Resource commitment to foreign markets

Within mode changes and mode additions

Petersen, Bent; Welch, Lawrence S.; Nielsen, Kim V.

Resource Commitment to Foreign Markets: Within Mode Changes and Mode Additions

Bent Petersen
Lawrence S. Welch
Kim V. Nielsen

Address for correspondence:
Bent Petersen:
Copenhagen Business School
Department of International Economics and Management
Nansensgade 19
DK–1366 Copenhagen K
Denmark
tel. + 45 38152510
fax + 45 38152500
email: bp.int@cbs.dk

Bent Petersen is Associate Professor of International Business at Copenhagen Business School, Denmark

Lawrence S. Welch is Professor of International Marketing at the Norwegian School of Management (BI) in Oslo and Adjunct Professor, University of Western Sydney-Nepean, Australia.

Kim V. Nielsen is business consultant at PA Consulting, Copenhagen Office, Denmark.

Resource Commitment to Foreign Markets: Within Mode Changes and Mode Additions

Abstract

A key element of the internationalization process theory of the firm is the incremental accumulation of knowledge and skills regarding foreign markets and international operations in general. However, studies of internationalization patterns have tended to focus on foreign operation mode (or, entry mode) use, which is a relatively broad, even crude, indicator of the change process. In this paper we argue that, in order to more adequately depict and analyze the change process inherent in internationalization, there is a need to consider both within mode changes and mode additions. A study of the establishment pattern of Danish companies in South East Asia is used to illustrate a broader concept of foreign operation mode development which is perhaps closer to the original concept of incrementalism underlying some of the early studies of the internationalization process.

Key Words:

Internationalization process, within mode changes, mode additions.

Resource Commitment to Foreign Markets: Within Mode Changes and Mode Additions

Introduction

In the development of theories explaining internationalization by companies one important approach has been the so-called internationalization process theory, initially associated with the work of Nordic researchers (Johanson and Vahlne, 1977; Luostarinen, 1979). Their early empirical research indicated that companies developed their international operations in a relatively evolutionary, sequential way. The pattern that this research revealed was one of movement from low to high commitment methods of foreign market operations over time. For example, for Swedish manufacturing companies, the general pattern of foreign operation mode development (referred to as the 'establishment chain') that emerged from the research was: (1) no regular exporting; (2) start of exporting via the use of a foreign agent; (3) a sales subsidiary, and (4) eventually, for some companies, establishment of a foreign production subsidiary. Similarly, there tended to be a movement from initial operations in culturally close countries to later operations in culturally more distant markets.

This seemingly simplistic result was the basis of theorizing around the forces driving the internationalization of the firm, with particular emphasis on the learning process as foreign operations evolved (Buckley and Ghauri, 1999). While there have been a variety of challenges to the basic model, and a number of extensions, for example, through the incorporation of network processes and influences, the model still stands as an important reference point in empirical and theoretical work on internationalization (Johanson and Vahlne, 1990; Björkman and Forsgren, 1997; Buckley and Ghauri, 1999). It is rather surprising, therefore, to find that the basis of analysis in most internationalization studies, as in earlier approaches, is still a rather crude representation of foreign operation mode development. The problem is that explanations of internationalization have become increasingly sophisticated, but this has not been matched by greater sophistication in empirical analyses of operation modes in longitudinal pattern studies, to the extent that it is difficult to argue very much at all on the basis of the empirical data. One might even say that it is difficult to know what the true pattern of internationalization for companies is. This is because the recorded patterns in terms of establishment chains have only included very broad operation mode categories, which have thereby limited the ability to capture the true nature and extent of companies' international development process.

In this paper, therefore, we develop the basis for a more in-depth treatment of what internationalization, as represented by foreign operation mode development, actually entails. We do this by building a framework for analyzing *within mode changes*, for it is at this level that the more intricate process changes might be expected to have effect. Furthermore, we consider the role of *mode additions* to existing mode use, which have been almost completely ignored in internationalization pattern studies, but clearly have the potential to change the whole way a company moves through its international establishment chain. After a literature overview an empirical investigation of Danish companies' recent establishment patterns in the ASEAN countries is used to illustrate the potential importance of mode additions.

What is Meant by 'Within Mode Changes'?

By within mode changes we refer to an entrant firm's increasing resource commitment[1] to a specific foreign market that takes place without a change of operation mode. Thus, the foreign operation mode remains the same in terms of *what* business function is carried out (manufacturing, marketing, R&D, management, etc.), by *whom* it is carried out (the entrant firm itself, an independent operator, or both in collaboration), and *where* it is carried out (in the home country or in the foreign country). In the definition a distinction is made between (broad) *business functions* and *activities* (see also Porter, 1985:36). Hence, 'marketing' is a business function that comprises various activities such as market analyses, sales calls, sales force training, after sales service, product modification, and so forth.

As an example of within mode changes an entrant firm may increase the *scale* of the existing activities in one of its production subsidiaries through plant extension and hiring of more workers. Or, an entrant firm may increase the *scope* of activities of its sales subsidiary by establishing local product modification facilities in addition to the existing local service/repair workshop. The new product modification workshop represents a resource commitment that facilitates a subsequent establishment of a full-scale local production plant (production subsidiary).

The two examples concern within mode changes of in-house activities of the entrant firm. However, within mode changes may also occur in relation to contractual arrangements. Quite often the contract with the local sales agents obliges the exporting firms to co-finance those marketing assets which have a high degree of asset specificity. For example, the exporter incurs partly or fully the costs of translating manuals and promotional material, costs of organizing sales pitches in trade fairs, or costs of training and educating the local sales staff. The exporter may even agree to co-finance individuals in the sales force of the foreign representative under the condition that the individuals pay special attention to the lines of the exporter (Petersen, 1996). Thus, the appointment of a product manager of the exporter's product line may represent an important within mode change.

[1] Resource commitment refers to the level of dedicated assets – physical or human – that cannot be transferred from one country to another without loss of economic value (Vernon, 1979, Randoey, 1997). As an example, an exporting firm may adapt its products to the specific needs of the customers or authorities in the importing country. The product adaptation represents a dedicated (country-specific) asset in as much as it generates additional sales revenue in one specific foreign country, but does not fit the demand requirements of other foreign countries.

Table 1 Different appearances of Within Mode Change

Type of 'Within Mode Change'	Example
Scaling up in-house activities	Production subsidiary enlarges its plant capacity
Broadening the scope of in-house activities	Sales subsidiary extends with product modification workshop
More support of contractual partner activity	Entrant firm agrees to co-finance product manager in local sales agency
Acquisition of local market knowledge	Entrant firm learns about local customers through frequent visits to sales agent

Among the various within mode changes particular attention has been paid to the learning activities of the entrant firm. The acquisition of knowledge about how to do business in the foreign market is an investment in human assets which is irreversible and, indeed, very country-specific. In international joint ventures the entrant firm is usually exchanging its process or production know how for knowledge possessed by the partner about the local business environment including valuable knowledge about network relations. Network development involves the establishment of contacts and connections with persons and institutions of relevance to the foreign operation (Håkansson and Snehota, 1995). Thus in the course of the joint venture the resource commitment of the entrant firm increases in terms of irreversible learning costs. The acquisition of knowledge through the joint venture is an investment that pays back if or when the entrant firm switches to a single venture (wholly owned subsidiary). Similarly, an exporting firm may learn about the local business conditions through frequent visits to its local intermediary and close collaboration in general. By 'tapping' knowledge from the intermediary the entrant firm eases the establishment of direct sales channels to the end-users.

Table 1 sums up the different appearances of within mode changes and includes examples of the four basic types.

What is meant by 'Mode Addition'?

By *mode addition* we refer to the situation where the entrant firm introduces a foreign operation mode in addition to an existing one. The addition is made not just in terms of activities (as is the case for *within mode changes*), but includes (1) new, broad business functions, *or* (2) new control/ownership arrangements, *or* (3) new location. Some examples will explain the three different appearances of mode addition:

Firstly, mode addition occurs when an entrant firm adds a new broad business function to the existing. For instance, a firm has licensed out its production know how to a foreign operator, but is spotting opportunities for additional sales to the licensee in the form of related marketing know how and licenses to trade marks. As a result, the entrant firm and the local operator (the licensee) agree to enter a franchise contract as well. So, the entrant firm is hereafter employing two foreign market operation modes simultaneously, namely licensing and franchising.

Now imagine an entrant firm that on the basis of a franchise contract has left over all marketing operations to a local operator (a licensee). After a while the licensor realizes that some marketing responsibilities are under-performed in the foreign market. As a consequence, the licensor insists on assuming responsibility for the under-performed marketing activities via a local sales subsidiary. As done, the entrant firm (the licensor) introduces ownership control in addition to contractual control to its organizational set-up in the foreign market, thereby practicing mode addition (licensing + sales subsidiary). As one distinguishes between different export modes (see Table A in Appendix) other similar examples of mode addition emerge. Export via independent intermediaries may be supplemented by export through own sales channels (home-based sales force or locally based sales subsidiary) as a result of vertical or horizontal division of marketing responsibilities (Williamson, 1992).

Table 2 Different appearances of Mode Addition

Type of 'Within Mode Change'	Example
Adding new business function	Foreign licensee enters franchising contract with licensor
Adding new ownership	The entrant firm assume responsibility of some licensee activities
Adding new location	Assembly production in target country is added to existing export

Thirdly, the entrant firm may practice mode addition by adding a new location to the existing. Think of an exporting firm establishing its own production in the target country in addition to its existing domestic production. By doing this the entrant firm combines effectively two modes of operation: exporting and local production. Presumably, this form of mode addition precedes a lot of manufacturing subsidiaries or may even constitute a permanent arrangement. By definition any assembly plant operation in a foreign country will involve export as well, but sourcing from the home country is common among full-fledge production subsidiaries as well (Moxon, 1982).

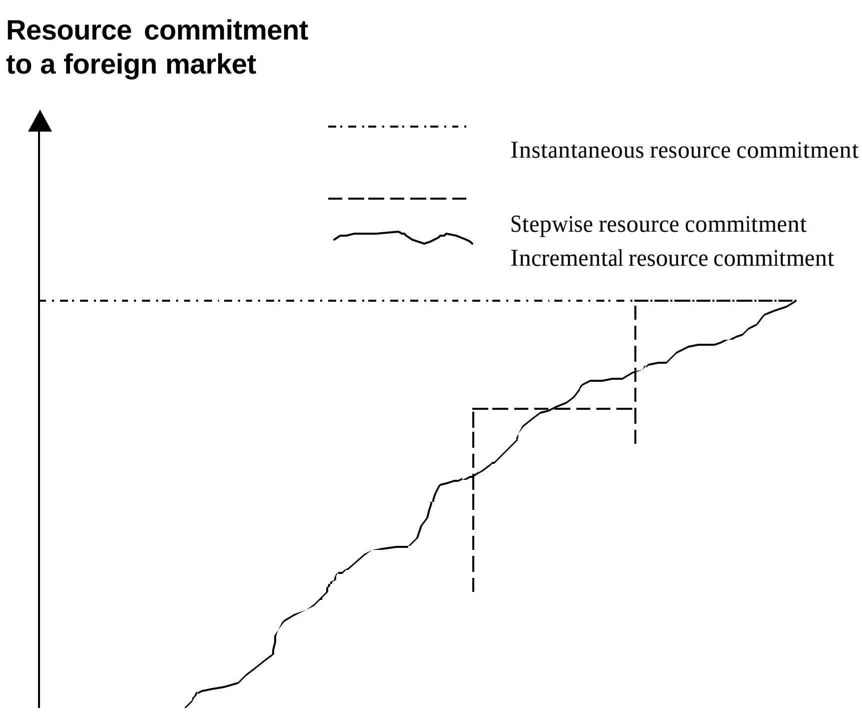
Table 2 sums up the different appearances of mode additions and indicates examples of the three basic types.

Literature Review

Internationalization process theory suggests that the incremental resource commitment (and market expansion) pattern evident in a number of empirical studies is driven by the accumulation of knowledge about foreign markets through experiential learning. Experiential learning, it is argued, allied with network development, which is a prerequisite for much of the information flow and knowledge development is a time-consuming process, thus contributing to the evolutionary pattern of internationalization. Furthermore, given the risk-averse character of decision-makers, and a certain tolerable risk level, resource commitment to a foreign market can only take place with successive reductions of perceived market risk and uncertainty.

Internationalization process theory has been the subject of considerable criticism (for an overview, see Petersen and Pedersen, 1997), particularly when studies have shown numerous examples where sequential, incremental development was not found to apply. Especially in the advanced stages of internationalization, when companies have widespread foreign establishments, they frequently undertake *instantaneous* high resource commitments in new foreign markets without preceding, low commitment operation modes, in other words, leapfrogging directly to high commitment foreign operations modes in some foreign markets. Likewise, recent research has shown the existence of the so-called 'born global' phenomenon, whereby some small firms move from no international involvement to global operations in a short period of time (Knight and Cavusgil, 1996; Madsen and Servais, 1997). Such findings challenge the internationalization process model at both the operational and theoretical levels. If firms, as a general rule, establish high commitment operation modes, such as production subsidiaries, without preceding knowledge-accumulating operation modes, other driving factors than experiential learning must have come into play (Hirsch and Meshulach, 1991). This is evident, of course, when foreign production units are established to gain access to cheap labor, raw materials, and the like.

Clearly, though, so much of the argument turns on the observed pattern of a company's operation mode development and how incrementalism is defined. As noted above, the traditional focus has been on singular, discrete steps, i.e. from one distinct operation mode, and level of resource commitment, with specific organizational and institutional arrangements, to another. This became known as 'stages theory', and was viewed by some researchers, as implying a relatively fixed sequence of stages (Johanson and Wiedersheim-Paul, 1975). However, we argue, in this paper, that this approach, and the establishment chain concept as applied, may well reflect an incremental internationalization process, but it can only do this *partially*. This is because of the broader and deeper array of steps that a company often undertakes which are typically not counted as operation mode change. These can be significant contributors to incremental development – including the addition of another operation mode in support of the existing format. This is illustrated in Figure 1, which depicts three different, broad patterns of firms' resource commitment to foreign markets: instantaneous, stepwise (often referred to as the 'stages model'), and incremental.



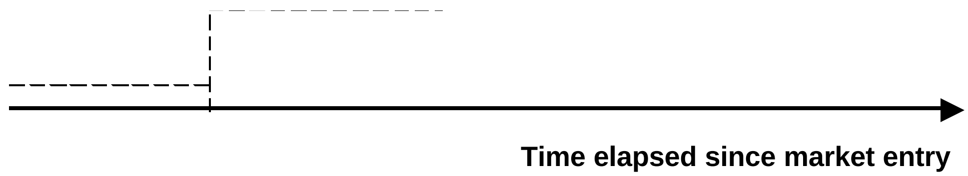


Figure 1 Three patterns of firms' resource commitment to foreign markets

The need to disaggregate the 'stages' or 'sequences' of resource commitment in internationalization in order to elucidate the change process taking place has been stressed by some researchers. For example, Bonaccorsi and Dalli (1992) criticize 'stages' theory as being too mechanistic inasmuch as it is effectively assumed that situations between the stages are stable and free of changes and therefore important intra-stage evolution is ignored. Thus, in their study of the internationalization of Italian firms Bonaccorsi and Dalli (1992) observe that the categories of agent and sales subsidiary are relatively broad, masking a wide range of feasible variation in types of operation within them. Reflecting on their study of the dichotomy between sales subsidiaries and outside agents Grønhaug and Kvitastein (1993) acknowledge that firms' choice of entry strategy counts, but changes are frequent, which calls for a more refined perspective on institutional arrangements to handle foreign business.

In a case study of the export channel development of a UK firm in the People's Republic of China, Easton and Li (1993) take a more micro look into the export stages. They focus on the changes that occur *within* rather than *between* modes of export: '… at a lower or more disaggregated level than much of the research that has been carried out into exporting.' (p.2). They develop a network framework for analyzing some of these micro intra-stage changes, providing an indication of the possibilities for a new approach to the analysis of internationalization patterns.

Benito and Welch (1994) in their review of past entry mode research also point out the deficiencies of a focus on major operation mode steps and argue for more subtle analysis of the steps:

> 'What is probably required is not just charting of the main steps in the process, but the measurement of smaller steps in between, such as the appointment of additional staff, which may be less apparent but nevertheless important in advancing the process, and in understanding more substantial and obvious changes in foreign market servicing' (p. 16).

In the same review article Benito and Welch note that foreign market servicing 'packages' may occur as a result of a firm adding new operation modes to the initial/entry mode in a foreign country. However, it is difficult to establish from the existing literature how frequently firms use mode addition in their internationalization processes. Incidences of mode addition are chiefly reported from case studies (for an overview see Petersen and Welch, 1999), but to our knowledge only one survey study of internationalization has reported registration of mode addition behavior, namely the study by Clark, Pugh and Mallory (1997) based on retrospective observations of foreign operation modes of 25 UK firms. Other authors have reported observations of firms operating more than one mode in foreign markets (for an overview see Petersen and Welch, 1999), but being static, snapshot surveys verification of mode *addition* is problematic. Nevertheless, in his snap-shot study of the internationalization of French exporting firms Valla (1986) describes the observed mode combinations ('mixed approaches') as mode addition, and concludes that:

> '... instead of changing the organisational arrangement to another one (as suggested by the available literature), the firms preferred to complement the existing organisational structure by additional marketing channels of distribution. This finding independently supports the idea of incremental decision processes as an important characteristic of the firms' internationalization process, but not the sequential organisational stages theory' (p. 34).

Whereas we can conclude that no survey studies on firms' internationalization have reported mode addition behavior – with the important exception of Clark, Pugh and Mallory (1997) – it is somewhat more complicated to settle the extent to which there exist internationalization studies reporting within-mode-changes. To some degree any disaggregation of the conventional major operation mode steps captures within-mode-changes. As an example, a sub-classification of production subsidiaries into (A) assembly plants and (B) full production plants (Luostarinen, 1979) is effectively a way of registering within-mode-changes over a period of time. If we consider 'export' as one major operation step a number of internationalization studies qualify as studies incorporating within-mode-changes. Thus, the seminal establishment chain study by Johanson and Wiedersheim-Paul (1975) divides 'export' into the categories of (A) 'no regular export', (B) sales agents, and (C) sales subsidiaries. On the other hand, if we see 'export' as consisting of three individual major operation modes (see Table A in Appendix) plus 'no regular export', very few survey studies of internationalization explores within-mode-changes.

Table 3 presents the main data of 13 survey studies that retrospectively report 'establishment chains' of firms in the process of internationalization. In terms of

Table 3 Survey studies on establishment chains

Author(s)	Number of entrant firms and country of origin		Number of host countries		Period of recorded mode development	Number of observations (at time of study/over time)	Number and types of operation modes studied *NX = no regular export, IX = indirect export DX = direct export, A = agent, D= distributor, L = licensing, JV = joint venture, SS = sales subsidiary, PS = production subsidiary*	
Johanson & Wiedersheim-Paul (1975)	4	Sweden	20	The world	1868-1970	89/165	**4**	NX, A, SS, PS
Luostarinen (1979)	997	Finland	n/a		- 1976	997/1432	**7**	NX,IX,DX,L,SS, assembling sub., PS
Hedlund & Kverneland (1984)	18	Sweden	1	Japan	- 1981	43/138	**4**	NX, A, SS, PS
Van Den Bulcke (1986)	41	Belgium	n/a		1970-1976	41/138	**6**	NX, DX, A, SS, L, PS
Juul & Walters (1987)	12	Norway	1	UK	-1985	12/24	**7**	NX, IX, DX, sales unit, SS, PS, service unit
Buckley et al. (1988)	43	UK	n/a		-1975	43/111	**5**	NX, DX, A, SS, PS
Millington & Bayliss (1990)	50	UK	12	EC	n/a	n/a	**6**	NX, L, DX, A, SS, PS
Bonaccorsi & Dalli (1992)	172	Italy	n/a		n/a	n/a	**8**	NX, A, DX, Italian resident intermediaries, foreign intermediaries resident in Italy, foreign D, consortia, subcontracting
Luostarinen et al. (1994)	494	Finland	n/a	The world	n/a	n/a	**7**	NX, IX, DX, L, SS, assembling sub., PS
Bell (1995)	88	SF, IRL, N	10	The world	n/a	n/a	**8**	NX, IX, A-D, X sales staff, L, JV, SS, PS
Björkman & Eklund (1996)	114	Finland	1	Germany	1981-1990	86/163	**4**	NX, X, SS, PS
Erminio & Rugman (1996)	1	USA		The world	1912-1996	73/139	**10**	NX, D/A, Upjohn rep. Office/local D., sales office/local D/local pharmaceutical firms, branch, SS, manufacturing contract with local pharm. Firm, JV in manufacturing, Wholly-owned manu. Plant with distribution capacity
Clark et al. (1997)	25	UK	n/a		n/a	679 (first move)/882	**6**	NX, X, L, SS, PS, JV

registration of within-mode-changes the 13 studies fall into three groups: The first, and largest group, consists of seven studies which have measured major operation modes exclusively. The observations of these studies are confined to 4 – 6 major operation modes – all included in the Appendix Table A (except NX = no regular export). No analysis of the individual operation mode has been carried out. This group includes the studies by Johanson and Wiedersheim-Paul (1975), Hedlund and Kverneland (1984), Van Den Bulcke (1986), Buckley et al. (1988), Millington and Bayliss (1990), Björkman and Eklund (1996) and Clark et al (1997). The second group comprises five studies (Luostarinen, 1979; Juul and Walters, 1987; Bonaccorsi and Dalli, 1992; Luostarinen et al., 1994, Bell, 1995) containing elements of within-mode- disaggregation of one or two major operation mode(s) has taken place. These studies have registered 7 or 8 operation modes. The study by Erminio and Rugman (1996) makes up the third ‘group’. The study stands out through its registration of 10 types of operation modes – a disaggregration that partially opens up the ‘black boxes’ of the major operation modes. The study is also distinctive inasmuch as the observed organizational arrangements are those of a single company (Upjohn pharmaceutical firm). In general, though, it is clear that the extant body of research on internationalization lacks the fine-grained treatment of foreign operation mode development which would seem to be a basic prerequisite for theory building.

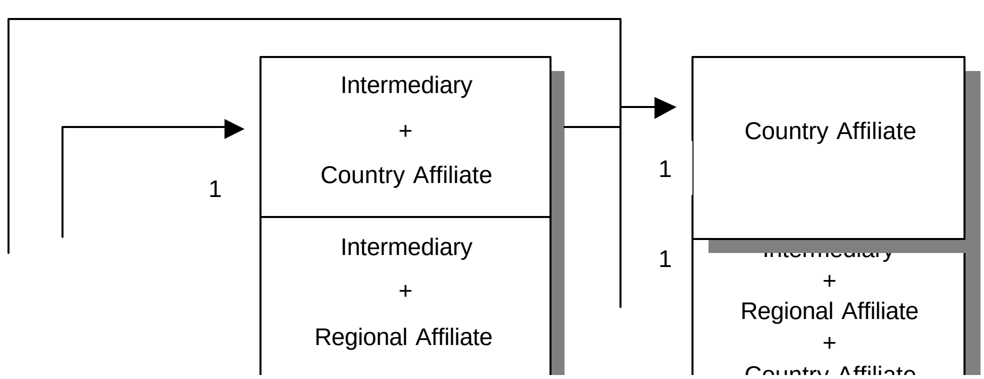
Empirical Investigation

Methodology

Establishments of affiliates in the ASEAN region (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam) by Danish manufacturing companies during the period 1994-1997 were investigated. The affiliates involved subsidiaries or representative offices. With assistance from the Danish embassies in the region a search indicated that 22 companies had established 25 subsidiaries or representative offices in ASEAN countries during the period under observation. All of these companies were contacted and 16 were prepared to participate in the study. The average annual sales of the companies participating in the study was DKK 3,830 million (in 1997 equal to approximately US $ 600 million), the average number of employees 3,336, and the average number of countries with affiliates 12. Key figures for the individual companies are included in Table B in the Appendix. Interviews were held with either area or country managers for the companies in their respective offices in one of the ASEAN countries. All of the interviewees were either the actual decision-maker or heavily involved in the decision-making process. The interviews were conducted from August through December 1997 as semi-structured interviews. In Denmark the interviewer had familiarized himself with the basic data of the exporting firms. On the basis of the interviewers hand notes or tape-records the interviews were transcribed into a detailed indications summary.

Findings

The study demonstrated that mode additions are a common outcome of the attempt by the Danish companies to increase their penetration of the ASEAN market. In an overall sense the pattern can be described as an incremental expansion path, with movement from one level of commitment to a higher level, see Figure 2.



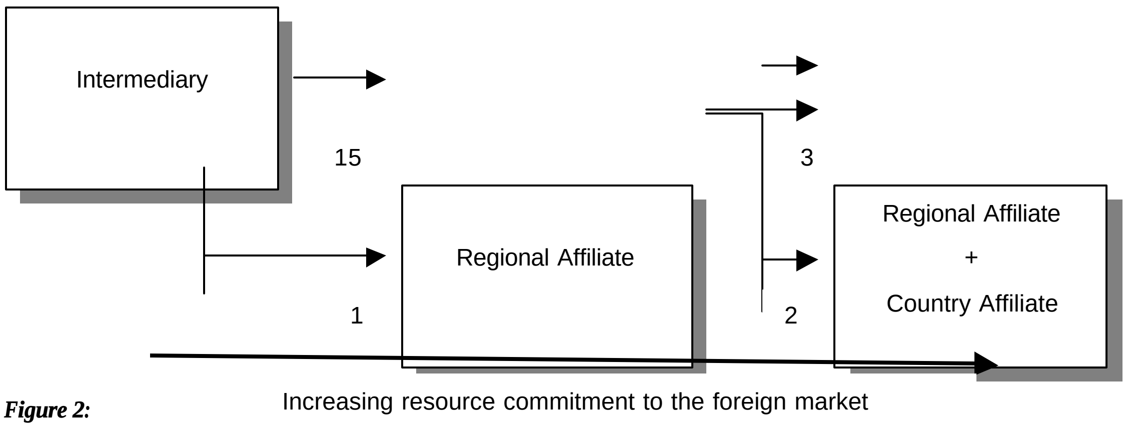


Figure 2:

None of the cases exhibited an 'instantaneous' resource commitment behaviour of establishment without preceding activity in the form of appointing a local intermediary. However, apart from one case none of the observed establishment patterns fit with the conventional, stepwise resource commitment, either (i.e. the establishment chain sequence of a local intermediary followed by a sales subsidiary). Seventeen out of eighteen recorded establishment patterns in individual markets were characterized by other than orthodox steps from one individual mode to that of another. As shown in Figure 2, 17 out of the 18 cases involved a mode shift that could be best described as mode addition – primarily through the creation of a regional headquarters, but with the retention in most cases of the existing foreign intermediary arrangements. In 5 cases a regional headquarters was already in place, so that the establishment of subsidiaries involved a deepening of existing within market arrangements. Intermediaries were, however, retained in 3 out of these 5 examples, emphasizing again that mode addition rather than simple replacement may be used by companies as a way of easing the process of foreign market penetration.

The regional headquarters role, as a part of mode development, was perceived as an important step by the companies concerned in not only getting closer to intermediaries and customers in the various ASEAN markets, but also in improving intermediary networking capabilities between the various markets. This was seen as a way of improving the flow of information and knowledge between the various markets through the regional headquarters, which involved just one person from head office in Denmark in a number of cases. For Toftejorg, a producer of equipment for cleaning containers and tanks, this process was facilitated through the provision of training programs at their Singapore regional HQ for sales personnel from their various ASEAN intermediaries. The 15 companies setting up regional HQs cited the improvement of intermediary networks, through closer market proximity and greater direct ASEAN market involvement, as a major factor in the decision-making process. Also, a number of companies mentioned the accumulation of local market knowledge as important occupations of the regional HQs.

In 1997 Lego, a toys producer, was making extensive use of independent distributors in the ASEAN countries. In two of the countries, Malaysia and Thailand, Lego had placed their own marketing officer with the independent distributor in order to accelerate the sales of the Lego line. In order to provide marketing and technical support, Danfoss, global in heating and motion control systems, practiced the same policy of placement of one or two of its employees with its principal agents in the ASEAN region and elsewhere. As mentioned earlier these practices may be seen as important within mode changes.

Discussion

As the Danish evidence indicates, mode additions are used in internationalization, and their role may be important in extending the international penetration of companies in a particular market or on a broader basis. Apart from the role of a mode addition in supporting or extending an existing operation mode, the Danish companies also added modes as a way of providing a stepping stone to a later mode switch. In so doing, the mode addition is a critical step in the approach to internationalization by the companies concerned, smoothing the process of expansion in the ASEAN market. One company clearly indicated that the dual mode operation in the foreign market was to be a stepping stone to an arrangement in which it would fully take over operations in the longer term. Whether deliberate or not, mode additions which involve two independent organizational entities servicing the same market, and are to some degree competitive, are unlikely to be stable, long term arrangements.

The changes within a given operation mode may be such that they move the company to the point where it is only a small step from one mode to the next 'higher' mode in the establishment chain. They also may permit an easy transfer to what might seem on the surface to constitute 'leapfrogging' in mode use. For example, the step from exporting via an agent to the use of a company-owned sales subsidiary is typically depicted as a 'step up' in the company's resource commitment to a foreign market, as indicated with the dotted, bold line in Figure 3. Hence, Figure 3 demonstrates the reality that a given mode switch may generate a wide range of outcomes in the resource commitment of a company, some of which might be described as escalation, point A, as would typically be the conclusion drawn in establishment chain studies (Benito and Welch, 1997). In the Uppsala school tradition a sales agency is considered to be a low commitment operation mode in which the entrant firm allows the agent to drive the foreign market activity.

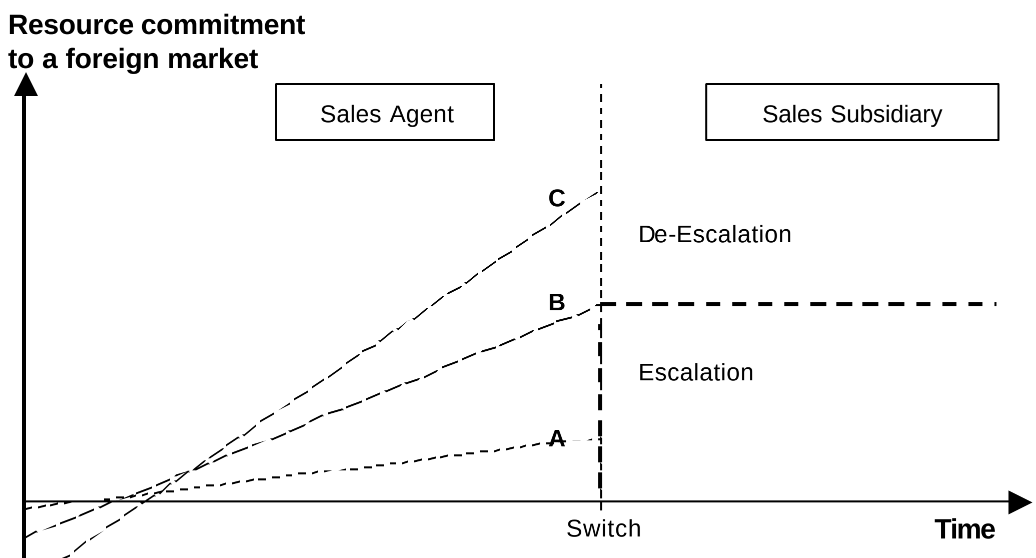


Figure 3 Resource commitment development and mode switch: Three different developments.

More specifically, the exporter is visiting the agent infrequently and is relying on the agent to undertake translation of relevant manuals and promotional material. Such an approach is sometimes an outcome of the fact that it is the foreign agent who initiates initial involvement, spotting the local market potential for a foreign product or service (Roberts and Senturia, 1996). However, the way in which a company uses the agency operation prior to the overall mode switch may be very different from its starting pattern, even to the point of quasi-integration. A company may have actively developed its operations in a foreign market in close co-operation with its agent. This may indude extended promotional support for the agent, a training program for agency staff, frequent visits and even placement of its own staff with the agent (as was the case for two of the Danish companies). In this situation, the establishment of a sales subsidiary has negligible implications in terms of additional resource commitment. In effect most of the advance has already occurred within the existing mode format, confer point B in Figure 3. The switch from sales agent to sales subsidiary may even entail a lower resource commitment of the exporter. Suppose the exporter has invested heavily in its agency operation as a base for export, then switches to a sales subsidiary, but this is poorly supported, is staffed on a part time basis only, providing a very limited service to customers. In this situation it is conceivable that the switch to a sales subsidiary can be viewed as a de-escalation in terms of resource commitment of the entrant firm, confer point C in Figure 3. In our study of Danish companies' mode switches in South East Asia, a highly minimalist approach to the establishment of sales offices in Singapore was found. In some cases the Danish company employee sent to staff the office was effectively working out of his apartment. Finnish research has indicated a wide range in types and uses of the sales subsidiaries of Finnish companies (Hentola, 1993). Thus, in assessing the significance of a mode switch from an internationalization perspective, whatever the overt pattern, much depends on the changes that have taken place prior to the formal switch, and also of the form of the 'new' mode. The essence of change is not simply captured by the existence of a mode switch.

Clearly, there is a danger in rushing to judgement about the nature of internationalization processes based on only singular mode establishment chains that take no account of within mode changes. In general, there is a variety of ways of easing the path of mode switches that are not obvious in the overall form of operation mode. Thus, it was not uncommon among the observed Danish companies to hire staff from their former, or current, agent to facilitate the set-up and operation of a sales subsidiary. As reported in the study cooperative forms of association with the agent may be used after the sales subsidiary set-up, representing a type of organic extension of the existing arrangement, as a way of easing the demands and risks associated with the mode switch. As indicated above, sales subsidiaries can also be set up in a form that minimizes the degree of commitment of the company.

Conclusion

The nature of the establishment chain as it has been depicted, while a useful device for conceptualizing and studying internationalization in a broad sense, may be inadequate for exposing the nuances and character of firms' resource commitment to foreign markets. It may even have acted as an inhibitor on the analysis of the underlying processes that were the focus of the early research on internationalization.

The study of Danish companies' internationalization in South-East Asia indicated that they were using a number of approaches to easing the path of mode development, including within mode changes and mode additions, which would not have been apparent in normal establishment chain studies. In some cases this was part of a deliberate process of establishing the base for a later switch to another operation mode, preeminently foreign representative to sales subsidiary. The Danish experience demonstrated that incrementalism in internationalization, as identified through mode development, may have an important component in the role of mode additions, and therefore they need more thorough empirical investigation in internationalization studies.

In general, there seems to be an evident need for more fine-grained entry mode studies where the level of analysis is the individual business activity rather than broad business functions. Such studies would supposedly to a larger extent be in conformity with the practice and decision-making of managers of international firms.

References

Bell, Jim. 1995. The Internationalization of Small Computer Software Firms – A further Challenge to 'Stage' Theories. *European Journal of Marketing*, 29 (8): 60-75.

Benito, Gabriel R.G. & Lawrence S. Welch. 1994. Foreign Market Servicing: Beyond Choice of Entry Mode. *Journal of International Marketing*, 2 (2): 7-27.

_________________ & Lawrence S. Welch. 1997. De-internationalization. *Management International Review*, 37 (2) Special Issue: 7-25.

Björkman, Ingemar & Michael Eklund. 1996. The Sequences of Operational Modes Used by Finnish Investors in Germany. *Journal of International Marketing*, 4: 33-55.

_________________ & Mats Forsgren. 1997. Nordic Contributions to International Business Research, in: Björkman, I. & M. Forsgren (eds.). *The Nature of the International Firm*, Copenhagen: Copenhagen Business School Press.

Bonaccorsi, Andrea & Daniele Dalli. 1992. Internationalization process and entry channels: evidence from small Italian exporters. In: Cantwell, J. (ed.). *Proceeding of the 18th Annual EIBA Conference*. University of Reading: 509-526.

Buckley, Peter J. & Pervez N. Ghauri (eds.). 1999. *The Internationalization of the Firm*. London: International Thomson Business Press.

______________, Gerald D. Newbould & Jane C. Thurwell. 1988. Foreign Direct Investment by Smaller UK Firms: The Success and Failure of First-time Investors Abroad. London: Macmillan Press.

Clark, Timothy, Derek S. Pugh & Geoff Mallory. 1997. The Process of Internationalization in the Operating Firm. *International Business Review*, 6 (6): 605-623.

Easton, Geoff & Zhi X. Li. 1993. The dynamics of export channels – A case study of exporting from the UK to The People's Republic of China. Research paper presented at the 9th IMP Conference in Bath, U.K.

Erminio, Fina & Alan M. Rugman.1996. A Test of Internationalization Theory: The Upjohn Company. *Management International Review*. 36 (3): 199-213.

Grønhaug, Kjell & Olav Kvitastein. 1993. Distributional Involvement in International Strategic Business Units. *International Business Review*. 2 (1): 1-14.

Haakonsson, Haakon & Ivan Snehota. 1995. *Developing relationships in business networks*. London: Routledge.

Hedlund, Gunnar & Adne Kverneland. 1985. Are Strategies for Foreign Markets Changing? The Case of Swedish Investment in Japan. *International Studies of Management & Organisation*, XV (2): 41-59.

Hentola, Helena. 1994. Foreign sales subsidiaries and their role within the internationalization of the firm. A study of Finnish manufacturing companies. Doctoral dissertation. The Helsinki School of Economics and Business Administration.

Hirsch, Seev & Avi Meshulach. 1991. Towards a unified theory of internationalization. *Proceedings of the 17th Annual EIBA Conference (Vol. 1)*. Copenhagen Business School: 577-601.

Johanson, Jan & Finn Wiedersheim-Paul. 1975. The internationalization of the firm: Four Swedish cases. *Journal of Management Studies*, 12 (3): 305-322.

_____________ & Jan-Erik Vahlne. 1977. The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment. *Journal of International Business Studies*, 8 (Third Quarter): 23-32.

_____________ & Jan-Erik Vahlne. 1990. The Mechanism of Internationalization. *International Marketing Review*, 7 (4): 11-24.

Juul, Monika & Peter G.P. Walters. 1987. The Internationalization of Norwegian Firms – A Study of the UK Experience. *Management International Review*, 27 (1): 58-66.

Knight, Gary A. & Tamer S. Cavusgil. 1996. The born global firm: A challenge to traditional internationalization theory. *Advances in International Marketing*, 8:11-26.

Luostarinen, Reijo. 1979. Internationalization of the firm. An empirical study of the internationalization of firms with small and open domestic markets, with special emphasis on lateral rigidity as a behavioral characteristic in strategic decision-making. Helsinki School of Economics. Series A, No. 30.

________________, Heli Korhonen, J. Jokinen, & T. Pelkonen (1994): *Globalisation and SME*. Ministry of Trade and Industry – Finland, Helsinki.

Madsen, Tage K. & Per Servais. 1997. The Internationalization of Born Globals: an Evolutionary Process? *International Business Review*, 6 (6): 561-564.

Millington, Andrew & Brian Bayliss. 1990. The Process of Internationalisation: UK Companies in the EC. *Management International Review*. 30 (2): 151-161.

Moxon, Richard W. 1982. Offshore Sourcing, Subcontracting, and Manufacturing. In Walter, Ingo (ed.): *Handbook of International Business*. New York: John Wiley and Sons.

Petersen, Bent.1996. *Explaining Cost-effective Export Market penetration via Foreign Intermediaries*. Ph.D. Thesis. Ph.D. Series 4.96. Copenhagen: Copenhagen Business School.

____________ & Torben Pedersen. 1997. Twenty years after – support and critique of the Uppsala internationalization model.' In Björkman, I. and M. Forsgren (eds.): *The Nature of the International Firm*, Copenhagen Business School Press, Copenhagen: 117-134.

____________ & Lawrence S. Welch. 1999. Foreign Operation Mode Combinations and Internationalization. INT Working Paper (WP 6 1999). Copenhagen Business School.

Porter, Michael E. 1985. *Competitive Advantage*. New York: Free Press.

Randoey, Trond. 1997. Towards a Firm-Based Model of Foreign Direct Investment. In: Björkman, I. & M. Forsgren (eds.). *The Nature of the International Firm*, Copenhagen: Copenhagen Business School Press: 257-280.

Roberts, E.B. & T.A. Senturia. 1996. Globalizing the emerging high technology company. *Industrial Marketing Management*, 25 (6): 491-506.

Valla, Jean-Paul. 1986. The French Approach to Europe. In: Turnbull, P.W. & J.P. Valla (eds.): *Strategies for International Industrial Marketing*, London: Croom Helm: 11-41.

Van Den Bulcke, Daniel. 1986. Role and Structure of Belgian Multinationals. In: Marcharzina, K. & W.H. Staehle (eds.). *European Approaches to International Management*: 105-128.

Vernon, Raymond. 1979. The product cycle hypothesis in a new international environment. *Oxford Bulletin of Economics and Statistics*. 41: 255-267.

Williamson, Peter J. 1992. Europe's Single Market: The Toughest Test Yet for Sales and Distribution. *The Economist Intelligence Unit: Multinational Business* (Summer): 57-76.

Appendix

Table A: Main characteristics of various foreign operation modes of market-seeking MNCs.

Foreign Operation Mode	Business Function	Control/Operator	Location
Production subsidiary	Manufacturing operations a. o.	Entrant firm	Foreign country
Licensing	Manufacturing operations.	Outside agent	Foreign country
Joint venture	Manufacturing operations a. o.	Entrant firm + outside agent	Foreign country
Turnkey contracts	Manufacturing set-up	Entrant firm	Home/Foreign country
Management contract	Management operations	Entrant firm	Foreign country
Franchising	Retail marketing	Outside agent	Foreign country
Export	Manufacturing operations	Entrant firm	Home country
Export via home-based sales force	Business marketing	Entrant firm	Home country
Export via sales subsidiary/branch	Business marketing	Entrant firm	Foreign country
Export via agent/distributor	Business marketing	Outside agent	Foreign country

Table B: Key data (1996) of the companies participating in the study.

Company	Main product(s)	Most recent establishment	Employees	Sales (m DKK)	Export (%)
A'Gramkow Group	Filling and recycling equipment for automotive industry	Regional HQ, Singapore (1996)	205	250	98
B-K Medical	Ultrasound scanners	Regional HQ, Thailand (1995)	241	229	95
Dampa	Ceiling systems	Regional HQ, Malaysia (1997)	180	104	> 80
Danfoss	Refrigeration, heating and motion control systems	Sales subsidiary, Philippines (1997) Sales branch, Indonesia (1997)	18,270	13,202	> 90
Densit	Industrial floors	Regional HQ, Malaysia (1995)	68	88	> 90
F.L.Schmidt & Co	Plants for cement production	Sales branch, Philippines (1997)	1,193	3,499	95
Grundfos	Pumps	Regional HQ, Thailand (1993)	9,154	6,682	> 95
Jensen Group	Equipment for flat-work and folders for towels and garments	Regional HQ, Singapore (1993)	450	375	> 95
Kompan	Toys for playgrounds	Regional HQ, Singapore (1996)	496	550	95
Lego Group	Toys	Regional HQ, Singapore (1997)	8,671	7,616	99
MD Foods	Diary products	Regional HQ, Malaysia (1995)	13,122	23,141	65
Nikomed	EKG-electrodes and products used for fixation	Regional HQ, Singapore (1996)	227	n/a	90-95
Niro	Plants for processing liquid, particulate and solid materials	Sales subsidiary, Thailand (1994) Sales subsidiary, Philippines (1995)	423	946	95
RE Groups	Digital equipment, video/audio codec	Regional HQ, Malaysia (1995)	197	248	99
Skako	Plants for concrete production	Regional HQ, Malaysia (1996)	407	411	85-90
Toftejorg	Equipment for cleaning of containers and tanks	Regional HQ, Singapore (1995)	70	107	90