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Internationalization of retail chain companies

A quantitative approach to understand the drivers of strategic entry mode and performance

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Table of contents

1. Executive summary……………………………………………………………………….2
2. Research question………………………………………………………………………...3
3. Literature review ………………………………………………………………………..4
   3.1 Introduction ………………………………………………………………………….4
   3.2 Internationalization and entry modes ………………………………………………..6
   3.3 The OLI as internationalization paradigm …………………………………………12
   3.4 Other approaches to internationalization …………………………………………..15
   3.5 Summary ……………………………………………………………………………...22
4. Methodology ……………………………………………………………………………24
   4.1 Methods ………………………………………………………………………………25
   4.2 Data collection ………………………………………………………………………..26
   4.3 Measurement …………………………………………………………………………27
5. Results ……………………………………………………………………………………33
   5.1 Predicting the entry mode selection ………………………………………………….33
   5.2 Explaining the drivers of performance ……………………………………………….35
6. Discussion ………………………………………………………………………………..39
7. Conclusions, limitatations and future research……………………………………………..43
8. References ………………………………………………………………………………45
9. Acknowledgments

1. Executive summary

With the progressive globalization process and the fall of many the barriers to trade that prevented companies to go abroad, the market place widened along with the possibilities that companies have to expand in foreign markets. Given resource endowments, experience, knowledge and limited information, companies have different strategies available in order to enter foreign markets. What is the model used by successful companies? What is the strategy that maximizes profitability? Is there any way to predict future profits and the entry mode chosen by a given company? These are recurrent questions in the wide literature about firms internationalization. In this paper we try to address this issue building on a twofold analysis. On one side we attempt to predict the entry mode (in terms of resource commitment and risk bearing) and on the other profitability as a function of different variables. In our analysis mainly big companies are included so that size plays a major role and the companies have more freedom in the approach they take since they can rely on a solid position in the home market. Another important point is that, given the size, these companies have accrued some experience in internationalising so that they can somehow follow a path. According to Gatignon and Anderson (1988), increased experience decreases the possibility of entry mode mistakes since they somehow proved an internationalization strategy with a trial-and-error approach before. The assumptions we tested have been previously presented by other authors and we try to construct an integrated approach that looks at different perspectives and issues that companies are facing when internationalizing. We used a two-way analysis: a logistic regression to explain the variation in entry modes and a hierarchical multiple regression to capture the performance. The results don't support all of the presented hypotheses but find a correlation between the size of the company and the entry mode chosen and between the global strategy and the accrued profits. We can confirm a relationship between the size of the firm and its international presence and the likelihood of choosing a wholly owned subsidiary as a entry mode and a positive relationship between enterprises choosing a global strategy and a better performance.

2. Research question

The research question points in two directions: how can the entry mode chosen by the home company be explained and what are the drivers of profitability in a foreign country? There have been multiple contributions that address this field of research, most of it underlining the hurdles and issues represented by the legislation and regulations of the foreign country giving a higher or lower level of stability and risk and the distance of home and host country as well as the familiarity that the company has with host culture, business environment and market factors. The study should also test the common assumption that states that home companies are internationalising in steps putting a small amount of resources and commitment in an unknown foreign location they are not familiar with.

This is a recurring interest in literature and many authors contributed with their studies. However, here we try to focus on a more comprehensive analysis that includes companies operating in different industries but having similar medium-big size. Furthermore, we try to test some of the relationships included in the different theories in an attempt to capture the effect that multiple variables have on this fundamental strategic steps.

We can formulate the research question as: what are drivers that explain the decision of retail chain companies to go abroad? And more specifically what are the factors that affect the entry mode chosen and the returns accrued?

Although this has been the focus of many previous studies, here we try to explain these two variables with a common set of variables.

This paper will address this issue in a structured set of chapters:

- The literature review introduces the main theories we focus on and it gives a background and a summary of the main streams of research dealing with internationalization strategies and the factors of success identified in previous studies. In this section we also define the hypotheses we want to test with the two regressions.
- The chapter on methodology provides an overview of the criteria used to select the data and they way they have been organised and processed in order to get some insights. We also present some reasoning about the way the study is carried out this way.

- Then, the discussion sheds light on the results obtained and analyses their meaning and significance. Furthermore the output is then compared to other studies and research in order to put the findings into perspective.
- Finally, we report conclusions and the take away from the analysis and then we then list limits that constrain the applicability of the results. We also suggest some sparks for future research.

3. Literature review

This chapter aims at giving an overview of the background theory that is the basis of this research. It collects the main streams of research previously done on this subject and it provides a basis for this paper.

The chapter is structured as follows:

3.1 Introduction: This brief part introduces the subject and gives a general idea of the trends and the theories that will be used before passing to the real literature review.

3.2 Internationalization and entry modes: this section is a connecting point between the more general and wide discussion and more specific concepts on both internationalization and entry modes.

3.3 The OLI as internationalization paradigm: this part introduces the first theory proposed by Dunning (1993) and the three factors-advantages driving internationalization for firms: namely ownership (O), location (L), Internalization (I). A subsection of this part, the implications of OLI paradigm over corporate strategies is discussed. Enterprises taking different strategic directions look at different factors in the foreign environment and look for different kinds of advantages.

3.4 Different approaches to internationalization: This section presents alternative theories to explain internationalization decisions and approaches that offer other hints on this process. Among the ideas proposed include the interplay of factors and people inside and outside the firm as drivers and initiators of the expansion process outside the national boundaries.

3.5 Summary that lists in a nutshell the results of the theoretical review and sets the reference frame through which the hypotheses are tested.

3.1 Introduction

There is a wide array of literature concerning firms' life and behaviour covering many aspects: from their nature and characteristics to the life cycle, from the attitude towards change and innovation to strategy making and implementation, to mention some. The focus of this paper is on internationalization dynamics and the related strategies. The attempt is to build a model backed by theoretical concepts that can provide insights into

operations performed abroad by looking both at the reasoning behind it, the strategies used and the differences (if any) existing between different companies or industries. The analysis will be descending, moving from more general concepts such as international theories and entry modes to more specific hypotheses imposed on the analysis.

Internationalization seems to be a worldwide phenomenon that according to many scholars will sooner or later affect every retailer (Allen, 1993; Treadgold, 1990; Sloan and Graham, 1990; Doocey, 1992; Miller, 1994; Sherm, 1993) but Feigenbaum (1993) also underlines that success abroad is only for a limited number of companies as it is difficult to determine the winning elements (Antonini, 1991). Many studies performed over time tried to explain the sources of companies competitive advantage and profits. However, there exists no indication of the degree of internationalization that increases gains although a positive relationship between international operations and returns is recognised (Franko, 1987). It is common to think that foreign operations can help and fund operations at home when the market achieves its full capacity or stagnates. The foreign market potential is considered an important factor in this respect (Caves, 1974; Caves and Mehra, 1986; Goodnow, 1985; Goodnow and Hansz, 1972; Root, 1987). Furthermore, literature identifies different internationalization trends that derive from the choice of a different corporate strategy: either multinational or global.

3.2 Internationalization and entry modes

Companies that decide to expand their business outside the national boundaries have different alternatives to do it depending on the level of commitment and risk that they are willing to take. A factor influencing the amount of resources employed and the level of control over the operations is the kind of competition in place (Harrigan, 1985 a, c). Harrigan considers company flexibility to be very important and fundamental to be able to continuously adapt without incurring significant costs in an ever-changing environment. According to Grunig and Morschett (2012), companies will choose the entry mode that best suits their need and will make them successful. Brouthers (2013) supports this idea saying that companies try to choose the entry mode that can yield higher profits, given the risk and the resource commitments.

The entry mode can be described as the actions through which a company enters a market with its own products, resources and managerial skills (Root, 1987). Many others refer to entry mode as a frontier issue (Anderson and Gatignon, 1986; Kogut and Singh, 1988; Hill, Hwang and Kim, 1990; Wind and Perlmutter, 1977) and one of the pivotal decisions in international marketing and from a strategic point of view (Terpstra, 1987:333; Agarwal and Ramaswami, 1992). The decision on which mode to choose is done on the characteristics of both the enterprise and the business environment (Kwon and Konopa, 1993). Each company needs to carefully screen the host country in order to have a clear picture of the situation and the risks it may incur (Pan and Tse, 2000) in order to choose the right strategy as the success of the expansion depends on the entry mode (Hollensen, Boyd ad Verich, 2011). The enterprise characteristics and capabilities are internal factors while foreign market are external (Goodnow, 1985; Root, 1987). Both of these elements influence the comparison of the alternatives available in terms of advantages and costs. For example, companies that have specific assets will tend to adopt high control entry modes. The reason is that when this resources add value to operations, companies want to defend them from possible misappropriation and opportunism of local partners they may choose (Anderson and Gatignon, 1986; Williamson, 1981). The entry mode decision dramatically affects the future of the company outside the national boundaries (Anderson and Coughlan, 1987) and these operations cause a considerable waste of time, gains and resources if the company decides to change the strategy (Root, 1987).

Kwon and Konopa (1993) recognise some differences between producing abroad and exporting: namely when you set up a subsidiary abroad, you need to commit a larger pool of resources and bear higher risks, but on the other hand control is centralised and the profits achieved are higher.

Entry modes can be classified on the basis on the subsidiary commitment and ownership: there are equity and non-equity modes of entry. It is possible to plot the entry modes on a line where risk, control and commitment increases as we go to the right. Risk and control are directly linked to cost and returns of running international operations, so according to Grosse (1985) the evaluation of these factors drives the choice of the entry mode in a foreign country. Usually export is the entry mode chosen

as a first step, then over time they tend to have more familiarity with the host country and shift to higher control modes in order to capture increased profitability (Horst, 1974).
The first strategy that companies can adopt is **export**, either direct or indirect. In the first case the enterprises sells its products abroad in the same way as it does in the domestic market, while in the latter scenario exports intermediaries are used in order to access the market more easily. Usually this strategy (in any of the two variants) is the first step in order to test get insights on risky or very different markets and test the product appeal in the business environment. It is also a strategy that allows a certain degree of geographical diversification without implying a significant pool of resources or a load of risk.
The next level of strategic entry mode is **licensing**: a company (licensor) grants some rights and resources pertaining the product to a foreign company (licensee) within certain limits settled in the licensing contract in return of a yearly fee in proportion of the volumes sold. The choice of the country to license in terms of laws protecting intellectual property right is fundamental in order to protect the corporate knowledge from other competitors. This mode is particularly convenient for companies that approach international business for the first time. The licensor gets an opportunity for expanding into other countries without pulling much resources and commitment into it. However, in a licensing agreement, it is utterly important to have the right partner that must be aligned with the home company product level and must follow some parameters. The licensor, in fact, does not control the foreign operations that are totally managed by the host company. It could be fatal for the home company if the operations were mismanaged. Trademarks could be harmed as well as the company visibility, the reputation and the customer base. The most famous case among the others is the one experienced by Coca Cola with a Belgian partner in 1999 (Johnson and Peppas, 2003) that cost a lot to the company. The misbehaviour could be driven not only by opportunism but also by the difficulty of transferring the resources and a consequent misinterpretation (Calvet, 1981). Of course, this transactions costs are particularly high for entry modes such as licensing (Contractor, 1990). Another issue that is also risky in joint venture relates to partners that may misuse the knowledge transfers or make it spill out of the company boundaries. This risk can be partially eliminated by signing a

comprehensive and detailed contract covering benefits and obligations for both parties but the costs of these agreements are very high in uncertain environment with agents having an opportunistic behaviour (Williamson, 1985). This protection is not total, however, as it is impossible to predict all the contingencies. This opportunistic behaviour is directly linked to the value of quasi-rents that can be gained through the knowledge transferred by the home company. As its value grows, it will be more likely that the partners will behave opportunistically in order to appropriate the gains. As a consequence, companies that internationalize will opt for high control entry mode, internalizing the operations (Hill, Hwang, Kim, 1990).

Another entry mode similar to licensing is **franchising,** an option for companies that want to trade outside the national borders. The franchising model includes sharing the trademark and the business model but it doesn't open up the company's secrets. This could be a convenient strategy to expand at the same time on a large geographical scope and benefit as well from the franchisee's capabilities. Risks and costs with this entry mode are associated with monitoring and supporting the partner and make sure that it doesn't spoil the brand image as well as preventing the more educated and skilled partner from breaking the agreement and becoming fearful opponents.

Strategic alliances are also used in order to enter foreign locations and get local knowledge. This entry mode is used by companies in developed countries in order to develop new technologies or products over a determined time span. Partner companies can also (but not necessarily) be rivals operating in the same or a similar sector. The advantages of strategic alliances include the exchange of knowledge and skills and the increase of capabilities that both firms acquire. This is particularly important for enterprises operating in today's turbulent and continuously changing business environment where there is no clear differentiation between the sectors and firms need deep knowledge in many different fields and taking fast action (Gulati, 1998; Teece, 1992). This can be more easily achieved through a partnership that widens the knowledge of the companies involved making them more versatile and allow them accessing resources and gaining an advantage over other firms (Dyer and Singh, 1998**).** Furthermore, cost savings can be attained by the spread of costs over an increased number of units produced: the benefits of economies of scale. Lastly, strategic alliances

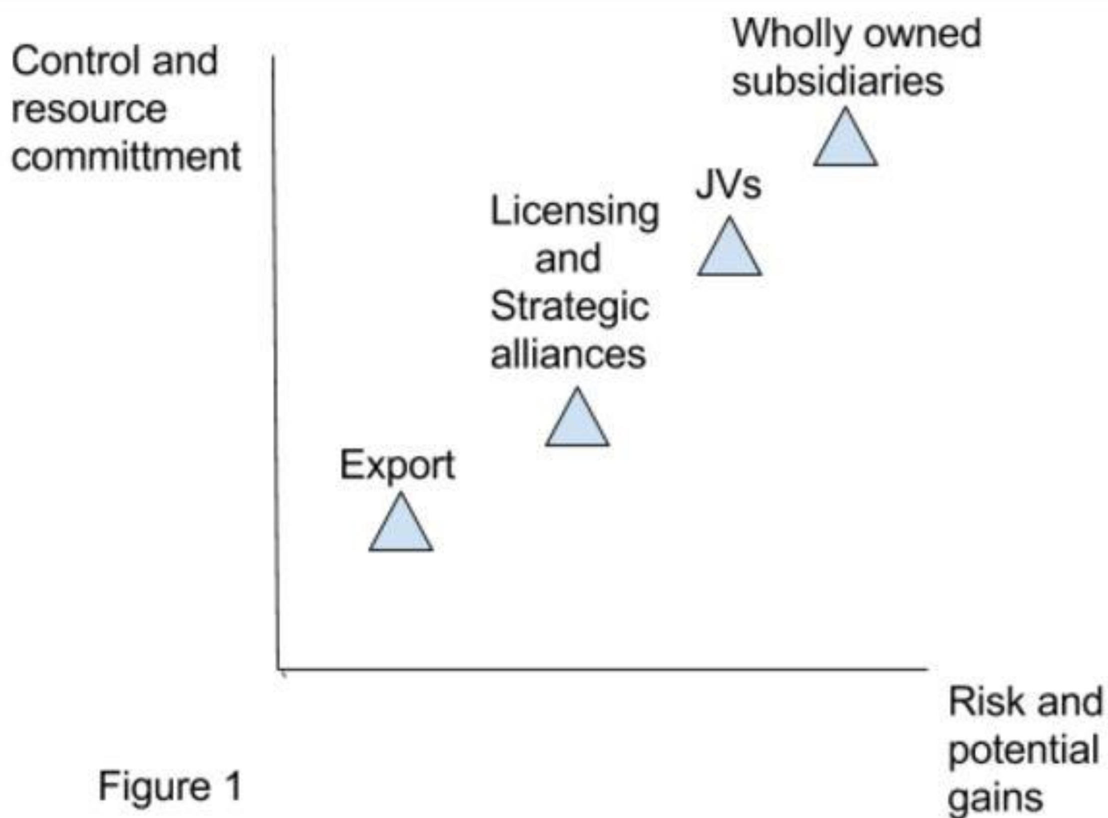
allow accessing complementary assets (Pisano, 1990) and a higher status of legitimacy perceived (Baum and Oliver, 1991; Miner, Amburgey and Stearns, 1990; Stuart et al, 1999). In sum, a strategic alliance with a good partner should allow the use of strategic and operational knowledge (Teece, 1992), established exchange relationships (Stinchcombe, 1965), innovative skills (Shan et al, 1994), support for the operations (Baum and Oliver, 1991) and an improved reputation in terms of quality and reliability in the eyes of the major stakeholders (Hannah and Freeman, 1984; Stuart el al, 1999). However, strategic alliances also present risks and partner selection is utterly important in attempt to balance benefits for both parties. It could happen, in fact, that the alliance is unbalanced in terms of competences or that one partner acts only in its own interest and takes the most of the partnership by either appropriating the knowledge and leaving the other partner or using the funds for aims self beneficial.

Another option is represented by **joint venture** agreements that commit two companies to collaborate on a product, a service or an entry strategy for a given period of time. The two enterprises pull equity and resources into the project and they learn from each other complementing their competences and skills. An important element in this process is given by the political and legislative environment of the host country that has a direct effect on the benefits accrued. Dangers range from a politically unstable government and the uncertain legislation framework to government action against firms such as expropriation or intervention in regulating the market but also price controls, local content requirements or currency fluctuations (Hill, Hwang and Kim, 1990). Many scholars showed that these risks can dramatically reduce the chances of setting a wholly owned subsidiary preferring a lower risk entry mode (Bradley, 1977; Kobrin, 1983;Vernon, 1983). Bradley (1997) reports that joint ventures usually have a lower rate of expropriation since the local partner can use its power to prevent such government measures. Other risks are very similar to the ones listed for strategic alliances and stem from pressures driving into different directions. The companies want to get the best the most of the agreement but they also want to use the resources at their own advantage improving their competitive advantage. Second, the resources (both tangible and intangible) owned by each entity need to be shared while each enterprise would like to preserve them and keep them within the company. Every action needs to be carefully

studied and agreed between the two partners and there should not be any will prevailing although single companies would benefit if they could funnel the resources in their canals and for their own aims.

The last possibility available for companies that want to invest abroad is the **wholly owned subsidiary (WOS)** that can occur into two different ways depending on the conditions: greenfield operations or acquisitions. Greenfields operations refer to the creation of a subsidiary from scratch, the home firm has full control over this new entity and can transfer its own model and structure. The costs of starting the operations and very high but fully owned subsidiaries can deliver higher returns than other entry modes strategies. Greenfield subsidiaries are preferred when the company needs to be close to the customer and closely monitor market needs using strategies based on specific capabilities developed in the home country. This strategy is particularly effective if the plants are capital based, the competition is not fierce and the transfer of company assets, knowledge and cultural values can easily happen. These factors are very important to consider as the operational setup is very expensive and it takes a longer time span to be effectively in place. In order to understand the business environment, market needs and requirements information is acquired through third parties, either consultants or other important players.

The second way for having a wholly owned subsidiary is through acquisitions that are the fastest way to have access to a foreign market and be readily operative. This strategy is also interesting for the firm strategic positioning as it allows to acquire the market power and share detained by the acquired company so that the home company is not new in the market and it doesn't need to compete from scratch. It is also quite straightforward to calculate the effects of the acquisition as opposed to a greenfield operation as there are some data available already and a consolidated firm and model. However, as in any of the other cases there are some risks related to this entry mode. Namely, the two corporate cultures are not merged or integrated in any way and they could clash as well as the whole integration. Secondly, diversifying too much can harm more than help the business due to lack of control, over-investment and focus loss.



3.3 The OLI as internationalization paradigm

Dunning's Eclectic Paradigm (1993) presents the advantages that a company may acquire when expanding to another country and these are also factors to consider before actually entering that country. The benefits from extra border operations stem from 3 factors: ownership, location and internalization.

Ownership advantages are those relating to skills and knowledge that the company holds and has accrued over time operating in the home country. This experience can help enterprises succeeding in the foreign country since they can leverage the lessons learned in the past, the competences and the way of doing business and start building a foothold in the foreign region. However, many times ownership advantages are only one of the elements to success and a lot of market understanding and local adaptation are needed. This is the reason why ownership advantages alone are not a guarantee for profit. Furthermore, they need to be carefully scrutinised in order to clarify their nature

and classify them as assets rather than liabilities or obstacles to geographical expansion. There are, in fact, two kinds of ownership benefits: location bound and non location bound ones with the first ones that can be exploited only in a specific location and are not easy to transfer. So, companies having a specific bundle of assets will choose to enter the foreign location by setting up a wholly owned subsidiary so that the advantage is kept within the company and successfully used in order to compete in the new location (Brouthers, 2002).

Location advantages derive from the choice of a particular location that gives a foreign company advantages for its production and overall competitiveness. The favourable factors in the host country can be for example a pool of cheap labour force, a liberal government aiming at a free market economy and encouraging foreign investments (or even subsidizing foreign firms to enter that country) or first comer advantages and little or no competition in the new market.

Lastly, **internalization** advantages relate to enterprises need to keep their knowledge secret and don't let it spill out of the corporation boundaries. This is mainly due to the fact that keeping secret the winning formula (that links all the valuable assets and all the private data) prevents the competitive advantage erosion and the competitors from copying the business model and the ideas. Many times, when entering a new country, high risks are involved and firms usually opt (at least initially) for low control and low risk entry options that imply collaborating with partners and sharing some of the corporate secrets. This strategy is double faced as it limits the company losses in an uncertain and different business environment but it also exposes the company and its winning points. In the worst scenario, this situation can turn up against the home company if the partner firms decides to stop the collaboration and establish a rival competing company using the competences acquired through the partnership. This risk can be eliminated in the case of a wholly owned subsidiary that assures that the knowledge is retained in the company. On the other hand, it is often too risky or expensive to enter a new region with a high control mode.

A more comprehensive version of this paradigm is represented by the PESTEL framework that includes political, economic, socio-cultural, technological, environmental

and legal dimension as tools in order to analyse a new location and determine the risks and the opportunities related to it.

OLI predictions for global and multidomestic companies

An important aspect that companies should consider when going abroad is the model they want to use in foreign markets. If they use a global approach, as for example, the one used by IKEA, they will tend to make replicas of the domestic business and make small or no adaptations at all to the standard model. Of course, this has many cost advantages as the production is standardised and economies of scale reduce the overall cost. For these companies it is very convenient to have plants built according to their wishes in order to satisfy their production criteria. Multinational companies, instead, usually adapt production to local tastes, so they prefer to acquire existing plants that already know how to operate in the market and have been active for some time.

From these considerations the entry mode follows: global companies usually prefer greenfields so that they can achieve high integration by internal isomorphism, meaning that all the subsidiaries within the organization tend to work and be organized in the same way.

Multidomestic enterprises, instead, usually adapt to the external environment and need to have a certain degree of independence in order to be responsive to local needs. The acquired firms have solid structures already in place that are hard to change but they have the skills and knowledge necessary to adapt to market conditions.

The different strategy choice is also reflected in the number of expatriates present in the subsidiary. For global companies it is utterly important to have high control over the operations performed by the subsidiaries outside the national boundaries. To this aim, a significant number of managers from the home company are sent in the foreign sites to make sure that directions from the headquarters are followed and that the workings go as planned.

Hypothesis 1: Enterprises with a global strategy are less likely to opt for high control modes of entry while multinational companies will choose high control modes.

Treadgold (1998) recognises 4 categories of internationalization strategies on the basis on the countries involved in the internalization and the physical distance home-host country:

1. **Cautious internationalists** who usually have a limited number of sites abroad and the business environment is usually similar to the domestic one. The entry strategy chosen is one that grants high control over the operations and involves high costs such as acquisitions.
2. **Emboldened internationalists** who adopt strategies with high level of control but have a wider portfolio of operations.
3. **Aggressive internationalists** who want to make business on international scale and occupy a similar market niche but in a different business environment.
4. **World powers** are present all over the world through low cost-low control strategies.

3.4 Other approaches to internationalization

There is a number of other theories that try to explain the reasons for internationalization, the modes and the timeframe.

International Product Life Cycle Model **(Raymond Vernon's 1966/2004)** relates company behaviour to the phase of the good traded (Galán and González-Benito, 2001). In the introduction phase, the operations are carried in the country where the product was initiated (Almor et al., 2006; Lou, Zhao and Du, 2005; Melin, 1992) and the good is exported to other countries until enough information is collected about the foreign site and the production is moved outside the national borders (Kwon and Hu, 1995; Melin, 1992; Sikorski and Menkhoff, 2000). In the growth phase, the company increases its foothold in the foreign location and expands to the new market. With the increasing number of customers in the different locations, the enterprise opens new sites in order to be closer to their clients base (Almor et al., 2006; Galán and González-Benito, 2001; Lou, Zhao and Du, 2005; Melin, 1992). In the last phase, when the market is saturated the only strategy possible in order to be profitable is struggling with the competitors for market shares through fierce price competition that implies a low cost strategy. In order to accommodate the necessity for low cost production, usually productive

operations are moved to low cost locations in developing countries (Almor et al., 2006; Lou, Zhao and Du, 2005; Melin, 1992; Sikorski and Menkhoff, 2000).

According to this theory, one should consider the conditions of the market and the product positioning before choosing the right strategy. The internationalization process is therefore presented as logical and consequential (Kwon and Hu, 1995; Sikorski and Menkhoff, 2000) with an almost cause-effect link between the business environment and the internationalization entry mode (Galán and González-Benito, 2001). The demand uncertainty is also a factor that is considered as it is directly related to revenues and it is crucial. A company that is uncertain of this value should not commit a significant amount of resources so that the exit option is easily viable and without great harm. Great uncertainty usually characterizes introductory and decline phases of the industry (Harrigan, 1985 a, b, c; Vernon 1966, 1979). The model describes the internalization process as progressive in terms of the amount of resources committed that adapts to the local market knowledge acquired. Less risk, low commitment strategies evolve into higher risk and involvement as the company learns more about the host country and as it is compatible with the good or service point in the life cycle expecting higher gains (Bilkey, 1978; Bukey and Mathew, 1978; Johanson and Vahlne, 1977; Johanson and Weidersheim-Paul, 1975; Jull and Walters, 1987; McDonald, 1961).

Hypothesis 2: There is a positive association between increased experience and familiarity with the host location and the commitment in the market.

Transaction Cost Approach (Ronald Coase, 1937) explains that there are some cases in which it is better to keep the operation within an internal market rather than entering new ones. The reasoning for this statement lies in the assumption that the home company has a strong ownership advantage including skills and competences specific to the firm (Dunning, 1981; Rugman, 1981). These resources are hard to transfer to partners in another country as this process would dramatically increase transaction costs of international operations. The company, therefore, internalizes the processes and keeps the transactions inside the company boundaries (Johanson and Mattsson, 1987; Madhok, 1997). The foreign markets are served through other means such as exports and licensing that don't require resources employment although they involve some risks related to possible partners' misbehaviour. So it is very important for companies to select the right partner so that they can minimize the risks by keeping an eye on

the contract abidance (Brouthers, 2002). Less reliable partners could dramatically raise monitoring costs making the agreement less appealing and reducing its potential benefits. The operations are performed abroad only if the costs of these activities abroad is lower than the cost that the firm would incur to reorganize itself. The transaction costs involved in the operations are directly correlated to the countries heterogeneity. With the increasing differences between the two, the costs of transferring the advantages will be higher so that countries will be encouraged to expand to similar countries.

Resource-based view (Barney, 1991)

This theory presented by Barney focuses on the competitive advantage withheld by companies by means of specific capabilities bundled together. Those are the basis of the superiority over the competitors thanks to this mix of resources and competences that can be used to get benefits (are valuable), are not widely available on the market (are rare), cannot be easily reproduced (are not imitable) and can't be exchanged for something else in order to get the same result (are not substitutable). Those four characteristics are fundamental in order to build and sustain such preminence over other firms. According to Madhok (1997), companies relying on such a ground should go in host countries using high control and high commitment strategies that enable the knowledge transfer and access higher profits managing the internationalization process directly. These firms usually use their established business model in foreign locations setting up local replicas of the mother company and applying the same strategy as a one size fits all. On one hand, this approach is very convenient as it allows to save money and reduces the risk of losing the competitive advantage by keeping the "secret recipe of success" inside the company boundaries. However, such a strategy could ignore some important local differences and specific needs that would require adaptations and that may not be compatible with the home company original business model. Such gaps are considered in detail in the institutional theory.

Institutional theory

This theory emphasizes the role of rules in the internationalization process in order to operate in a foreign location. According to Sternquist and Hwang (2007), companies should screen the environment and consider the amount of work and resources necessary to close the gap before making the move. There are different aspects that need to be considered in order to have a

clear picture and be prepared to the entry, for example competition, the external and internal uncertainty, the nature of the market (Brouthers, 2002).

In this respect, it could be useful to refer to the model presented by Scott (1995) that analyzes the institutional setup under 3 dimensions: political and legal (regulatory), socio-cultural (normative) and strategic (cognitive). The more the differences in this variables, the more difficult it is for home companies to move around in the host country environment. In such a scenario the increasing distance between the countries encourages the home company to engage in partnerships in order to cut through the the entry barriers access the market more easily and acquiring local knowledge at the same time.

Decision Making Model (Aharoni ,1966/2004)

This theory describes internationalization as a complex process that considers both internal and external relationships and accounts for uncertainty in the foreign location. Therefore, the process goes through attempts aimed at getting to know the foreign country and create a standard procedure to be followed in the next internationalization steps. The reasons for this investment are not very clear: it could be a way to solve a difficult situation at home and get new funds for the operations. The process is triggered by the interaction of different players, occurrences and forces and the surrounding environment. The possibilities are infinite as the countries and investments. However, the mix of all the previously cited elements shapes the direction of the company.

The Uppsala Model (Johanson and Wiedersheim-Paul 1975/2004)

This theory is based on the behavioural model formulated by Aharoni (1966) and Cyert and March (1963). The process of internationalization is described as progressive with companies adopting low control strategies at the beginning and then shifting to higher control and risk strategies as they learn more about the foreign markets, the so called experiential knowledge (Johanson and Vahlne, 1977; Johanson and Weidersheim-Paul, 1975). The process of internationalization moves from occasional exports to more regular and organized exports through intermediaries, then a department of sales is created in the foreign country in order to diminish the distance between the home company and the host clients. The last step consists in setting overseas production facilities. The process can be accelerated and some steps skipped in particular cases when the home company is familiar with the host country. Great importance

is given to psychic distance that is the difference between practices in the countries that may hamper the flow of information (Benito and Gripsrud, 1992; Johanson and Wiedersheim-Paul, 1975). Psychic distance is usually directly related to geographic distance but there are some cases in which this assumption is not valid.

Finally, the **network theory** emphasizes the importance of formal and informal relationships on the firm development. The links are important for a number of reasons and for all the companies: in this way the existing resources and capabilities are connected and the operations are performed but also extra resources are made available for the expansion process. New opportunities are many times foreseen and initiated by the partners (Coviello and Munroe, 1995; Glückler, 2006; Mtigwe, 2006) that have a deeper knowledge of the host markets. The focus is on the relationship within clients and suppliers and the internationalization occurs as a result of this cooperation. However, Barkema, Bell and Pennings (1996) report that the internationalization process is harder when it is performed with partners as this relationship involves some learning and coordinating of abilities and approaches. The phenomenon of adaptation to both the host country culture and the new partner is referred to as double layered acculturation.

Hypothesis 3: There is a positive relationship between the presence of partners and level of involvement and control of the entry mode chosen.

Theory	Main concept
OLI	Focus on ownership, location and internalization advantages in order to determine the attractiveness of a host location and the potential benefits of internationalising
International product life cycle model	Internationalization as a sequence of steps that increase in commitment as the home firm gains more information about the foreign location and the product evolve into different phases.
Transaction cost approach	Internationalize as long as the costs of externalising are not greater that internalising

	them.
Resource based view	The competitive advantage of the resources is within the company itself and it is give by the unique bundle of resources. The entry mode is based on the ease of transferring such advantage.
Institutional theory	Companies should screen the environment before entering the new market and they should gain acceptance for running the operations. This may require collaboration with local partners.
Decision making model	The company should consider internal and external factors and collect information about the host location in order to choose the best entry option.
Uppsala model	As companies get to know more about the foreign location they commit more resources to the market (experiential knowledge).
Network theory	It looks outside the boundaries of the firm that could collaborate with other enterprises in order to find complementary resources and capabilities. But this comes at monitoring and contractual costs.

Table 1

Theoretical framework about success factors

As underlined before, it is hard to give a winning recipe that will ensure a successful internationalization. However, previous researches have found some strategies that are advisable. The table below summarizes the major findings.

Loker, Good, and Huddleston, 1994	**Reda (1994)**	(**Feigenbaum, 1993)**
Internationalize what you do	Adapt products	Have a consolidated

well	and strategies to local tastes	store model
Listen to your customers and adapt to their needs	Keep the store concept but adapt to local needs	Commitment to internationalization
Change the strategy if it doesn't work	Adapt the product mix to local demand	Have financial resources to support unplanned costs
Balance short and long term goals	Meet the regulations and specifications	
	Make the offer unique and differentiate the brand	
	Make international alliances to enhance your presence in the world	

Table 2

As it is possible to see from the table, although there are of course some differences in the number of elements presented and the factors identified, the literature seems to go in the same direction. Companies should proceed on a path that incorporates two strategies: reproduce a structure similar to the home company and, at the same time, make the necessary adjustments to meet market needs. Flexibility seems to be the key in the whole process as an enterprise entering a new market needs to change quickly to fit the environment. However, the company needs to have a strong and consolidated structure of how to conceive its core business and the stores. Furthermore, it is very important to be sure to have a reasonable pool of capital to invest and to face unexpected events that may occur during the internationalization process and manage the operations in a way that both short and long term plans are safeguarded. It is also essential not to lose control of the home country operations and balance all the elements in a way that they mutually fuel each other and none of them stagnates. The case of Kmart is relevant in this respect: after developing the operations correctly in a long term perspective, the company run out of the resources for the next step of expansion to the bordering country.

Hypothesis 4: There is a positive relationship between the size of the home company and the resources it owns and the profitability.

Hypothesis 5: There is a positive relationship between the profits accrued and the level of local adaptation.

3.5 Summary

The literature on internationalization is very extensive and it covers many different approaches and perspectives. It is important to be aware that the entry mode chosen usually depends on the result of an analysis performed on both internal and external factors but also on the level of control and commitment that the firm wants to achieve. As the resource-based theory suggests the kind of advantage detained also influences the entry mode decision as the one chosen must be the best one in order to protect the resources. In such cases the strategy used is a direct consequence of the firm' s knowledge and resources. Another important variable, according to research, is the overall strategy selected by the company (global or multinational) that shapes the company subsidiary relationship in a different way. When choosing the foreign location and the strategy to use, the OLI and PESTEL are the models that one could refer to. This model

identifies the pivotal advantages that the company has or could attain by starting the operations in a given location abroad. Other lines of resource are either complementing or exploring other areas of the subject. Many of the main theories (Vernon, 1996/2004; Aharoni, 1996/2004; Johanson and Weidersheim-Paul, 1975/2004) suggest that the internationalization model is a progressive serie of steps that move from low to high control strategies with the increase in familiarity with the host country environment. They crucial cost/disadvantage points are presented, among the others, by Coase (1937) that explains the tendency to keep operations internally for companies having a strong ownership advantage that may be expensive and difficult to transfer and the differences in the way the host country functions and all the factors relative to the location (psychic distance) that may make the information flow slower and less efficient (Johanson and Weidersheim-Paul, 1975/2004). Finally the network theory recognizes a facilitator and active role in the internationalization process to partners that can shape the direction of these moves and are also very important both under the transaction cost and the institutional theory since they can work as a bridge or intermediary between host and home country. However, some strands of literature are less strict on a univocal entry mode decision but it proposed a more open minded approach. Companies could start with a low resource commitment and low risk entry mode in order to keep all the options open and quickly adapt to market changes (Li, 2007) and reap the benefits of new opportunities or get back to the safe shore by giving up on the investment if new risks arise (Michaels, 1997).

From this theoretical background we derived 5 hypotheses that we will test in the next session and the discuss:

Hypothesis 1: Enterprises with a global strategy are less likely to opt for high control modes of entry while multinational companies will choose high control modes.

Hypothesis 2: There is a positive association between increased experience and familiarity with the host location and the commitment in the market.

Hypothesis 3: There is a positive relationship between the presence of partners and level of involvement and control of the entry mode chosen.

Hypothesis 4: There is a positive relationship between the size of the home company and the resources it owns and the profitability.

Hypothesis 5: There is a positive relationship between the profits accrued and the level of local adaptation.

4. Methodology

Creation, evolution and success of a company is a subject of major interest for many scholars who analyse and test different assumptions and expose theories in order to clarify these processes and predict company behaviour. Internationalization and trade outside the national boundaries is for sure a topic debated and deeply analysed. As seen from the literature review, there are different angles through which it is possible to see and explain this process. Although, there is not a standard and recognized way through which companies perform international operations, we will try to track the trend by using secondary data available on databases. This paper tries to build a model explaining the entry mode chosen by retail chain companies when entering a host country and the profitability accrued in a specific foreign country with respect to others. In order to test the hypotheses mentioned in the previous chapter, a number of variables is used and processed into two different regressions: a logistic one to predict the entry mode and a multiple regression to catch the change in revenues. When deciding on how to structure this study, there were two possible ways: either through a case study that involves one or more companies and the information are collected directly through interviews or questionnaires or, on the other hand, running an analysis with data previously used for other studies and stored in databases. In the first case we deal with primary data while n the latter, as in our case, with secondary ones. There are pros and cons with both of these approaches. If one hand, primary data allow to get exactly the data you are looking for by drafting the collecting means accordingly and accessing accurate and updated information. However, this requires a lot of effort in terms of time and resources that one should invest in the data seeking process. This was not possible in our case as the retail chain industry is quite close and it is not easy to have big chain companies (such as those we included in the sample) to have their information

disclosed. So the study was instead based, on secondary data available on databases that required considerable less time to be obtained. However, since the data were not designed for this study specifically, there are some variables that are missing and that could have been better captured if the information were directly collected first-hand. Also, it could have maybe been possible to retrieve data for a longer timespan such as a 5 year period that has not been possible with the tools available here. Given the impossibility to get direct contact with the companies operating in the selected industry, we maximise the value of the available data in order to validate the hypotheses presented above.

4.1 Methods

There could have been many ways to tackle this problem and analyse the data, as well as multiple kinds of data to include in the sample. Here the approach is twofold: logistic and multiple regression as in our case we are dealing with both quantitative and qualitative data.

The analysis is run on a sample of 121 cases of 10 different companies whose headquarters are either in Western Europe or in the USA and they have a solid position in the home country. All of the firms included in the analysis have already had experience in entering other countries. Furthermore, from the corporate data available, it is possible to see that in some cases there have been entries and exits in the foreign location and that the entry mode has been changed over time. This is an interesting occurrence that supports the theory reported above that calls for possibility for entry mode change as companies become more familiar with the host location and get more or less confident with the potential value of the investment.

The analysis uses multiple factors in order to capture the influence of different variables on firms' internationalization process. It could have been interesting to use of factor analysis as a technical tool to produce another independent variable to better represent cultural and environmental risk factors as it has been previously done in many other studies.

Earlier researches employed different tools and variables to explore this relationship. For example Berry, Guilleim and Zhou (2010) use Mahalanobis distance in order to measure the difference between the elements in the sample. The Euclidian distance approach is also mentioned but discarded as it does not meet all of the research requirements. The paper includes a detailed study of culture and its effect on internationalization.

Harzig (2002), instead, uses a binomial logistic regression and includes a dummy variable for the entry mode (either greenfield or acquisition). The explanatory variables are R&D intensity, foreign experience, diversification, cultural distance home-host country, size of the investment as well as the strategy used and time horizon of the project. The author uses Mann-Whitney parameter in order to test the difference between the home-host country relationship with non-parametric tests since the distribution is assumed not to be normal.

On the other hand Geringer, Beamish and DaCosta (1989) use standardised data in order to check the differences in performance values.

Many authors (e.g Agarwal, Sanjeev, Ramaswami, Sridhar, 1992; Andersson and Svensson, 1994) run different regression that include or exclude independent variables in order to estimate the change and the contribution that every element gives to the whole regression and the possible collinearity and relationship between the factors.

4.2 Data collection

The data was collected on a worldwide base and it refers to all of the international sites for which information was available. Furthermore the analysis also includes cases referring to a number of years in the past with the amount of data varying with company and location.In many cases it was not possible to find data for more than two consecutive years and for some elements there were significant gaps of information over the considered period. This means that it wouldn't have been possible to follow the strategy development.

The data used are secondary data collected through Orbis database. The data were often available for regions within a country, so it was necessary to sum up the single results in order to have data for the whole country. The decision to collect the data per country and not per region was mainly driven by the fact that we preferred to have an overview of the countries and test our hypotheses on the overall country rather than segmenting the country in question.

Furthermore, there is another issue to notice that is the companies heterogeneity. The firms included in the sample don't operate in the same industry and some of them (e.g. Amazon) don't even have physical shops where the products are displayed but online stores are available for all the sample elements. Furthermore, the selected corporations are all quite/very big in size

and their degree of internationalization is high so that the countries they enter are very different in terms of a number of variables. The most represented industry is retailing that includes many big chains offering a full range of products to clients around the world. This category is included as relevant as it targets a large share of customers and it uses a similar strategy. The companies included in the sample belong to mostly to the retailing sector, are quite big and international players and have a strong position in the home company. The focus is on companies that have a defined brand and are well known outside the markets they enter. The topic of international retailing is recurring in literature and there is support for the hypothesis that although the barriers to trade have been progressively removed and the distance between markets shrinked, retail still has an important local component.

Lastly, some companies were richer in data than others so that the number of cases varies for each of the companies and we risk if not a bias on the results, an over-representation of some companies and industries.

4.3 Measurement

In order to test the hypotheses we use a set of variables because they represent the phenomenon we want to measure and the factors that affect the outcome:

Variable Name	**Function**	**Measure**
Entry mode commitment	Dependent	Numerical dummy variable
Performance	Dependent	Numerical
Home country (developed/developing)	Independent	Numerical (GDP)
Host country (developed/developing)	Independent	Numerical (GDP)
Differences in practices	Independent	Qualitative dummy variable
Global strategy	Independent	Qualitative dummy variable
Year of entry	Control	Numerical

Number of employees	Control	Numerical
Number of shops	Control	Numerical

Table 3

Entry mode commitment. Entry mode is one of the dependent variables and it includes all the possibilities described in the previous paragraph: exports, licensing, franchising, strategic alliances, joint ventures and wholly owned subsidiaries. This variable is explained also by other authors such as Machino and Neupert (2000). In order to keep the analysis simple we decided to group the variables in two categories: wholly owned subsidiary and licensing or partnership highlighting the different commitment of risk and resources.

Home and h*ost country development*. This variables measure the state of the economy in the company home country and the host one. There is a positive correlation between the amount of FDI and the level of economic development (Contractor, 1984) and the level of economic development is an important factor when considering host countries (Davidson, 1982; Zejan, 1990). There are different factors that can influence the entry mode adopted by the home country: access to local labour, either skilled or unskilled (Kravis and Lipsey, 1982; Root, 1987; Tong and Walter, 1980), local raw materials (Dunning, 1980; Goodnow and Hansz, 1972; Kravis and Lipsey, 1982; Root, 1987; Tong and Walter, 1980), local technology (Hirsch, 1976; Tong and Walter, 1980), local capital (Goodnow, 1985; Hirsch, 1976; Kravis and Lipsey, 1982; Tong and Walter, 1980) and local communication or transportation (Goodnow and Hansz, 1972; Hirsch, 1976; Tong and Walter, 1980). This variable is also included in Campa and Guillen (1999); Iyer (1997); Yeung (1997); Zaheer and Zaheer (1997)

Differences in practices. This is a dummy qualitative variable that assumes value 0 is the host and the home country are similar on those parameters, while it has value 1 if they differ. This variable is included also in the analysis of Hill, Hwang, Kim (1990), Kwon and Konopa (1993) and Kim and Hwang (1992) and it is supposed to drive the entry mode since as companies that are not familiar with language, culture and business practices of the host location will prefer low risk, low involvement strategies (Anderson and Coughlan, 1987; Davidson, 1980; Green and Cunningham, 1975; Johanson and Vahlne, 1977; Kobrin, 1983; Stopford and Wells, 1972). Cultural differences are important in the entry strategy mode (Anderson and Gatignon, 1986; Goodnow, 1985; Goodnow and Hansz, 1972; Kogout and Singh, 1988; Root, 1987) and they

influence the control that can be achieved in a host location and the costs of doing business connected to it. The more different the culture, the less the control over the operations and the higher the cost of competing in the market. Firms are more likely to shift the production in the host country if the two countries are similar in terms of language, culture and business practices (Davidson and McFretidge, 1985). Many authors have studied this relationship (Buckley and Mathew, 1980; Contractor, 1990; Gomes-Casseres, 1990; Kim and Hwang, 1992; Aulakh and Kotabe,1995; Agarwal and Ramaswami, 1992; Terpstra and Yu, 1988,Brouthers, 1995; Agarwal, 1994; Minor, Wu, and Choi. 1991; Anderson and Gatignon, 1986) although there is no comprehensive analysis or model that incorporates all the factors playing in the process. Hymer (1960) refers to liability of foreignness as a factor dramatically affecting internationalization and that heavily depends on the distance between home and host country. Different authors highlight different influencing aspects such as language, education, business practices, culture and industrial development (Johanson and Vahlne, 1977: 24), linguistic, cultural, political and institutional (Barkema, Bells and Pennings, 1996: 153) national cultural characteristics of the home and host country (Hennart and Larimo, 1998: 517) or the characteristics of the host market (Kogut and Singh, 1988: 413). Only Gheumart (2001) extends the number of distance factors including 4 groups of variables: cultural, administrative, economic and geographic. A framework that is usually used is the one theorised by Hofstede (1980) that focuses on uncertainty avoidance, power distance, masculinity and individualism although it lacks a holistic approach in the analysis. A more recent research model, Global Leadership and Organizational Behaviour Effectiveness (GLOBE, (House, Hanges, Javidan, Dorfman, & Gupta, 2004: 16) widens the scope of Hofstede's work but still considers culture as the main factor affecting internationalization and has some other limitations common to the previous research model such as ecological fallacy (that is the tendency to generalize results of a sample over a population), time invariance (since the factors are considered to be fixed at the initial level and no deviation or change is admitted) and representatives (of sample characteristics and results that reflect the characteristic of a wider population). Furthermore Berry, Guillen and Zhou (2010) adopt an institutional approach, basing their analysis on 3 pillars in order to compare home – host countries: national business systems (Whitley, 1992) that include economic, administrative and financial dimensions, national systems of governance (Henisz and Williamson, 1999; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998) that define the

conditions that make countries different under certain aspects. Lastly, the third factor, national innovation systems (Nelson and Rosenberg, 1993) define how competences are created within a country and how these are related to those withhold by others. Barkema, Bells and Pennings (1996) show that cultural distance alone is a factor negatively influencing the firms' willingness to internationalise if considered as the only factor in the analysis while the impact is different when other variables are included.

***Global strategy**.* This variable is qualitative and it indicates whether the company adopts a multinational or global strategy that is one of the main decision an enterprise needs to take (Hout et al.,1982). This variable is also used in the analysis performed by Hill , Hwang and Kim (1990) and Kim and Hwang (1992) and it predicts that multinational companies choose low control strategies while global firms should opt for high control strategy. This behaviour is justified according to Hout el al.(1982) by the fact that for global enterprises the potential needs to be maximized at every point in the business. Some authors (Edwards, 1971; Watson, 1982; Hamel and Prahaland, 1985; Kim and Mauborgne, 1988) notice that strategic considerations are much more complex and forward looking and not necessary the best entry option in chosen. In the analysis this variable is a binary dummy variable having value of 0 in case the strategy used is global and 1 in case it is instead multinational. The number is assigned on the basis of the collection of information about the business model and the way the service or product is presented and offered to the customers.

Performance. The operating turnover is one of the dependent variables and it measures the gains accrued at the end of the year as stated in the annual reports and they give an indication of the company success and its profitability in a given market. Data from different years are provided in order to see the trends (as well as any improvement or worsening) and integrate the numbers with the strategies taken by the company or the shocks in the environment.

Other authors also approach the study in a different way. For example, Arora and Fosfuri (2000) use time in order to organize the variables and account for the effect of all the relevant variables where period 1 is used as a reference of independent variables for period 2. Logit regression is used to test the formulated hypotheses. Davis, Desai and Francis (2000) employ a multiple

discriminant analysis (MDA) in order to predict the effect of independent variables on the dependent ones.

The econometric model used in this analysis is twofold: since we run two different regressions given the different nature of the dependent variables, we use the logistic regression in order to explain the entry mode used by home companies when entering a foreign location, while the multiple regression that includes all the variables presented above is employed to determine the model for operating revenues. Both approaches predict the impact and the value (if any) of the independent variables on the dependent ones.

In order to test the relationship between these variables, we want to test some hypotheses derived from the main streams of literature and we test them building two regressions with a set of independent variables that influence the dependent ones.

We have two dependent variables in our analysis, profitability and entry mode that need to be explained by the independent variables. The regression used will provide useful insights about the relationships and the effect that independent variables have on the dependent ones given their significance in the statistical analysis (set at 0.05) that defines where the hypothesis is rejected. The regressions will have this structure:

Y1 (profitability)= bo+b1x1+b2x2+b3x3…bnxn+ei

Y2 (entry mode)= bo+b1x1+b2x2+b3x3…bnxn+ei

With the two ys indicating the dependent variables, bo the intercept, b1, b2, b3…bn being the slopes and x1, x2, x3… xn representing the variables themselves. Ei is the Random Error Term that is the difference between the observed and the predicted value. However, it is important to be aware that both correlation between the independent variables or the omitted variable bias (the variables that should have been in the regression but are left out of the analysis) could distort the value of the coefficient giving misleading results.

The regression allows a representation of the phenomenon in relatively simple terms and it gives an idea of the impact of changes in the independent variables on the dependent ones. The multiple regression is more realistic since more independent variables are associated to the dependent one. It also useful in order to measure the partial contribution of the single factors.

Furthermore, using a multiple regression, it is possible to make more reasonable assumptions due to the fact that we are including more elements in the equation. This is also a way to somehow correct for the omitted variable bias since some of the variables could capture and account for the explanatory effect. Lastly, it also helps reducing the standard error of the estimate and the standard error of the coefficient (Statistics for Business and Economics, 2007). A deeper analysis could have been provided by using time series or panel data that report information about data over time and would have given a more complete overview of the variables. This type of data used time as an independent variable (Statistics for Business and Economics, 2007).

In order to perform the logistic and the multiple regression some assumptions need to be checked. Namely the sample size and multicollinearity, that is a high correlation between two or more variables that can negatively affect regression results. Also outliers or not explained cases are crucial points as well as normality, linearity, homoscedasticity and independence of residuals. These conditions can easily be checked using tables created by SPSS when running the analysis.

5. Results

5.1 Predicting the entry mode selection

In order to look at the results, it is important to focus on one regression at the time to fully understand the dynamics at play. The first regression explaining the entry mode decision is based, as already said above, on a logistic regression, that allows to predict a categorical variable. So, going back to the first analysis, looking at the first three tables, we can check that all the data inserted are correct and they have been rightly processed. Then, one of the relevant outputs for the results comes.

First of all we want to check the results of the analysis if only the constant and no other variables are included in the analysis.

According to this model, companies would choose to have fully owned subsidiaries when internationalising since according to the data collected there are more of these cases. However, this is just a starting model that needs more investigation (and confirmation) with further research and analysis.

The Omnibus test confirms the need of running a regression with independent variables since the variables are significant because they are below 0.005.

The indexes reported in the model summary indicate that this set of variable explain between about 28% and 48% of the variation.

Looking at the table Variable in the equation, we can see that with the data provided for the analysis only two variables are significant at significant level 0.05.

Variables	S.E.	Sig.	95% C.I. for EXP (B) lower	95% C.I. for EXP (B) upper
Homecountry	,000	,221	1,000	1,000
Hostcountry	,000	,291	1,000	1,000
Differencesinpractices(1)	,701	,375	,136	2,120
Yearofentry	,040	,239	,969	1,134
N.shops	,001	,044 ***	1,000	1,004
N.employees	,000	,013 ***	1,000	1,000
Globalstrategy(1)	2636,332	,935	0,000	
Constant	2638,452	,906		

Table 4

*** p<0.005. Positive signs indicate a higher probability of companies choosing to set up a wholly owned subsidiary rather than going for an acquisition or partnership.

Namely, the only variables contributing to the prediction are the number of shops and the number of employees that the companies have. For each shop added in the host country, the probability of adopting a strategies of fully owned subsidiaries grows by 0,002. All the B values are positive as expected and the only negative coefficient is the one representing the difference in practices between the two countries indicating that the companies choosing an acquisition or partnership strategy are more likely the ones that recognised a gap between home and host country practices.

The expected B values,furthermore provide other useful insights since the value of the two significant variables is equal to 1 so that the more shops and employees a company has, the more likely it is that the strategy adopted will be a fully owned subsidiary. Unfortunately, there is no evidence supporting hypothesis 1 that relate the strategy used by companies (global or multinational), the association between the familiarity with the host market and the commitment, the presence of existing partners and the resource commitment.

The results of this first analysis are not very helpful to validate our assumption since the only significant variables are actually control variables that are not our main interest. This could be due to some kind of relationship between the variables that affects the results.

If we try to check the results without these two control variables, the situation does not improve but the significance values are blown to even higher levels. This could relate to the omitted variable bias and the effect that those variables have if they are left out of the regression.

5.2 Explaining the drivers of performance

It is now time to look at the second regression predicting performance. We use a hierarchical multiple regression so that we can decide the order with which the variables are inserted into the regression. In the case of a classical multiple regression, we would put all the variables at the same time while with the hierarchical we can test the impact of the independent variables on the overall regression results. From the preliminary analysis of correlation it is possible to see a very weak correlation of the variables included in the analysis with the dependent performance variable.

All of the variables register values that are much lower than .3 and only global strategy is -0.291 that signal a negative direction of the relationship. If we look in the other columns, host country is the only variable that correlated significantly with other two, namely the number of employees and global strategy. In line with these results, the value of tolerance (the portion of independent variable not explained by the other predictor variables included) is never less than 0.10 and the VIF is not above 10 excluding the possibility of multicollinearity. Looking at the normal probability plot and the scatter plot of the residuals,however, it is evident that the variables are not normally distributed since the points don’t lay on a rough straight line or clustered around zero but they deviate. Furthermore, Cook’s distance suggests that there is some problem with outliers in the regression and they negatively affects the results since the maximum value reported is around 11 that is much higher that the cutoff point 1 that is a warning signal. If we look at the table Model Summary, the R Square reports that only about 10% of the variance is explained by the regression variables. The value of the adjusted R Square is even lower, with an explanatory power of about 4%. Furthermore, looking at the significance value of Anova, since it is not lower than the usual significance level of 0.0005 we cannot reject the null

hypothesis stating that the multiple regression is equal to 0. We can also see that the constant and the control variables alone only explain about 12% of the regression while when the independent variables are added, this value raises to about 31%. Looking at the table Coefficients and in the Beta column of Standardized Coefficient, it is possible to detect that the variable global strategy has the highest coefficient and it is therefore the one yielding the highest contribution to the model explanatory power with Home country being the second factor. The value of global strategy is confirmed by its significance level lower than 0.05.

Model 1	Variables	Sig.
	(Constant)	,446
	Year of entry	,426
	N. shops	,321
	N. employees	,709
Model 2	(Constant)	,454
	Year of entry	,413
	N. shops	,831
	N. employees	,953
	Global strategy	,002***
	Differences in practices	,562
	Home country	,288
	Host country	,652

*** p<0.005. Positive values indicate an increase in performance

Table 5

In order to improve the predictive value of this regression, alternative analyses with other variables have been performed without better results. For example country risk has been

included. The value included was calculated as an average of the single coefficients of the Worldwide Governance Indicators (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption) provided by the World Bank. Another attempt done was to include the number of local employees (the number of employees per host country). A third experiment, trying to capture the size effect was done inserting the number of countries each company operated in. None of these improvements significantly influenced the analysis so that we reverted to the original regression. A possible reason for the ineffectiveness of this measure is given by Kwon and Konopa (1993) that say that the number of international operations is not always connected to the commitment effort over a geographic dimension. The results support h4 and h5 since there is a significant relationship with the number of shops and employees number (as a company size and resources measure). Furthermore, global strategy variable also plays an important role in explaining the dependent variables and it is evident from the data that companies choosing a global strategy are more likely to adopt high control entry strategies in an attempt to replicate the successful structure in place in the home country. This important decision also depends on the nature of the company's competitive advantage: if the optimization of transaction costs is less than the disadvantages following from the limited strategic flexibility it makes no sense to go for a high control strategy but the other methods are more suitable (Hill, Hwang and Kim, 1990). Also, it can happen that firms that are already active in other markets when they enter a new location don't always follow a gradual and incremental internationalization path (Kwon and Konopa, 1993) but the mode of entry is adapted to the product sold and specific market needs (McDonald, 1961; Root, 1987; Wind and Douglas, 1981).

These results are also confirmed by the use other specifications. For example, in the first case the use of the probit model instead of the logit reports a similar output with the only significant variables still being the number of employees and shops.

Variables	Estimate	Sig.
[Modeofentry = 0]	167,638	,000
Homecountry	,000	,323

Hostcountry	,000	,258
Differenceinpractices	-,367	,371
Yearofentry	,026	,261
N.shops	,001	,046(***)
N.employees	,000	,014(***)

Table 6

*****p value < 0.005**

6. Discussion

The results obtained from the two regressions don't offer great support for the hypotheses we presented but they still show some connection.

The data collected are from well-established retail chain companies that are active in many different location and can exploit their long time accrued knowledge in expansion and internationalization to plan the entry into other distant markets. In all of the considered case the internationational company has a strong foothold in the home market and can make use of a big pool of resources. Also in many cases their strategy has been varied with immediate successes or a more trial-and-error, entry-exit and re-entry strategy with the need to rethink of the entry modes in order to break into the market.

Let's consider hypothesis 1 stating that global companies will be less likely to engage in high control- high resource engagement of resources as opposed to multinational companies. The variable global strategy is not significant at any of the usual p levels so that we cannot get any insight about this variable. The only relationship we can recognise is that big companies will be more likely to opt for wholly owned subsidiaries. If we assume that those big companies are the ones adopting a global strategy, then the assumption is in line with the results from the regression. If instead, we include multinational companies, the empirical results deviate from the theory.

A vast stream of research supports the theory of the internationalization process as a structured series of sequential steps that imply an increased involvement and resource commitment as a function of the accrued knowledge and familiarity of a specific host location. This strategy is adopted in the different way by multinational and global companies, with the latter having a closer and tighter control over the operations run abroad. The underlying assumption is that increased gains and a highly centralised subsidiary system needs a great deal of monitoring

and resources in order to align the foreign companies located in the host countries to the strategic line followed by the home company.

In the same way, we can't assess the validity of hypothesis 2 and 3 as the variables are not significant. We can only remark that our companies are more likely to enter foreign markets and they might seek the help of local partners if the host environment is characterised by high risk and uncertainty so that they can be guided in the process but also revert back quickly without incurring dramatic losses. The findings only partially support hypothesis 4 that states that there is a positive relationship between the size of the home company and the resources invested and the profitability. This is only supported if we assume that big companies are more likely to choose wholly owned subsidiaries as an entry mode and this is the best strategy to maximise the gains in the foreign market.

This is discussed in many papers that consider alternative entry modes to access strategic locations. The answer to this claims in never univocal but it mostly depends on the nature of the competitive advantage and the particular environmental conditions existing in the host country.

From the first regression, we saw that the only two significant variables are the the number of shops and employees that give us a measure of the size of the home companies. The positive relationship of these factors with the entry mode doesn't support any of the hypotheses we presented. According to Agarwal and Ramaswami (1992), larger and more international firms are more likely to choose high control strategies in order to capture the benefits of markets having a great potential. The same authors point out that the internationalization process is constrained by size and multinational experience. The output supports this theory removing this limitation and allowing those big companies to choose the strategy that best suits them and opt for a entry mode with a high resource commitment. However, these considerations should be coupled by the analysis of competitive advantage and the ease of transfer of strategic resources. The answer to the best entry mode can, in fact, change depending on the nature of these assets and the host country environment.

The second regression reports a positive relationship between a global strategy and a better performance. According to Kwon and Konopa (1993), firms that operate in different markets accrue knowledge in internationalization and don't start from scratch in the process as some

other companies that have never done it before. As a consequence, global strategies do not necessary follow the usual path but they can resort to special strategies and arrangements depending on their experience. So they can find other ways to balance the disadvantage of being foreigners. Also Geringer, Beamish and Dacosta (1989) recognise a linear positive relationship between the degree of internationalization and performance at least until a certain extent. The results of the regression linking global strategy and increased profits don't support hypothesis 5 that there is a positive relationship between profits and local adaptation. As we saw from the theory, in fact, global companies tend to adopt a one-size-fits-all approach that comprises the creation of subsidiaries that are small replicas of the mother company, they don't have a great degree of freedom and local responsiveness and they tend to standardise their offer in the multiple locations they are working in with the aim of benefiting from economies of scale and a proven business model.

The results obtained seem to suggest that the internal company factors are particularly important for companies success and the entry mode chosen. According to the output of the first regression, the size of the company positively affects the tendency to go in the host market with high resource commitment strategy. This could relate to Barney´s (1993) previously cited resource-based theory that attributes the achievement of competitive advantage to the bundle of resources withhold by the company that are not easily transferrable. This would also explain the need for the home company to choose to set up a wholly owned subsidiary in order to easy the knowledge transfer avoiding the risk of knowledge spilling out of the firm´s borders. The choice of high commitment entry modes from large and multinational firms is supported by Agarwal and Ramaswami (1992) that also state that those companies present in multiple countries carefully select and scrutinise the countries they are entering and they avoid those having a low strategic potential. This is why investment modes are chosen in profitable countries so that firms can get the most out of of these locations. Both Erikson et al (1997) and Erramilli (1991) found a positive relationship between previous internationalization experience and the entry mode.

This view however underestimates some other success stories of company having smaller size but leveraging others factors to thrive. As Calof (1993) reports, size is not a barrier to internationalization although it has a positive impact on this process.

On this regard, a factor that is often included and tested in research is market attractiveness measured in terms of the difference in practices with respect to the home market. We incorporated this value in order to account from this factor but the variable was not significant and we couldn't get any insight about the effect that it has on both the entry mode decision and the performance. Some authors (Johanson and Vahlne, 1977; Luostarinen, 1979 and Vida, 2000) suggest that this impact is stronger in the earlier stages but it then tends to smooth out with the passing of time and the increased familiarity with the host location.

Finally, an important factor that we didn´t take into consideration is the level of competition faced at the date of entry as reported by Gripsrud and Benito (2005) since an early entry with a low market concentration positively affect the performance (the so called first-mover benefits). This could have been an explanatory variable for both of the considered regressions.

7. Conclusions, limitations and future research

This research focused on explaining the factors that drive profitability and entry mode choice. Not all of the hypotheses were supported by empirical results but it is only possible to confirm a relationship with the company size (measured as shop and employees number) and global strategy. The analysis has some limits since only big companies were included in the sample and there was no account for small and medium enterprises that make their way into international markets through other strategies. Also, there is no index that properly incorporates country risk or regulations effect as included in other studies. There is no indication of the influence (if any) of double-layer acculturation that according to Barkema, Bell and Pennings (1996), represents another hurdle in the internationalization process. An interesting point could be (provided more data) to analyse the effect (if any) that entry mode changes over time have on performance and profitability using a tool such as panel data. An alternative approach could have been to integrate this quantitative analysis with some interviews to players in the market in order to have access also to some primary data. Future research could further investigate the drivers behind the process of internationalization and the different modes but with a closer look to different sized companies. This could uncover drivers and potentials that haven't been valued so far.

We only have a partial answer to the proposed research questions. The first question was trying to uncover the factors that influence the decision to internationalise. From the above data we can say that the size of the company (in terms of both the numbers of employees and the amount of shops owned) somehow influences the likelihood that companies will prefer setting up a wholly owned subsidiary over buying a local enterprise already operating in the market or

agreeing with a local partner to expand to the host location. Secondly, companies adopting a global strategy are more likely to register a better performance.

The results are in any case relative to the framework we presented and further research should further test the validity of these findings.

As we outlined in the previous section some variables could have contributed to a better explanation of the data such as values related to competition but also more generally to the external factors affecting performance and entry mode choice.

It would be also interesting to assess the effect on a more extensive number of decisions such as entry scale, entry mode, entry order, adaptation to the foreign market and familiarity with the home country strategy and business model as Gielens and Dekimpe (2001) did.

Future research could deepen and better capture the effect of both internal and external factors along with the relationship that the all set of the decisions and their timing have on performance.

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