a better image as a stable and successful company towards the potential customers and business partners.

According to Mr. Rozvadovskis although Via SMS group is relatively immature organization, it does not have any resources/funds shortage while it is entering the new market. The reason is that there are group of investors who believe in company' future achievements and who support business development for new markets. On the other hand Airisa spoke about importance of resolving financial issues when entering a new market. There is hardly any company that has never experienced a shortage of resources. Nowadays it is possible to solve the funding problems with many different approaches, such as external funding, risk-capital, joint ventures etc.

The first interviewer mentioned that the firm does not make random decisions about which country to enter for its operations. The decision making process is based on in-depth study of potential market and on analysis of currently operating rivals in the particular market. Certain analysis includes assessing financial performances for a previous period of time as well as viewing its business products and etc. And Airisa explained us that different markets have different aspects and different advantages and as an example talked about Swedish market which is already well acquainted with short term loan services so the new market entrant does not need to use its resources to educate the consumers about the advantages and characteristics of the service. On the other hand, the market in Sweden is burdened with extreme bad will for short term loan services. This is due to earlier misconduct of the companies that offered this service on terms that often had very serious consequences to customers in form of extreme commissions for late payments and no credit scoring at all. The technical development is also very high in Sweden, with the internet availability to everyone all over the country. With the technical infrastructure in place and the legislation that does not build serious obstacles to this form of crediting service, the main obstacle in Sweden is taking the market shares from other already well-established short loan services providers.

Considering the appropriate countries to open its subsidiaries, the company executive pointed out that at the moment the organization performs study on markets located in Eurozone only. This is mainly because the zone of Euro is believed to be safe for business development and less risky

comparing to others from the company perspective. Additionally the general manager from Swedish subsidiary stated about main aspects that should be evaluated and they are the followings: if the local legislation allows this kind of financial service, and if there is infrastructure in place to provide this service. By infrastructure Airisa means, among other, that all people have bank accounts and that it is possible to make electronic payments in a fast way; that there is good internet coverage in the country and computers are widely available. If there is the necessary infrastructure available, it is also important to understand how large is the proportion of the potential customers to whom the infrastructure is accessible for a reasonable cost. The second aspect is to determine if the percentage of the potential customers is large enough to compensate for eventual resources that need to be invested in order to make the service available to the customers, and to compensate for the potential credit risks. Both the infrastructure and the legislation should be in place. If there is just one of the aspects – a great infrastructure, but no legal means to get adequate credit scoring or to take measures for debt recovery, it would probably be too costly to enter such a market, even if there would be a tempting amount of potential customers.

4.4 Governmental and ethical issues

Concerning the government regulations that favor or affect the company when it enters other markets, Dmitrijs mentioned about loan application form and customer service that need to be acquired due to specific government regulations in the new markets. Usually it takes time to do it appropriate and precise according to the certain rules and policies. In addition financial reporting mechanisms also need to be updated within accountancy regulations. With regards to our interviewer from the Sweden branch, the legislation in the respective country is a crucial aspect of the decision making, whether to enter the market or not. The regulations in Sweden allow the company that is not a bank to start consumer lending. In other countries consumer lending for other than banks is not allowed. It is good that Sweden has now introduced much tougher regulations for this type of consumer lending. Before, when there were almost no regulations, the business was populated by less-considerate businessmen trying to gain fast profit on the expense of long term development, by giving this business an extreme bad will. Now, the new regulations requiring better scoring of the customers etc associated with higher administrative

costs and giving the Regulator more power, has cleaned the market from this type of fast profit seekers and let the more serious market players to gain the better image and to show that their services are consumer friendly and here to stay.

Taking into consideration ethical aspects of certain industry, Mr. Rozvadovskis described short term loans as a way to provide support to people who need to get money in order to cover their regular needs. There are situations when people need to get money urgently and as soon as possible. If customer goes to the Bank, he won't be able to get funds in such a short period of time like 10 minutes or even less. Via SMS group offers application processing and decision making processes that take an average time of 10 minutes. Loan application procedure is fully automated in some subsidiaries and usually it takes just few seconds to process the main part of loan application. Airisa again highlighted the reasons for the bad will of particular business which she has mentioned earlier. By putting in place better legislation and regulations, the market can get rid of the companies that are gaining large profits in very unethical ways. Such companies that give credit to anybody without any credit scoring and adequate age limit should be banned from the market. There are companies that profit of the fact that not all the customers are smart enough to read and understand the terms of the different service providers and not able to choose the one with the best terms. There are companies that make their profit by misleading the customer – they are charging the application fee even if the customers loan does not get approved, and charging the customer for all kind of different features – sms texts, customer service by phone, credit scoring as well as debt recovery fees. According to general manager this service is here to stay, since the demand is great. If this business not be regulated, there always will be companies that generate bad will to this business.

4.5 The industry competitiveness

Taking into consideration the competitiveness of the particular industry, Mr. Rozvadovskis presented an example which shows that according to statistics; 1/3 of the population of Latvia at least once took a short term credit and more than half of those people did it more than once. Hence the demand in the market can be considered as very high and actually the number of

competitors who offer same services are also . Via SMS Group is an international company, which has 7 subsidiaries in Eurozone at the moment. According to the interviewer, top management always takes into account the big amount of competitors in each local market, thus in order to take a niche in the market, the firm must offer competitive products to its clients, deliver high level customer service as well as obtain an excellent marketing strategy.

Our interviewer from Sweden thinks that the short term credits industry has appeared because there was a gap in between what was available on the market (the financial products offered by the banks), and the real life situations that generated demand for other type of financial products. The banks have not been able to change their old-fashioned thinking, which has been based on life situation that were “legio” many decades ago. The banks had not been able to adapt and realize that people’s lives do not look the same as they were 20 years ago. We can say that willingness to buy things on credit and availability of credits stimulates the economy. Airisa believes that the short term credit industry is the most flexible form of credits compared to similar products offered by the banks and other financial companies, as well as large store companies that offer the consumer to buy their product by issuing credit to them. As an example she mentioned the stores that have their own financing, such as IKEA (by owning their own bank) are more competitive compared to banks that issue consumer credits. According to General Manager it is much easier to implement new solutions comparing to banks and large credit institutions, since there are less regulations, the technical systems are much simpler and easier to develop compared to very complex banking solutions.

Dmitrijs explained us why the company outsources some responsibilities to the local companies when it establishes a new start up in another country. It is actually because the firm does not possess a required technology and knowledge in order to implement all necessary operations. As an example the interviewer talked about solving juridical issues which the firm usually outsources to the local companies. Therefore the company strives to avoid slow business development and profit loss in the future. Our second interviewer stated that in case of Sweden the group used local Swedish people to gain the first insight of the country, combined with their own knowledge of the country. As the Swedish market was not unaccustomed to short term loan services, it was easier to foresee the results and the Group did not need to do so much research.

4.6 Choosing an entry mode

Mr. Rozvadovskis told us that the firm establishes a completely new subsidiary when it is entering another market in different countries. The subsidiary is wholly controlled by the parent company or in this case by Via SMS group. The reason why such entry mode has been used is that the company would like to retain a full control and ownership of its technology, particularly IT platform. Additionally in some countries for instance in Latvia, the government requires purchasing a license in order to operate in the industry of short term loans. Therefore, besides opening the new subsidiary, the company also has to obtain a specific license from the government institutions sometimes. Airisa also stated that the form of entry mode which was established in Sweden is wholly owned subsidiary.

Obviously, that the particular entry mode has its advantages and disadvantages from practical point of view. Thus our next question contended the reveal of few good and bad things. The main benefit according to CIO of the company is that this entry mode allows to retain the greatest amount of control from the parent company. Moreover the firm can expect higher returns of capital by using particular entry mode. On the contrary, in terms of establishing a new subsidiary in another country, Via SMS group investing much more resources and funds, than by using other entry modes. Definitely there are certain risks in terms of full ownership and the company's executives are aware of the consequences.

According to the interviewer the company uses the same entry mode in every different country, but in some countries the government regulations require the company to buy the license in order to operate in such markets.

4.7 Staffing policy for new subsidiaries

When the company establishes its subsidiaries abroad it usually uses polycentric staffing policy. Via SMS group hires local professionals who have certain knowledge in banking and financing industry. Mr. Rozvadovskis explained us that the host country specialists understand local customer needs better and so could plan marketing/business strategy more successfully. Apparently this is mainly because those specialists do know more about local people cultural and behavioral features. Regarding Sweden branch, the staffing policy was to start with just a few

employees and all of the administrative was provided from the head office. According to Airisa this allowed the branch to first evaluate the situation and to estimate the number of employees necessary. Too much staff at the beginning makes the company less flexible and results in high staffing costs at the initial phase when the company still has no profits. Currently all of the employees are hired locally and employed full time, but the company also considered to “rent” staff from staffing services providers in order to be more flexible. In addition she also mentioned that the employees the branch has hired are not narrowly specialized to just one task. They know all the aspects of the service and can fill in for others at any moment. They are the core of the company and can educate the new employees, and to advance to other tasks. To advance within the company requires that the employee understands all the aspects of the business. Only by knowing and understanding all the aspects of the business, they can do a good job within their own task area. By providing its employees with good working conditions the branch gains competitive advantage comparing to other companies in the industry that use many part time employees with unsecure employment contracts such as rented from staffing companies (inhyrd arbetskraft), employed by hour (visstidsanställning, behovsanställning), and others. The competitive advantage consists of loyal employees that feel the responsibility towards the company and its services in a long term perspective. Loyal employees are motivated to give better service and to work with much hunger degree of responsibility for their actions. They are interested in company’s long term sustainability.

4.8 Summary of the chapter

The chapter described the process of internationalization, the industry competitiveness, foreign market entry mode selection as well as staffing approach from perspective of two top managers in the financial service industry. The main findings reflect the reasons of why the case company internationalizes its operations and what entry mode Via SMS Group uses in terms of entering another market. Taking into consideration the findings above and theoretical framework that is developed in the previous chapter, our next part analyzes and discusses the processes concerning the process of internationalization, screening processes for potential market, entry mode selection as well as staffing policy.

5. Analysis

In this chapter the empirical findings are taken into consideration and discussed with the theoretical part in order to reveal the similarities and/or differences. At the beginning, the findings about the process of internationalization are described and compared with theoretical background. Further the screening techniques for potential markets are discussed. The foreign market entry mode choice and the way of staffing its subsidiaries from company's perspective are both presented and analyzed.

5.1 The process of internationalization

Undoubtedly the fast globalization of business in the last few decades has prompted a growing number of firms to develop strategies in terms of internationalizing its operations and select appropriate entry modes so that to enter and expand into new markets outside their home locations. The recent trend seems to be highly identifiable in the business world. Our respondents consider globalization as inevitable process which is helpful in many aspects for different countries. Both persons depicted the process from the optimistic side and provided us with exemplifying certain benefits of the process. However one of our interviewers mentioned that, although in the long-term the effects of the process should always be positive; there are certain negative consequences such as unavailability to manage risks in more globalized economies. This point of view corresponds with the theory, which describes globalization as neither good nor bad trend. According to the theory, the authors: Appelbaum, Roy and Gilliland (2011) have mentioned about those risks when they talked about globalization as the mainstream for many industries; and with it come the difficulties associated with social, political, environmental and cultural consequences. On the contrary, the process of globalization has many benefits in terms of increasing firm's competitiveness and opening new markets for the companies.

Both our interviewers agree that the company can be more innovative and get additional knowledge and experience from its international operations. In addition CIO of the company spoke about positive aspects of internationalization of the firm's operations: such as the increase of its client's base and getting additional profits from particular operation and it could be backed

up with the theory as one of the occurrences why do companies internationalize, is for internally-driven factors, such as to improve the firm's profitability (Geringer *et al.* 1989). However the representative of the head office mentioned about difficulties regarding the internationalization of the firm's operations and the main concerns were related to the processes of controlling and managing international subsidiaries. Considering a relationship between internationalization and performance, Lu and Beamish (2004) were able to reveal some negative aspects related to increased costs and risks of internationalization, which are based on three sets of factors: liability of foreignness, newness, and increased coordination costs. Moreover Airisa talked about another risk such as not understanding a new market and perceive that foreign market is the same as home's market. Unquestionably this can be considered as a lack of knowledge about the differences among national cultures. The required actions, in order to recognize that cultures are different, should include understandings and realizations about what can be considered as usual and acceptable for one culture can be judged and interpreted vice versa in another.

The theory reveals dissimilarities between immature companies and mature ones in terms of ability to finance its new subsidiaries abroad. For instance, Lumpkin and Dess (1996) mentioned that young firms are more likely to exhibit an entrepreneurial orientation to internationalization, which results in a higher risk-taking proclivity, greater propensity to innovate, and a more proactive stance. In addition some authors indicated that these types of ventures have very limited reserves, which makes them extremely vulnerable if organizational mistakes are made. Both interviewers have not talked about any problems regarding financing its new subsidiaries in any new market. However Airisa agrees that there is hardly any company that has never experienced a shortage of resources, but actually there are ways to deal with funding problems such as external funding, risk capital, etc. On the contrary Dmitrijs said that the company's investors believe in future achievements of the firm in terms of going abroad and internationalizing its operations; respectively Via SMS Group has never had any funding shortages while entering new markets.

5.2 Preliminary screening processes.

According to our interviewers the company considers limited number of countries in order to open new branches. The main aspects in terms of choosing a new market are safeness for business development and considerably low risk level comparing to other countries. At the first step of screening process, it seems like Via SMS Group is using certain indicators and from theoretical perspective could be described as macro level indicators, which are used to eradicate countries that do not meet the firm's main objectives (Kumar et al., 1994). Root (1994) mentioned that preliminary assessment or screening stage identifies potential markets as candidates for subsequent thorough analysis. According to the general manager of the branch in Sweden, the main aspects which should be evaluated are: whether the legislation allows this kind of financial service and if there is a required infrastructure in place to provide the service. This screening approach can be referred to step number two and partly to step number three of the screening process when the company assesses the national business environment and infrastructure. The decision making process is based on in-depth study of potential market and on analysis of currently operating rivals in the particular market. Certain analysis includes assessing financial performances for a previous period of time as well as viewing its business products and etc. Finally the last step according to theory implies selecting a market or site and includes competitor's analysis. Part of this analysis can also be related to the step number three of screening process for potential markets and sites which is described in the theoretical part of the study. The CIO of the company mentioned that the decision making process is based on in-depth study of potential market and on analysis of currently operating rivals in the particular market.

5.3 Foreign market entry mode selection

Studies had shown that selecting a market to enter must be done based on the companies strength, availability of resources and also considering government fundamental principle or law that governs business environments and activities, Johanson (1977). Whichever types of entry mode a company choose either ;exporting, franchising, joint venture or wholly owned subsidiary, it is still required that the company have a sufficient knowledge and experience about the foreign country and have enough or more than enough resources ready Root (1994). Airisa 'the manager

in Sweden' supported this by telling how the firm's operations become successful in Sweden and explained that Sweden as a market has been exposed to this kind of short term loan services, coupled with the fact that there is availability of internet to individuals in Sweden which gives Via SMS Group the confidence that the market is already ripe to reach, and based on the availability of the resources that the firm has, the IT platform technology, the firm's knowledge from their operations in the countries within the Eurozone, individual bank accounts that it is possible to make electronic payments in a fast way and also the fact that Sweden is a country in the Eurozone.

Based on the aforementioned information, it could be argued that Via SMS Group perceives low degree of psychic distance because the firm has sufficient information and knowledge about the countries within the Eurozone which resulted in low degree of uncertainty of undertaking overseas business and also reduce the costs of coordination (Johanson and Vahlne, 1977). Davidson (1983) argues that in terms of entering new markets, having an experience of producing in a market could positively influence a firm's preference for wholly owned subsidiaries. Mr. Rozvadovskis response confirmed that the firm establishes wholly owned subsidiary when entering a new market and this is because the firm wants to have full control of its IT platform. Although, there are pros and cons of using this entry mode as it has been argued by researchers that experience of production in a market influences a firm to choose wholly owned subsidiary when internationalized, Davidson (1983) and Agarwal and Ramaswami, (1992) argued that choosing wholly owned subsidiary when internationalize brings high risk and possibility of high returns and by choosing wholly owned subsidiary as an entry mode, the firm is involved in the development of a foreign market by directly investing in that market. Whichever the case, Mr. Rozvadovskis confirmed to Davidson (1983) statement somehow that experience that the firm has from the Eurozone market help the firm to realise that entering new market with wholly owned subsidiary will help the firm to have full control of its services especially the IT platform. And also Mr. Rozvadovskis to Agarwal and Ramaswami, (1992) by mentioning that globalization process can help many countries' economics in various aspects.

5.4 Staffing approach.

Taking into consideration the process of staffing foreign subsidiaries with competent personnel, we are able to see that it is relevant issue for the companies in order to develop and sustain competitive advantage in foreign markets. According to Belderbos and Heijljes (2005) the staffing composition of foreign subsidiaries is one of the most critical strategic decisions for the organizations, in which they decide the optimal composition of parent country nationals and host country nationals. Another author Collings (2007) mentioned that companies usually have a dilemma, since organizations first internationalize their operations, of who is the best candidate for managing these operations – expatriates, locals or, more recently, local-hired foreign managers. It seems that the research company already passed the process of making this grave decision. With regards to our respondents, we found out that Via SMS Group uses polycentric staffing policy which implies hiring personnel locally in the host country. One of the advantages of such policy according to the theory is that managers from the host country intimately are more familiar with the local business environment. Our interviewers supported this statement and explained us why do they have chosen the particular approach. First, the host country specialists understand local customer's needs better than expatriates from the home countries. Therefore they can implement marketing or business strategies more efficiently. Second, our interviewers both agree that host country employees do know more about local people' cultural and behavioral features which are crucial in terms of being successful in this particular industry.

In this chapter we analyzed findings about the process of internationalization, preliminary screening techniques for potential markets, foreign market entry mode selection and staffing policies. In terms of investigating these issues, we compared them with the theoretical framework that was developed in chapter 2. In order to conclude the present research we have to provide the answers to our research questions as well as to present limitations of the study in our next chapter.

6. Conclusion.

This chapter presents, observes and discusses the answers to research questions that are originated in the first chapter of the paper. Implications of the study and suggestions for further research are provided.

6.1 Conclusions

The research is aimed to investigate the reasons for the companies, operating in service industry, to internationalize its operations as well as to explore which entry mode does the service company uses in terms of entering another market. In order to accomplish the study we examined such attributes of marketing and organizational strategy as a process of going abroad, preliminary screening techniques for potential markets, entry mode selection and staffing approaches. Thus, by summarizing the results of the research, answers to the research questions are provided.

1) Why do the service companies internationalize their operations?

It is obvious that when the company enters a new market, it should not be perceived the same as home's market. It is important to understand that there are significant differences among various countries. Thus it is crucial to keep this in mind before considering potential markets in order to internationalize its operations and succeed globally. Additionally prior to entering another market, the company needs to check for necessary infrastructure existence in order to be able to operate in certain country. The process of going abroad entails the companies to develop required strategies to succeed in foreign markets and to achieve company's goals and objectives. In this case, goals and objectives can be considered as near-term measures of company's specific performance. Taking into consideration the case company, we revealed that Via SMS Group had certain objectives to go abroad: to increase the number of clients, to improve customer loyalty and to get additional profit.

- 2) What type of foreign market entry mode the service company selects when it enters another country?

Obviously, the entry mode selection processes in service firms entail an increasing interest among many researchers. Taking into consideration the entry mode, which Via SMS Group has selected in terms of entering other markets, we have revealed that the company's executives decided to use wholly owned subsidiaries. Moreover according to our respondents, we revealed that the members of the board do not consider other ways of entering foreign markets. Apparently the choice of entry mode depends on what level of control the head company wants to have on its subsidiaries. The case company uses the specific entry mode because it wants to have a full control on its intellectual and technical property, particularly on IT platform. The company uses the polycentric staffing policy in terms of recruiting specialists to work in its new subsidiaries abroad. One of the main advantages of hiring local people is that the specialists from the host country know more about local customer needs than the managers from the home country. Without a doubt, the way of staffing its subsidiaries abroad plays a crucial role for the company in terms of developing and sustaining competitive advantage in other markets.

While writing this study, we have improved our knowledge about the foreign market selection and entry mode choice, which still can be considered as limited. In order to answer the research questions, we have gathered data from various literature sources related to the international marketing, internationalization and entry mode selection processes. In addition, we have interviewed two top managers from Via SMS Group Company, which is operating in service industry and has been increasing its presence in the Euro zone recently.

6.2 Critical reflection

In this part, along with presenting the conclusions, the drawbacks and restraints of our research are described. The study was centered on revealing the reasons for going abroad and selecting an entry mode for entering different markets from service company perspective. However it does not reflect the whole industry since only one company was investigated. Moreover the case company specializes in providing short-term loans to its clients and it is associated with financial

service industry. Actually this might be the major limitation of the study in view of the fact that it does not cover the whole industry.

Only two persons were interviewed in order to gather the necessary data and it can be assumed that the findings would be dissimilar with increasing number of respondents from other service companies. In the process of interview with our first respondent, who works in the head office of the company in Riga, one of us was personally interviewing and the other was on conversation call on Skype at that moment. Definitely the personal presence in the interview could help to increase the quality of data and clarify an unclear moments.

6.3 Implications and suggestions for further research.

The present study has theoretical and practical implications. Concerning theoretical background of the process of internationalization and entry modes selection we revealed that there is a lack of researches about service industry. We would like to highlight that there is a limited number of researches on service companies in terms of investigating particular issues. The majority of the researches regarding foreign market entry modes selection and internationalization process are related to the manufacturing industry. However it is crucial to understand that the process of internationalization and selection of entry modes from a manufacturing perspective cannot be directly implemented to the service sector. Therefore we believe that our study can make a contribution to this flow of research regarding the service industry.

The main practical implication of this research is not to measure potential outcomes of the process of entering different markets and choosing appropriate entry mode. The work helps the companies, working in the finance service industry, to understand how those companies should behave in order to internationalize its operations and select appropriate entry modes. This study can be perceived as additional study in order to fulfill the research gap about the process of internationalization and entry mode selection from service company perspective.

The companies tend to internationalize their operations and open new subsidiaries in other countries; thereby the competitiveness in the industry is increasing. This process has a favorable effect on the society, as the companies have to value the consumers and offer better conditions

for their services in order to sustain on the market. Another social implication is that people who were not familiar with the short-term lending provided by financial organizations, described in this study, will get a better picture of such service offerings after reading the paper.

The process of internationalization and foreign market entry mode selection needs to be investigated more and deeper. Apparently other service companies might consider these processes in a different way. Therefore one of the suggestions for further research is to explore other companies that are working in the service industry. Although we have mentioned above about not measuring the outcomes of choosing an entry mode, in order to be able to investigate how these choices affect the business, those results should be researched as well.

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Appendices

Appendix 1. Questions for the interview with Via SMS group representatives.

- 1) What is your opinion about globalization itself? Do you think it is a good or bad trend in our days?
- 2) Do you consider the industry of short term credits as a high competitive or not?
- 3) Could you please provide few reasons why the company decided to internationalize its operations?
- 4) The process of going beyond the borders can have positive as well as negative aspects, sometimes associated with risks. Please name few of each.
- 5) Do you have a feeling of shortage of resources/funds when the company is entering another market?
- 6) Based on what aspects the firm is making decision about entering any particular market?
- 7) Which method or screening processes do you use in order to determine an appropriate country to open a subsidiary?
- 8) Are you outsourcing any responsibility to the local companies in terms of making preliminary research?
- 9) What type of entry mode do you use when you are entering foreign market?
- 10) Why do you use this entry mode; advantages and disadvantages?
- 11) Which staffing policy the company uses when it opens a new subsidiary abroad?
- 12) What are the advantages of particular staffing approach concerning the industry?
- 13) How has the Government regulations been favouring or affecting when it comes to entering different markets.
- 14) In general when you think about business ethics, how ethical could you describe this short time loan business?
- 15) Do you use same entry mode in every different markets?

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