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MARKET ENTRY MODES OF ICELANDIC FISHERIES COMPANIES

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Reykjavík, Date (17/05/2016)
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Market entry modes of Icelandic fisheries companies.

30 ECTS final thesis to the completion of a M.Sc. degree in International Business and Marketing at the Faculty of Business at Reykjavik University.

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My biggest thanks go to my family and to my wife, Sólveig María who supported me and took care of our two sons Óli Gunnar and Jakob Þór while this was being written.
Abstract

The aim of this research is to study the market entry modes of Icelandic fisheries companies that are exporting marine goods to the United States via Boston. A market entry model which consists of various influencing factors will be used to assess the market environment. The results from the model will then be compared with the current export methods of the companies. This research also seeks to gain an understanding of how the companies carry out their expansion into foreign markets.

The literature covers internationalization theories as well as theories on market entry strategy and market entry modes. It explores how market entry methods have developed through the years and explains the importance of choosing the right entry mode when entering foreign markets. The model used in this research is explained thoroughly, and all the influencing factors as well.

This study is based on qualitative interviews conducted with fisheries companies in Iceland and importers of seafood located in Boston. In addition, quantitative data was collected in order to get a more comprehensive overview of the market. The collected data was then used to find an ideal market entry mode, using the market entry model.

The results indicate that intermediate entry modes, such as joint ventures are fitting for these companies in the United States market. The results also suggest that if the market entry model is to be used in a practical way, it will have to be adjusted accordingly.

Keywords: market entry modes, fisheries companies, exports, entry model
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1 Introduction

This research will focus on the selection of market entry modes made by Icelandic fisheries companies. Four firms were chosen, that are all currently involved in the exports of marine goods to foreign markets. They are also all involved in the US (United States) market and are currently exporting fresh and frozen products to markets all over the country via Boston. The focus will therefore be on these four firms and the US market.

There will not be an assessment of whether these firms should be going international in the first place or what market should be their target market. The current entry modes of the firms will be explored, as well as what the firms consider to be of an importance when making a decision of how to enter a market.

Entry modes describe the method firms use to enter a target market. They are categorized into equity and non-equity modes (also referred to as hierarchical, intermediate and export modes). Within equity modes are such options as wholly owned subsidiary and joint-ventures. However, joint ventures can vary in terms of level of equity shared between parties. Within non-equity modes are exports and contractual agreements, which can also be subcategorized further (Yigang Pan & Tse, 2000).

Root (1998) concluded that selecting the right entry mode is one of the most important decisions for an international firm to make. Yip et al (2000) point out that a detailed analysis is required for evaluating the best way to enter a target market. Choosing the right entry mode can give a company an advantage in the market, while choosing the wrong method can result in a loss of resources, core technology to competitors or it simply loses the chance to take full advantage of market opportunities (Dickson & Giglierano, 1986). The decision on market entry is therefore considered of great importance, and not a decision to be taken lightly. Eyjólfs身上 (2012) argues that the exports and internationalization of Icelandic exporters of marine goods cannot be explained using any single theory. He however states that it bears a resemblance to the network model. That justifies looking into how managers make decisions on market entry mode and whether it differs from the characteristics of the market.

The reason for looking into the US market is based on a report that the author of this research received from Fisheries Iceland, where managers of 12 different Icelandic fisheries companies were asked, where they saw opportunities for marketing and selling their products. One opportunity they mentioned was to look further into marketing fresh
fish in the USA (United States of America) since buyers there are believed to see the origin of the product as an important attribute (SFS, 2016).

There has been much research conducted in this field although, the focus has mainly been on large multinational enterprises (MNE’s) and their entry modes, instead of small-to-medium enterprises (SME’s) (Laufs, Bembom, & Schwens, 2016). There seem to be different variables, or factors that will influence the market entry mode choice. Dunning (1977, 1980, 1988) and, Agarwal and Ramaswami (1992) argued that the following factors were at play and affected firms’ abilities to succeed in a foreign market; firm size, multinational experience, ability to develop differentiated products, market potential, investment risk and contractual risk. Goodnow and Hansz (1972) identified corporate specific factors such as; corporate strength, competitive position, corporate policy and product’s characteristics. They also identified external factors that were important; economic development, political environment, geo-cultural environment, comparative host country costs and the firm’s home country government’s policies. Root (1987) referred to the characteristics of the company’s products and its ability to commit resources to a market, as internal elements. Other factors that showed up in the literature were for example; product quality, marketing skills, brand name recognition, distribution channel control and socio-cultural distance. Hollensen (2007) gathered from these previous studies, what he believed to be important factors, and developed a model that gives firms an indication of whether they should use a hierarchical entry mode, intermediate mode or an export mode in their foreign market.

In this research, Hollensen's model will be used to assess which market entry mode is fitting for the Icelandic fisheries companies and the US market. Hollensen’s model (or framework) will be referred to in this research as market entry model. In the model, each factor will give an indication of whether the firm should move towards a hierarchical, intermediate or use export modes. Based on all the factors, an entry mode for this market is then recommended.

The objectives of this study are to examine the current market entry modes used by Icelandic fisheries companies and gain a deeper understanding of the market entry process. Also to find out what the characteristics of the market are, and see if they suggest different methods of market entry. Further objectives are then to see if the model used in this research is a fit for the Icelandic fisheries companies, and if it has practical value.
To reach the objectives the author first looks at the Icelandic fisheries companies that are exporting to Boston and examine the internal company factors and their current market entry strategies. Then it is important to get further information about which entry mode characteristics managers view as desirable (*control, flexibility, return*). The external environment is then studied both qualitatively and quantitatively. In both the internal and the external environment, there are various factors that are valued and they all play a role in determining if a company should consider using equity modes or non-equity modes. In order to gain a more comprehensive understanding on the external market environment, data will also be gathered from firms located in Boston that import fish from Iceland.

Since the business of Icelandic fisheries companies revolves around exports, there is much practical value to be gained in researching internationalization and export methods. By taking the decision of market entry apart, and breaking it into different influencing factors, it becomes possible to address the issue of market entry in a systematic way. It also becomes possible to apply the same method for different companies, in different fields and in different markets. The same rules apply for companies that are exporting technological products, dairy products or beer. Their ventures into new markets will be affected by the same factors, whether it is the level of competition, entry barriers or levels of risk their managers are willing to take.

The main research question is this:

*Do the chosen market entry modes of Icelandic fisheries companies differ from the characteristics of the market they are entering?*

What follows the introduction is the literature review. It covers the relevant literature in the field. It will begin with a wide-scope overview of internationalization theories and their characteristics. Then comes a review on market entry strategies and a brief discussion on the internationalization of Icelandic fisheries companies. Market entry modes are a concept within market entry strategies. They are discussed in more detail from different perspectives and form the basis for the conceptual framework. The classification of the factors is explained along with all the factors that are used in this research. The entry modes themselves, as they are presented by Hollensen (2007), hierarchical, intermediate and export modes are then covered in detail. The chapter on methodology reviews the research process, from the research design to the selection of
participants. Data collection and interview framework is discussed as well as quality criteria and limitations. Results are presented for each factor using data gathered from qualitative interviews or from other sources and then summed up to form a decision on the appropriate market entry mode. The study closes with a discussion on the results, along with managerial implications and limitations of the study.

1.1 The Atlantic Cod

The focus point of this research is exports of seafood to the United States. Of the total value coming in from seafood exports to that market, Cod products account for 57.67% (2014). All the fisheries companies taking part in this research are currently exporting Cod to the US. What follows is a brief summary of exports of Cod in terms of volume and value, as well as explanations of recent market trends.

The Atlantic Cod (Gadus morhua) is a benthopelagic (inhabit the water just above the bottom) fish species that is caught in the North-Atlantic Ocean, Barents sea, along the coast of Canada and North-America, and also found in the Bay of Biscay (Rose, 1993).

In terms of volume, it accounted for 18.56% of the total catch landed in Iceland in 2015, beaten only the Capelin, which was around 27% that year (‘Afli eftir fisktegundum og löndunarhöfnum janúar 2005 - mars 2016’, n.d.).

The Cod is also tremendously valuable for the Icelandic fishing industry. In 2015, around 40% of the total value of all the species landed in Iceland, came from Cod products. Compared with the Capelin, which grossed higher in terms of volume that year, but brought in only 6.59% of the total value (‘Afli og verðmæti eftir fisktegundum og veiðisvæðum, janúar 2005 - janúar 2016’, n.d.).

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<tr>
<td>U.K</td>
<td>22.73%</td>
<td>24.35%</td>
<td>24.96%</td>
<td>25.07%</td>
<td>26.80%</td>
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<tr>
<td>Spain</td>
<td>18.76%</td>
<td>15.06%</td>
<td>15.46%</td>
<td>19.51%</td>
<td>20.16%</td>
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<tr>
<td>France</td>
<td>16.87%</td>
<td>15.76%</td>
<td>13.87%</td>
<td>12.91%</td>
<td>10.70%</td>
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<tr>
<td>Nigeria</td>
<td>8.16%</td>
<td>7.48%</td>
<td>8.95%</td>
<td>6.48%</td>
<td>6.42%</td>
</tr>
<tr>
<td>USA</td>
<td>7.30%</td>
<td>7.97%</td>
<td>6.6%</td>
<td>3.78%</td>
<td>4.42%</td>
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<tr>
<td>Belgium</td>
<td>5.99%</td>
<td>6.78%</td>
<td>6.83%</td>
<td>7.20%</td>
<td>6.79%</td>
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<tr>
<td>Portugal</td>
<td>5.39%</td>
<td>6.55%</td>
<td>8.80%</td>
<td>10.40%</td>
<td>7.9%</td>
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<tr>
<td>Netherlands</td>
<td>3.62%</td>
<td>4.10%</td>
<td>3.60%</td>
<td>7.20%</td>
<td>9.31%</td>
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<tr>
<td>Germany</td>
<td>3.49%</td>
<td>3.63%</td>
<td>3.51%</td>
<td>1.34%</td>
<td>1.48%</td>
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Table 1 shows the percentage of the total value of exported Cod products and what countries it comes from. Other countries not represented in the table account for less value. It is interesting to see where the value is coming from and how it is shifting between countries. Although the UK accounts for most value of exported Cod, it has been in a slow but steady decline in the past years. 2014 shows promise for the Spanish market from the two previous years before. There has been a considerable increase in the value brought in from the French and US market in recent years, while the Netherlands only account for a third of what it did in 2010 (‘Útflutningur sjávarafurða eftir afurðum, fisktegundum og löndum 1999-2014’, n.d.).

Icelandic firms have exported large amounts of dried Cod products to Nigeria, and it has accounted for between 6-9% of the total value. However, in 2015, markets in Nigeria closed due to capital controls that were enforced in the country. Although not shown in the table, numbers for 2015 are sure to show a significant decrease in value coming in from Nigeria (‘Allt að lokast í Nígeríu’, 2015).

1.2 Increase in volume and value

From 2010 to 2014 exports of Cod products in terms of volume rose from 95,774 tons up to 104,478 tons, an increase of 9%. At the same time, the total value went from 72,5 billion ISK up to 89,5 billion ISK, for a total increase of 24% (‘Útflutningur sjávarafurða eftir afurðaflokkum og fisktegundum 1999-2014’, n.d.).

The way the Cod is produced and exported is different for the target markets. It can be exported frozen, iced, salted or dried. There are also a number of by-products such as liver oil, fish meal, skin and collagen that are exported. In 2014, roughly 41% of the volume of Cod was exported frozen, 24% iced, 22% salted and 11% dried. In 2012 exports of frozen Cod increased considerably from the previous years. Exports of fresh Cod have also been increasing (Figure 1) (‘Útflutningur sjávarafurða eftir afurðaflokkum og fisktegundum 1999-2014’, n.d.).
Figure 1. Export volume of Cod products. Source: (‘Útflutningur sjávarafurða eftir afurðaflokkum og fisktegundum 1999-2014’, n.d.).

Figure 2 shows the value of Cod exports. Iced Cod (fresh) has increased dramatically in recent years. In 2010 it accounted for 26% of the value, and 2014 it was up to almost 34%. Frozen products have also been increasing in value, although not as much as the iced products. Salted Cod has declined from 28% in 2010, to 21% of the total value in 2014.

Figure 2. Value of Cod exports 2010-2014. Source: (‘Útflutningur sjávarafurða eftir afurðaflokkum og fisktegundum 1999-2014’, n.d.).

1.3 Exports of fresh Cod

The value of exported fresh Cod has increased significantly in recent years and it is therefore interesting to investigate further the trends that are happening in different markets. As Figure 3 illustrates that although fluctuating, prices for fresh fillets and
portions in the United Kingdom (UK), US and European Union (EU) have all been increasing in recent years. The UK is shown separate from the EU since it is the largest single market for Cod products from Iceland. From 2013-2015, the yearly average of prices increased by 28% in the US, 20% in the UK and 22% in the EU. Prices for the first two months of 2016 show a substantial drop in prices in the UK and EU, while prices in the US are not affected (Markó Partners, 2016).

Figure 3. Value of fresh Cod fillets and portions (in Euros). Source: (Markó Partners, 2016)

Figure 4 shows the volume of exported Cod to the US, UK and EU. During this period, the yearly average of Cod products exported to the US from 2013-2015 increased by 56% and 8% to EU countries. Meanwhile, Cod exports to the UK dropped by 63%.

Figure 4. Volume of exported fresh Cod fillets and portions from 2013-2016. Source: (Markó Partners, 2016).
Another interesting trend showing in Figure 4 are the spikes in exports to the EU and UK in October-November and sudden drop until February the following year. This decline however, is not as significant in the US market. The same can be said about the value, where the US market is the only one that does not show a drop in prices during this period. Table 2 shows the change in volume and value during this period for the three marketplaces.

Table 2.
*Change in volume and price from October to February the following year. Source: (Markó Partners, 2016)*

<table>
<thead>
<tr>
<th>Period</th>
<th>Change in volume</th>
<th>Change in price</th>
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<tbody>
<tr>
<td>Oct13-Feb14</td>
<td>-35%</td>
<td>0%</td>
</tr>
<tr>
<td>Oct14-Feb15</td>
<td>-25%</td>
<td>14%</td>
</tr>
<tr>
<td>Oct15-Feb16</td>
<td>17%</td>
<td>5%</td>
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The reason for these annual fluctuations can be traced to Norway’s exports of Atlantic Cod. Using a fisheries system that differs from the Icelandic quota system, Norway’s exports of Cod are not as evenly distributed throughout the year. As can be seen in Figure 5, landings of Cod increase considerably January-March and then drop immensely in April-May. This means that during those high-rising months, the supply of Cod products increases and prices drop.

Figure 5. Cod landings in Norway and Iceland January 2014 – April 2015. Source: (Markó Partners, 2016).
2 Literature review

2.1 Internationalization theories

There has been much research on the subject of internationalization in the last decades. The early literature was mostly inspired by general marketing theories and later took on export and foreign direct investment (FDI). More recently the focus has been on the network that surrounds firms that are, or want to, expand internationally. In 1966, Vernon introduced his product life cycle hypotheses where he described how firms would first go through an exporting cycle, then a market-seeking FDI cycle and finally, a cost-oriented FDI (Vernon, 1966). Johanson and Vahlne (1977) then introduced the Uppsala model, which describes a continuous process that firms entering new markets go through. Based on experience with Swedish companies they found that firms usually take a series of small steps when developing their international operations. These steps are incremental adjustments where the knowledge that firms gather on the markets drives them to commit more resources to expand their operations in that particular market. By following these logical steps repeatedly, firms will increase their international expansion in a firm way.

The network model differs from the more traditional market model in regards to relations between organizations. Parties in a business network are linked together in exchange relationships. Needs and capabilities of these parties are mediated through the interaction that takes place in these relationships (Johanson & Mattsson, 2015; Johanson & Vahlne, 1990). In 2009, Johanson and Vahlne updated their model. Their argument is based on the two sides of business network research; first, that markets are built on networks of relationships that links firms together. These relationships can be complex and are often invisible. For a successful internationalization it is thus essential for firms to build relevant “insiderships”. Firms that are well established in a network that is relevant is considered an insider in the relationship, hence “insidership”. At the same time there is the liability of “outsidership” The second is that these relationships offer the opportunity for firms to learn from one another and build trust and commitment, both of which are preconditions for a successful internationalization (Johanson & Vahlne, 2009). In 1987, Franklin Root introduced a model where he developed a series of steps that firms should take (Root, 1987). His model is very comprehensive and accessible for managers and offers the ability to work systematically towards an international expansion. Miller (1993) introduced a similar, but more detailed and concrete model. What he describes as a road-map, is essentially a ten step process that
firms should follow. In each step of the way, Miller explains in a thorough manner what the firm needs to do before entering the next step, and eventually achieve the desired results in foreign markets. These ten steps are divided into three phases; assessment (steps 1&2), planning (steps 3-5) and implementation (steps 6-10). The Way Station Model (Yip, Biscarri, & Monti, 2000) was then developed and was based on these earlier models and also derived from practitioners’ experience. In order to develop the model, the authors focused on small and mid-sized companies (SME’s), and to what extent they follow a systematic approach when internationalizing. Systematic, meaning to use formal strategy planning and having long-term objectives for ventures in a target market, and unsystematic approach means not following a deliberate strategy and being more opportunistic in decision making.

These models all have strengths and weaknesses and naturally, models displaying the ideal internationalization strategy will evolve as the world does. It shows clearly with the update of Johanson’s and Vahlne’s Uppsala model in 2009. The models are quite comprehensive and cover the entire process of internationalization from the initial idea of going international to establishing a physical presence in the target market.

1.1. Market entry strategies

Market strategy is made up of an entry mode and a marketing plan. The mode of entry is meant to penetrate the target country while the market plan is used to penetrate the market itself (Albaum, Duerr & Strandskov, 2005). When a firm decides on entering a new market it needs to have a clear vision of what it wants to achieve. Having a strategic planning framework where goals, objectives and targets are discussed is absolutely necessary. In such a framework it should be clear what the firm’s mission, purpose, values and distinctive capabilities are and how they work together. In order to form a relevant vision and selecting appropriate international marketing strategies, managers need a framework (Bradley, 2002). The process of market selection and direction is based on a few implications that must be considered: Focus should not only be on individual products and their foreign markets; it is also important to consider each products role in the firms’ portfolio. Secondly, in addition to focusing on market segments and the differentiation of the product, the process of selecting a market must consider also the overall attractiveness of a market and its level of competition (Albaum, Duerr & Strandskov, 2005).
MARKET ENTRY MODES

In mainstream marketing literature, it is usually suggested that decisions on export are taken in a rational manner based on market conditions and information gathered through market research (Douglas & Craig, 1983). The theme is often based on the belief that the market entry process involves a linear screening process which then presents possible choices which are evaluated based on their comparative rates of return (Young et al., 1989). On the other hand, there is considerable evidence to support that firms often export their products for irrational reasons that appear to go against the logic of the market (Brown & Cook, 1990). For instance, in a study on Icelandic exporters of marine goods in 2012 it was concluded that the main motivation for exporting are personal characteristics of managers/owners such as foreign experience, domestic experience of the market and connections abroad. It was also concluded that the internationalization or the exports of these companies cannot be explained using any single theory. There is however strong evidence that the characteristics of the network model, includes factors that these companies share (Eyjólfsson, 2012). A business network is a long-term business relationship between a firm and its customers, distributors, suppliers and competitors. A business relationship is the connection between firms that together do business, which is of mutual benefit to both parties (Johanson and Mattson, 2015). Business activity on an international scale is associated with networking since it involves developing relationships with foreign customers, alliance partners, suppliers, intermediaries and government officials (Welch & Welch, 1996).

According to Hollensen (2007), if firms seek to enter new markets and participate in the international competitive arena, they must have established a competitive basis, that consists of its resources, competences and business relationships. The resources a firm has include all the inputs that are needed for the business process, such as technological, financial, human and organizational. How a firm uses and combines these resources, will then make up its competences. Competences can be classified further (Cardy & Selvarajan, 2006) into personal and corporate competences. Personal competences include characteristics such as knowledge, skills, experiences, personality and abilities. Corporate competences, such as embedded processes and structures, reside within the organization itself. However, not all competences are core competences. They are considered to be “a value chain activity in which the firm is regarded as a better performer than any of its competitors” (Hollensen, 2007).
2.2 Entry mode selection

In the Way Station model and Root’s model, there is a specific step called *selection of entry mode* (or: *entry mode*). When it comes to the field of international management, entry modes are the third most researched field, following research on foreign direct investment and internationalization (Werner, 2002). Andersen (1997) states that there is no general agreement on what can be identified as a theory, paradigm or conceptual framework when it comes to labelling foreign entry modes. The selection of the right entry mode is however one of the most important decisions for an international firm to make (Root, 1998). A thorough analysis is required for assessing the best way to enter a target market, since there is no general way to conclude the matter (Yip, Biscarri, & Monti, 2000). The right entry mode can help a firm gain competitive advantage. On the other hand, an inappropriate entry mode can result in the loss of resources, or they might prove difficult to change due to long-term contracts. The wrong entry mode might also result in a firm’s core technology to be lost to competitors in some *cooperative* modes. Contractual agreements might also hinder a firm from taking full advantage of a potential market growth (Dickson and Giglierano, 1986). Decision theory on the choice of a foreign market entry mode suggests that it is usually based on the trade-offs between risk and return. However, there is also evidence to suggest that a firms’ choices are made, based on resource availability and a need for control (Cespedes 1988; Stopford & Wells 1972). According to Anderson and Gatignon (1986) the resource availability is referred to as the financial and managerial capacity the firm needs to serve a certain market and control is the need a firm has for influencing systems, decisions and methods in that market. It is very desirable for a firm to have control as a way to increase its competitive position and return on both its skills and assets. The greater the ownership is in foreign venture, the higher level of control there is. On the other hand, with higher commitment of resources and due to the assumption of responsibility for decision-making, risks are likely to rise (Agarwal & Ramaswami, 1992)

When the desired target market or markets have been chosen a firm must decide in which way to enter the market. Hollensen (2007) describes a market entry mode to be “an institutional arrangement necessary for the entry of a company’s products, technology and human capital into a foreign country/market.” As seen in Figure 6, entry modes can be viewed as equity-based or non-equity-based.
Within equity modes there is a choice between wholly owned and joint venture and within non-equity modes are contractual agreements and exporting modes (Yigang Pan & Tse, 2000). A firm can choose to produce at home and use methods such as indirect or direct export to foreign importers or buyers. Or the firm can set up an operation overseas by forming a joint venture, contract manufacturing, licensing or other form of strategic alliances. Other methods may include mergers, acquisitions, franchising and whole subsidiary ownership (Albaum, Duerr and Strandskov, 2005). All these modes require resource commitments from firms, so the initial choice of an entry mode can be hard to change without losing already spent resources (Root, 1998).

According to Hollensen (2007) the fundamental method to classify a market entry mode is to divide them into three categories; export modes, intermediate modes and hierarchical modes. Each mode varies in levels of control, risk and flexibility as can be seen in Figure 7.
MARKET ENTRY MODES

Export modes (non-equity modes) is an alternative that requires low investment and as a result, low risk/return. While this mode offers flexibility and operational control it does not provide the marketing control that might be necessary for market seeking firms. Hierarchical modes (equity modes) require high level of resources and is the least flexible, but offers high level of control and a high risk/return. The intermediate mode (joint venture mode) involves relatively lower level of resources than the sole venture and thus provides levels of risk, control and return proportionate to the extent of participation of the firm that invests (Agarwal & Ramaswami, 1992).

There have also been some studies regarding how firms can combine modes in their international strategies. Petersen and Welch (2002) describe what they call “mode packages” where a firm utilizes more than one entry mode. They believe that firms are likely to combine modes in a more diverse and creative ways than before because they are looking to become more effective and flexible in their international expansion. Benefits, such as added revenue and market penetration can be achieved by utilizing the appropriate mode packaging. This method is thought of as an effective way for firms to react to change in market conditions, where as a complete change in mode could have had more dramatic consequences in terms of maintaining knowledge, staff and network assets (Petersen & Welch, 2002).

Earlier, studies had shown that firms face the risk of becoming locked-in their chosen entry mode. An entry mode that was, chosen at the time by chance becomes the best understood one, or a negative experience with another one makes it an undesirable choice. For a firm looking to internationalize it is therefore important to ensure that key staff members are well aware and knowledgeable of the full extent of entry modes and how they can be used together to strengthen the firms’ operations in foreign markets (Calof, 1993).
3 Conceptual framework

This research will look into the export modes of Icelandic fisheries companies that are currently exporting their products to buyers in Boston, USA. Many Icelandic fisheries companies are exporting marine goods, both fresh and frozen, to markets in the US via Boston. The volume of exports from 2014 increased by 12.3% and the value increased by 27.9% (Markó Partners, 2015). In his research on the Icelandic fishery industry; Eyjólfur B Eyjólfsson (2012) concludes that “no single theory can explain the internationalization or the exports from Iceland” but he points out that the network model bares resemblance to the way Icelandic firms have exported their marine goods. It therefore seems to be an opportunity to assess if the way Icelandic producers choose to enter a particular market rhymes with what the market environment, or the characteristics of the market might suggest. To do this, the internal and external environment of the companies needs to be assessed, both in terms of the nature of the Icelandic companies and the selected market. Also, there is the need of knowing how risk averse managers are, and how they perceive attributes such as control and flexibility when considering their endeavours into foreign markets.

By understanding the market environment, both internally and externally it will be more clear what entry modes might suit the chosen market. To structure the concept, it is necessary to use a model or framework that is fitting for this research. The model that will be used is based on factors that influence the entry mode decision and was introduced by Svend Hollensen (2007). Each factor will then influence the decision either towards hierarchical modes or export modes. In a study on service firms, Agarwal and Ramaswami (1992) used a similar model to address what factors, or variables, influenced the entry mode decision. The factors they used are all present in the later-introduced Hollensen model (2007), although the nature of the models is a bit different. Agarwal and Ramaswami categorize their factors under ownership advantages, location advantages and internationalization advantages. Hollensen groups them under internal, external, desired mode characteristics and transaction specific behaviour, and adds other influencing factors to his model.

3.1 Factors influencing the entry mode decision

Dunning (1977, 1980, 1988) proposed that the determinant factors of market entry mode could be divided into three categories; ownership advantages of a firm, internalization advantages of integrating transactions within firm and location
advantages of a market. Within the categories were the following factors; firm size, multinational experience, ability to develop differentiated products, market potential, investment risk and contractual risk. Goodnow and Hansz (1972) showed that other factors, both internal and external had significant effect on the market entry mode decision process, such as corporate strength, competitive position, economic development and political environment. Root (1987) described the firm’s internal elements to be the characteristics of its products and the firms’ ability to commit resources to new markets.

Hollensen (2007) later proposed his own framework of influencing factors. He gathered factors from previous studies and arranged in a model. In general, an expected profit of the entry mode should be a base for the decision. But since relevant data is often hard to come by, decision based on quantification is difficult and as a result, the selection criteria are mostly qualitative in nature. The factors, according to Hollensen (2007) that are believed to influence firms’ choice of entry mode are shown in Figure 8.

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
<th>Desired mode characteristics</th>
<th>Transaction-specific behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size</td>
<td>Sociocultural distance</td>
<td>Risk averse</td>
<td>Tacit nature of know-how</td>
</tr>
<tr>
<td>International experience</td>
<td>Country risk/demand uncertainty</td>
<td>Control</td>
<td></td>
</tr>
<tr>
<td>Product complexity</td>
<td>Market size and growth</td>
<td>Flexibility</td>
<td></td>
</tr>
<tr>
<td>Product differentiation advantage</td>
<td>Trade barriers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intermediaries available</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Figure 8 Factors influencing the choice of entry mode (Hollensen 2007)*

These factors all contribute towards making the decision of entering a market through a hierarchical mode, intermediate mode or export mode. Motivations for selecting entry modes within hierarchical or export modes (equity vs. non equity) are then mostly based on micro-level firm-specific factors (Vanhonacker, 1996).

Firms have to evaluate their own operations, products and experience in foreign markets as well as external market conditions. Characteristics of entry modes such as risk aversion, control and flexibility vary significantly between hierarchical and export modes. The external factors are important as well and require both qualitative and quantitative analysis. Grunig and Morschett (2012) claim that other external factors,
such as price localization, export subsidiaries and localized knowledge also influence the choice of a market.

### 3.1.1 Internal factors

**Firm size.** The size of a firm is very important when it comes to internationalization since it is an indicator of the level of resources the firm can devote to its foreign market activities (Hollensen, 2007). Even though SME’s might want to have high levels of control over their operations in foreign markets, they will more likely use export modes because they lack the resources to achieve a high level of control (Lecraw, 1984). If a firm is to compete with firms in the target market it is necessary to possess superior skills and assets that can deliver an economic rent that is higher than the associated costs of servicing the market. A firm’s skills and assets can be seen as a reflection of its size and international experience (Agarwal & Ramaswami, 1992).

Even though there are ways to measure the size of firms, there is no clear cut-off point presented in Hollensen’s model, of the size (or resources) needed for using a hierarchical entry mode instead of an export mode. He does however point out that larger firms will be better suited for using hierarchical modes than smaller firms. In Europe, 99% of firms fall in the category of SME’s (small and medium-sized enterprises). The European Union defines SME’s by two factors. Either by number of employees and turnover, or number of employees and balance sheet total (“What is an SME? - European Commission,” n.d.).

<table>
<thead>
<tr>
<th>Category</th>
<th>Staff headcount</th>
<th>Turnover</th>
<th>Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 m</td>
<td>≤ € 43 m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 m</td>
<td>≤ € 10 m</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ € 2 m</td>
<td>≤ € 2 m</td>
</tr>
</tbody>
</table>

The size of Icelandic companies is valued using the same metrics as within the EU. According to The Icelandic Chamber of Commerce 99% of Icelandic firms fall in the category of SME’s. 58.6% of firms have 1 employee, 32.8% have 2-9 and 4.5% have 10-19 employees. Only 0.5% of Icelandic firms have between 100-249 employees and 0.3% have 250 or more employees. It is estimated that there are between 25-27 thousand SME’s registered in Iceland. (Viðskiptaráð Íslands, 2009).
For the sake of this particular research, the EU’s definition of SME’s will be used as a benchmark for measuring the size of firms. Export modes will be considered more fitting for firms that are considered micro or small enterprises, and hierarchical modes for medium and large enterprises.

**International experience.** Of all factors influencing market entry mode, international experience is the most frequently observed by researchers (Canabal & White III, 2008). Davidson (1980) points out that prior experience in a specific country makes much difference in a company’s performance in that market. Accumulated international experience does significantly impact managerial discretion and can thus reduce the demand of information and risk that are associated with foreign market entry (Laufs, Bembom, & Schwens, 2016). Acquiring actual experience in international markets, rather than gaining the knowledge through acquisitions of objective knowledge (which can be taught) will reduce uncertainty in international markets. Lack of knowledge and information about a certain market therefore creates uncertainty and increases the risk perceived by managers. In these circumstances, managers will show more cautious behaviour when committing resources in foreign markets (Johanson & Vahlne, 1977). On the contrary, familiarity of the foreign market will increase self-confidence in managers and reduces uncertainty, and as a consequence, will encourage managers to commit resources to the market (Cavusgil, 1982). For firms that have little experience of doing business abroad but are seeking to gain experience in order to increase their foreign investments might be advised to use the method presented in the Uppsala Model (Johanson & Vahlne, 1977). By following a series of small steps in operations in foreign markets where firms gather knowledge on the market and based upon that knowledge will devote further resources to the market. Even though these steps could be considered as “small”, they allow for consistent gathering of information on the market, and thus increasing the firms experience in that market.

Increased international experience of managers will favour hierarchical entry modes (Hollensen, 2007).

**Product complexity.** Different products have different characteristics and it can greatly affect the way a product is sold. Products that are highly technical and complex may require much service, both before and after it has been sold. Marketing intermediaries in foreign markets might not be able to carry out these types of services, making a hierarchical mode a more appropriate choice for firms producing complex products (Hollensen, 2007).
**Product differentiation advantage.** The concept of a product having advantage in the market because of its difference from other products can be traced back to 1993. Product differentiation is when a product or service is distinguished from other products and services (Chamberlin et al, 1933). If a product has a brand name, physical variations, advertising and after-sales service that are valued more than of its competitors, a firm can gain returns that outweigh the added costs associated with a foreign market (Hollensen, 2007). If firms are successful in differentiating their products they will be able to lower competition and reach new target segments (Kotler & Keller, 2011).

A hierarchical mode is more appropriate for firms that have products or services that sets them apart from the competition in the target market (Hollensen, 2007).

### 3.1.2 Desired mode characteristics

The following three factors are attributes associated with different entry modes. These factors are meant to address what characteristics they value when selecting entry modes. They are not meant to assess the market environment nor are they used to evaluate the companies themselves. The way managers value these factors directly attributes to the choice of market entry mode. Hierarchical modes will enable the managers to have a high degree of control over the marketing and distribution in the market, but are also riskier and allow for less flexibility than export modes. On the other hand, export modes are in comparison not risky, more flexible and offer lower levels of control (Hollensen, 2007).

In the case of SME’s, which are often owner-managed, CEO’s are often solely accountable and as a result, the characteristics possessed by CEO’s are very important (Laufs, Bembom, & Schwens, 2016). There are also other factors such as market presence and monetary return that is higher within hierarchical modes. These factors are however not included in this particular model and will therefore not be explored further in this research.

Table 4 shows how different entry modes vary in terms of control, dissemination risk, resource commitment and flexibility. These factors are described in detail in the following chapters. In this research however, resource commitment will not be considered as an independent factor. Instead, firm specific factors such as firms size and international experience are used as measures for available resources.
Table 4
Dimensions of export, contractual and investment entry modes (Driscoll & Paliwoda, 1997)

<table>
<thead>
<tr>
<th>Entry method</th>
<th>Control</th>
<th>Dissemination risk</th>
<th>Resource commitment</th>
<th>Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchical</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Intermediate</td>
<td>Medium</td>
<td>Medium-High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Exports</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Risk averse. Managers that are considered risk averse will prefer entry modes that entail low levels of both resource and financial commitment, like export modes or licensing (intermediate mode). Although costly in terms of resources, joint ventures (intermediate mode) gives firms the ability to share risks, distribution costs and financial exposure (Hollensen, 2007).

Driscoll and Paliwoda (1997) include in their research the term dissemination risk (see Table 4). Dissemination risk refers to the “extent to which a firm perceives that its firm specific advantages will be expropriated by the contractual partner” (Hill et al, 1990). Often, competitive advantage held by a firm is grounded in its knowledge assets, either technological or related to marketing. The protection of this knowledge and the delivery of it to the market in the form of products and services that are continually being improved, forms a competitive advantage for the firm. It can therefore be very risky to enter into a contractual agreement with other parties that may act out of self-interest and expropriate this know-how the firm possesses. Dissemination risk can be reduced through contingency clauses in contracts between parties, but such contracts can be difficult and costly to specify (Williamson, 1985).

Some research indicate that entrepreneurs and managers of large corporations assess risk in a different way. Entrepreneurs seem to be willing to accept higher levels of risk in business decisions than their counterparts in large organizations. This is not simply because entrepreneurs necessarily risk seekers, they might just be perceiving risk in a different way. They might conclude that a certain situation is simply less risky because they are more willing to generalize from limited experience (Busenitz & Barney, 1994).

Control. According to Anderson and Gatignon (1986), control refers to “the ability to influence systems, methods and decisions” or “authority over operational and strategic decision making” (Hill et al, 1990). Control enables firms to uphold supplies of inputs that are essential for the production process, guarantee the quality of products, co-ordinate activities and organize distribution and marketing in the target market.
Moreover, control is thought to be an important concept in entry mode literature since it can be considered as a precursor of determining any potential risks and returns. Entry modes can be classified by the entrant’s level of control. Entry modes offering high levels of control are wholly-owned subsidiaries and partnerships where the entrant is the dominant shareholder. Medium-control modes include equal partnerships (50/50 ownership), contractual agreements, franchises, plurality shareholding, nonexclusive restrictive contracts and exclusive non-restrictive contracts. Entry modes offering low levels of control are non-exclusive, non-restrictive contracts (some licenses) and partnerships where the entrant is a small shareholder (Anderson & Gatignon, 1986).

A lack of control can result in difficulties in coordinating actions and carrying out strategies. Disputes that regularly arise between two parties that are bound by a contract, will be harder to resolve if the firms decide to act out of self-interest. Also, control can allow the entrant to use his control in order to achieve higher returns. High levels of control are therefore extremely desirable, but will come at a price. It requires much resources, such as high overheads. That can lead to switching costs, which can inhibit the firm from changing its institutional agreement if it turns out to be sub-par. The commitment of resources also exposes firms to risks associated with changes in currency (Davidson & McFetridge, 1984). Focus on control is consistent with the risk-adjusted return perspective since firms will trade different levels of control for the reduction of committed resources in the hopes of minimizing risk and maximizing returns (Anderson & Gatignon, 1986).

**Flexibility.** International entry mode choices are best thought of as a trade-off between control and resources that are committed. When making this trade-off, maintaining flexibility should be a top priority for managers. Flexibility is the ability to quickly make a change in methods, strategies and systems while keeping costs at minimum. This is especially paramount when entering lesser-known foreign markets (Anderson & Gatignon, 1986).

If firms have committed to much of resources to a market they will become less flexible and will increase the cost of changing their entry mode strategy. This will result in the creation of exit barriers. Exit barriers can hinder firms from retrieving the value of their investments or hinder them from repositioning themselves in the market (Porter, 1976). If market conditions change in a way that will favour more presence in the market or greater allocation of resources to that market, the firm will be able to change modes relatively quickly, and flexibility can therefore give the firm a first mover
advantage. Although the emphasis has been on the commitment of resources vs. flexibility, there are other ways available to maintain flexibility. Using organizational structures that are less formalized and centralized will allow firms to adapt better to changes in the market environment (Klein 1989; Driscoll & Paliwoda, 1997).

The literature suggests that export modes will allow for most flexibility, hierarchical modes the least and intermediate modes in between. Managers seeking flexibility in their foreign operations will therefore prefer the use of export modes.

3.1.3 Transaction-specific factors

**Tacit nature of know-how.** Dunning (2012) emphasizes the importance of advantages that are represented in a firm’s know-how, when he explains firms competitive advantage in relation to firms in the host country. Hollensen (2007) describes firm-specific know-how to be *tacit* if it is difficult to articulate and transfer. Know-how can take different forms, it can be embodied in written manuals, software and even informal routines and operating procedures. If the know-how is tacit, it can be very hard to transfer it without personal contact, involvement or some form of demonstration (Teece, 1983). When a firms’ know-how needed for production is tacit in nature, “it is more likely to be transferred within the firm than in the market because firms are more efficient mechanisms for effecting the transfer of this knowhow” (Dunning, 1988; Hill et al, 1990; Kim & Hwang, 1992; Kogut & Zander, 1993; Driscoll & Paliwoda, 1997). It is not always possible to put knowledge into words and have others understand. The difference of articulated and tacit know-how can be described as the difference between “knowing how” and “knowing what”, where the former cannot always be broken down and explained simply to others (Polanyi, 1967). If the process of transferring know-how is complex and expensive, it will create an incentive for firms to move towards more investments in the foreign market and select a hierarchical entry mode (Hollensen, 2007). Hierarchical entry modes will enable firms to better facilitate the “intra-organizational transfer tacit know-how” by taking advantage of its own human capital, learning from and building on its organizational memory and using already established routines within the organization (Hill et al, 1990). Therefore, the greater the tacit component of firm-specific know-how, the more firms will move towards hierarchical entry modes (Hollensen, 2007).

**Opportunistic behaviour.** In this context, opportunistic behaviour is considered to be when intermediaries or producers, act out of self interest and in turn, have negative effects on the partner firms. If for instance, a producer has many different
intermediaries to choose from, he has leverage. The intermediary then constantly has
the threat of the producer changing partners over its head, and might be willing to take
on additional risks to keep its client (Hollensen, 2007). In this case, a way for the
intermediary to counterbalance the relationship between the parties would be to make
offsetting investments. Examples of these could be to establish personal connections
with the producers’ key employees, create an image or a brand with selling the
producer’s products, and add further value to the product being sold, such as after-sale
services (Heide & John, 1988).

3.1.4 External factors

Firms are likely to invest more in markets they deem as favourable, and will
exploit other countries endowments. Such endowments can be considered from an
economic perspective, such as labour, material and energy costs, host government
intervention, the countries political- and legal environment, and differences in culture.
Aspects that make up the total attractiveness of the market such as demand, competitive
conditions will also represent locational advantages that will either act as an incentive
or disincentive towards investing in the foreign market (Davidson, 1980; Dunning,
1988; Erramilli, 1990; Driscoll & Paliwoda, 1997).

To be able to make a good decision on entry modes, the firm needs information
about conditions in the target market (Herrmann & Datta, 2006). Entry modes that
require equity investments (hierarchical modes) require firms to gather and process
more information on the external environment than non-equity modes (export modes).
Such information includes data related to levels of competition and trends in the market,
legal and social norms, and cultural differences. Information on these factors can be
fundamental when it comes to making a decision on entry modes (Herrmann & Datta,
2002; Hill et al., 1990). Also, if such information is misinterpreted it can lead to a poor
decision (Agarwal & Ramaswami, 1992). If the process of collecting and analysing
external data is done well, it can lower the perceived risk of operating in an unknown
market (Pan & Tse, 2000). On the other hand, non-equity modes do not require firms to
gather the same level of information on the foreign market, as they do not require the
same levels of resources from the firm (Agarwal & Ramaswami, 1992).

Sociocultural distance between home country and host country. According to
Hofstede (1984, 2001), culture refers to the “collective programming of the mind which
distinguishes the members of one category of people from those of another”. However,
sociocultural distance is the distance between cultures of different nations or groups (Canabal & White III, 2008).

What makes countries culturally alike are similarities in business and industrial practices, similar cultural characteristic, levels of education and comparable languages. If the host- and home markets are culturally different it is likely that it may increase uncertainty within a firm. Managers will shy away from investing directly in markets where they perceive much difference in terms of culture, business practises and economic environment (Hollensen, 2007).

The underlying theme of research carried out on the affect that cultural distance has on international business is that differences in cultures between countries increases entry costs, decreases operational benefits and can hinder firms from transferring their core competencies to the target market (Bartlett & Goshal, 1999; Gomez-Mejia, 1999). Firms coming from countries with large power distance are more likely to choose hierarchical than export modes and also, if the firms come from a country with high uncertainty avoidance, they are likely to favour export modes (Yigang Pan & Tse, 2000). Firms are therefore less likely to invest many resources in markets where they perceive great cultural differences and will instead choose joint venture or an export mode, and by that get access to the cultural knowledge needed.

Geert Hofstede (2001) has conducted much research on culture, and how values in the workplace can be influenced by culture. Hofstede defines culture as “the collective programming of the mind distinguishing the members of one group or category of people from others”. Based on his research, he presented a model that covers six-dimensions of national culture. The dimensions presented in his model are:

*Power Distance.* Measures to what degree the less powerful members of society are willing to accept an unequal distribution of power in the society. If a society exhibits a high degree of power distance, the members of that society accept a hierarchical order where everybody has a certain place. On the other hand, in societies with low power distance, people will want to distribute power equally between members of society and call for a justification of any inequalities of power.

*Individualism versus collectivism.* The “I” vs. the “we”. In societies with a high degree of individualism, the social framework can be described as “loosely-knit” and individuals are expected to think about themselves and closest families. High levels of collectivism on the other hand will be an indicator of a “tightly-knit” framework in
society where people can expect relatives or surrounding members of society to look after them, and vice versa.

Masculinity versus femininity. Societies representing high levels of masculinity are competitive and will show a preference for “achievements, heroism, assertiveness and material rewards for success”. High levels of femininity will on the other hand indicate a society where such attributes such as “cooperation, modesty, caring for the weak and quality of life” are valued more.

Uncertainty avoidance index. The uncertainty avoidance index measures how uncomfortable members of society are with uncertainty and ambiguity. Countries scoring high on this index are more likely to “maintain rigid codes of belief and behaviour” and are less tolerant towards ideas and behaviour that may seem unorthodox.

Long-term orientation versus short-term normative orientation. Societies will usually have links with its own past that may affect how they deal with challenges in the present and future. Societies that score high on this scale will minimize the effect of its past and take an approach that is focuses on education as “a way to prepare for the future”. Low levels will however indicate a society that prefers traditions and conventions while being more sceptical towards societal change.

Indulgence versus restraint. Restrained societies will suppress gratification or fulfilment of individuals’ needs and will in a way, regulate it with strict social norms. Societies that are considered indulgent will allow for more “gratification of basic and natural human drives” that relate to the enjoyment of life.

Country risk/demand uncertainty. Usually, foreign markets are perceived as riskier than domestic ones. The level of risk facing a firm is contributed both by the market itself and the method of involvement in the market (Hollensen, 2007). The choice of entry mode determines the level of risk the firm is exposed to the foreign market (Anderson & Gatignon, 1986; Laufs, Bembom, & Schwens, 2016). The firm is therefore risking the resources it has already committed to that market and risks losing them if the market entry is unsuccessful (Hill et al., 1990). Also, if there is a possibility of losing resources that have been committed to the market, the firms exit barriers are likely to rise. The result of that is a reduction of flexibility (Harrigan, 1981).

The risk of investing in a host country is reflected by the unpredictability of whether the current economic and political environment, and government policies that
MARKET ENTRY MODES

can be critical for the profitability of firms, will continue. For instance, the change of governmental policies can cause issues related to retrieving earnings made in the host market (Root, 1987).

Country risk is substantially influential when it comes to comparing equity vs. non-equity entry modes, however it shows a rather weak influence within the equity modes themselves (Greenfield vs. acquisition or franchising vs. licensing) (Yigang Pan & Tse, 2000).

In countries where risk is considered high, firms are better off not entering. But if they choose to do so it is more favourable to choose non-investment entry modes (Agarwal & Ramaswami, 1992).

**Market size and growth.** Market size and its characteristics of it can determine the attractiveness of the market, or its potential. For firms looking to enter a new foreign market, there has to be effective demand in place, meaning that it is underserved or enjoying significant growth (Driscoll & Paliwoda, 1997).

It has been determined that market potential is an important determinant of investment in foreign markets (Terpstra & Yu, 1988; Agarwal & Ramaswami, 1992). When the market potential is great, long-term profitability is expected to be higher if firms choose investment modes (hierarchical) in comparison to non-investment modes. Firms will be able to lower production costs through economies of scale (Sabi, 1988).

Another reason for choosing an investment mode in a market with high potential is the opportunity to form market presence that can benefit in the long run. Relatively, countries that offer lower market potential are not as likely to attract foreign firms. On the other hand, larger firms that have worldwide, or regional presence might consider entering these markets to achieve financial objectives (Agarwal & Ramaswami, 1992).

But it can be argued that even though the market may seem attractive and show good potential, it may not be so in the long run. Davidson (1980) argues that firms will prefer FDI only “when the average cost of serving a market through exports exceeds the average cost of production in the foreign market”. If the market is in decline, the associated costs of serving it through hierarchical modes will increase relative to serving it through export modes. The demand conditions can therefore influence the choice of entry modes considerably (Driscoll & Paliwoda, 1997).

If the market is relatively small, especially if its location makes it difficult to service from neighbouring countries, it will not justify significant attention or allocation of resources. Entering these kinds of markets, is best serviced via exports or licensing
agreements. This method will not stimulate market development or increase market penetration, but it will enable the firm to enter the target market using minimal levels of resources and remain flexible if the firm decides on entering other, more attractive markets (Hollensen, 2007).

**Direct and indirect trade barriers.** Barriers that can hinder firms from operating in another country can take different forms. They can be economical, like tariffs or quotas on the import of products and components. These types of barriers will favour the establishment of production or assembly facilities in the host country. Other types of trade barriers can arise when the market requires certain product standards, or if there is a preference for local suppliers. If there are preferences for doing business with locals or tendency to “buy national” is strong with consumers, firms may want to consider partnering up with locals and set up joint ventures or other types of contractual agreements. Local partners will help the foreign firm when carrying out negotiations, sales, marketing establishing distribution channels as well as in diffusing the foreign image (Hollensen, 2007).

Trade barriers can also be considered as government interventions. Makhija (1993) defines government interventions as “those acts stemming from the host government that are designed to precipitate change in the behaviour of multinational firms in a direction compatible with host government objectives”. This form of intervention is presented in policies and regulations made by the local government that foreign firms must oblige to (Driscoll & Paliwoda, 1997).

These types of regulations and customs formalities will favour entry modes where local partners are involved, which can ease access to the target market (Hollensen, 2007).

**Intensity of competition.** The way firms perceive a market is influenced by competitive conditions (Knickerbocker, 1973). In a study conducted by Driscoll & Paliwoda (1997), interviewees suggested that the intensity of competition was a major factor when they made their entry mode decision. If the intensity of competition is high in the target market, it will be seen as less profitable and firms are less likely to use hierarchical entry modes (Hollensen, 2007).

**Small number of relevant export intermediaries available.** If there are no or few intermediaries that are capable of taking care of exports for the producer, he will be more likely to use hierarchical entry modes in foreign markets (Hollensen, 2007).
3.2 Brief summary

Previous chapters have focused on discussing and analysing each and every factor based on previous research and literature. As Figure 9 shows, they all have a role to play in the market entry mode decision. The plus and minus signs indicate whether the factors will move towards a hierarchical or export mode. For instance, a hierarchical entry mode will be more fitting for a very large firm, a manager that seeks to have much control or if the market prospects are good. On the other hand, high country risk, low international experience and big sociocultural gap between cultures will move firms towards an export mode.

Figure 9. Factors influencing the entry mode decision. (Hollensen, 2007)
3.3 Export modes

Exporting is the most common entry mode for firms making their first move in a new market. The product is produced in the domestic market and then exported directly or through an independent organization located in the producer’s country. This allows the company to get a feel for the market and gradually evolve towards a foreign-based operation. Export can be categorized into direct-, indirect- and cooperative export.

Direct export is when a firm sells or exports directly to a seller or importer located in a foreign market and indirect is when a firm exports product to a market via an export house located in the home market. When a company is small, relative of the market size, and cannot achieve sufficient economics of scale it might consider exporting in cooperation with other companies. This method is common between SME’s and the cooperation can be either a tight or loose. Loose, meaning that each of the participating company uses its own brand for marketing the product, or tight, meaning that they form a new export association that represents the member companies. The exports would then be carried out in the name of the association (Hollensen, 2007).

*Figure 10. Exports from the home country to the target market. A are manufacturers of products/services. B is an independent intermediary. C is the customer. (Hollensen, 2007)*
### 3.4 Intermediate modes

Entry modes that fall into this category are joint ventures/strategic alliances, licensing, franchising and contract manufacturing. These modes fall in between of export modes and hierarchical modes in terms of levels of risk, control and return (Hollensens, 2007). In Figure 11, the difference between contract manufacturing, licensing and franchising is explained. Company A is located in the home market, and across the border is company B and the customer (C).

**Contract Manufacturing**

```
<table>
<thead>
<tr>
<th>A</th>
<th>Market</th>
<th>Sales &amp; Services</th>
<th>Production</th>
<th>C</th>
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</thead>
<tbody>
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<td>R&amp;D</td>
<td>Marketing</td>
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**Licensing**

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<th>Border</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
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<td>Marketing</td>
<td>Sales &amp; Services</td>
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**Franchising**

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<th>Border</th>
<th>C</th>
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<tbody>
<tr>
<td>Marketing</td>
<td>Production</td>
<td>Sales &amp; Services</td>
</tr>
</tbody>
</table>
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*Figure 11* Contract manufacturing, licensing and franchising are all intermediate entry modes, but differ slightly. (Hollensen, 2007).

Joint ventures are partnerships between two or more parties. They can be set up in different ways, with different levels of ownerships responsibilities. International joint ventures will include firms in different countries working together. Strategic alliances differ from joint ventures in a way that they usually are non-equity cooperation’s. That way, the parties will not invest in the alliance (Hollensen, 2007). Figure 12 shows an X coalition, which differs from Y coalition, shown in Figure 13.

**A: Upstream specialist**

```
<table>
<thead>
<tr>
<th>R&amp;D</th>
<th>Production</th>
<th>Border</th>
<th>A+B (Joint venture)</th>
<th>C</th>
</tr>
</thead>
</table>
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**B: Downstream specialist**

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| Marketing | Sales & Services |

*Figure 12* Joint venture using an X type coalition. C is customer. (Hollensen, 2007).
### 3.5 Hierarchical modes

Hierarchical modes describe the market entry modes where a firm owns and controls the foreign operation. The major difference between the different hierarchical modes is where the control is located. A firm can be located domestically but have sales representatives that travel to foreign markets. A firm can choose to have a separate sales branch located in the foreign market, and it can also add a production facility to the foreign market as well. If a firm is looking to enter a larger region, which might include many countries, it might set up region centres with regional headquarters (Hollensen, 2007).

![Diagram of Hierarchical modes]

*Figure 14. Hierarchical entry modes. C is customer (Hollensen, 2007).*
4 Research Methodology

In this section the method of this research is explained in terms of research question, approach, data collection, choice of participants, and the procedure involved. Using a model for market entry choice, proposed by Hollensen (2007), the market environment will be analysed and compared to the current methods of market entry. This comparison should indicate that the market environment of Icelandic fisheries companies could suggest a different method of exporting products to foreign markets.

Research question:

*Do the chosen market entry modes of Icelandic fisheries companies differ from the characteristics of the market they are entering?*

In order to gain in-depth information on the subject at hand, a qualitative research was designed. The objective was to examine the export methods of five Icelandic fisheries and how managers perceive the market environment in terms of foreign market entry. In order to get a narrower scope for this research, the Icelandic companies were chosen based on one common market they are currently exporting to. That market is the United States, via Boston, MA. To increase the validity of the research and gather additional data on the market, distributors and agents that are located in Boston and are importing seafood from Iceland were also chosen for this research. 9 semi-structured interviews were then conducted, five with Icelandic managers and four with managers of distribution companies in Boston. The interviews were then transcribed and themes developed using grounded theory. The study is however limited in certain ways, which are described in more detail later in the chapter.

4.1.1 Research design

This research uses qualitative research methods. Qualitative research usually underlines words as opposed to numbers that are used in quantitative methods. It emphasizes on understanding of the social environment based on how it is seen and interpreted by the participants. Qualitative research offers an inductive view of the connection between the research itself and the theory, and how theory is generated from the research. It also implies that social properties are based on the connections between individuals rather than a separate phenomenon (Bryman and Bell, 2015). The method used is based on exploratory research. Using exploratory research is appropriate when
insights are needed on possible decision alternatives, nature of a problem and relevant variables that must be considered (Aaker, Kumar, & Day, 2008)

The research design uses grounded theory. When using grounded theory, inquirers aim to discover a theory that is based on information gathered from the participants in the study. The theory evolves while the actual research is carried out and is the result of a continuous interplay of data collection and analysis. Thus, a theory emerges at the end of the study. Grounded theory approach is often referred to as constant comparative method. There might be an initial theory based on data, then the ideas are elaborated and modified by the new incoming data (Strauss & Corbin, 1994). This method was considered ideal for this research since the objective was to gain insights into how managers make decisions on market entry modes and the way they view various market factors.

4.1.2 Procedures

This research uses qualitative research methods, were semi-structured, one-on-one interviews are conducted with managers of companies in the fishing industry. The interviews were recorded (audio) and transcribed. In order to gain further insights to the problem at hand, the interviews where followed by a structured questionnaire that the managers answered. The data was then coded, and themes and patterns that emerged from the data were interpreted.

4.1.3 Data Collection and analysis

The qualitative data collected in this research is both primary and secondary. The primary data was collected by conducting interviews and surveys with; managers of Icelandic producers of fish, managers of export companies in Iceland, and managers of companies in Boston that import fish from Iceland and distribute in the United States. Data collected with interviews and questionnaires took place in a natural setting. The participating managers were visited at their own offices or meeting rooms provided by them. Secondary data was also collected to complement the study, both qualitative and quantitative. Qualitative, including data on the Icelandic fishing industry was collected from SFS (Fisheries Iceland) and data was collected online on socio-cultural distance, market risk and trade barriers. Quantitative data includes price indexes and market data from SFS and data online data on demographics. Other sources of information are field notes collected by observation at the 2016 Boston Seafood Expo.
The analysis of the data gathered from the interviews were based on the grounded theory framework (Strauss & Corbin, 1994). The answers given by the respondents were coded based on the factors presented in the market entry model. The answers given by the respondents were analysed, and paragraphs or sentences were drawn into categories that matched the factors in the model. Different perspectives were contrasted by comparing the categories across all the interviews. Themes were then developed based on these categories, and several cases were presented to emphasize the relevance of the themes.

4.1.4 Participants

The participating Icelandic companies were chosen based on these factors:

- They do their own catching of fish.
- They are currently exporting products to the United States via Boston.

Whether they are exporting fresh or frozen products was not considered a factor, and as a result the chosen companies are all exporting fresh products and some export frozen as well. The managers of the Icelandic companies were asked during the Boston Seafood Expo (2016) if they were willing to participate in the study. Shortly after the expo they were contacted via e-mail and interviews conducted with five managers.

The participating companies located in Boston were chosen based on these factors:

- They import products from Icelandic producers.
- They distribute products around the United States.

Prior to the Boston Seafood Expo, the managers located in Boston were contacted via e-mail and asked if they were willing to participate. While the expo was being held, interviews with 4 managers were conducted in meeting rooms.

The respondents of this study are managers of companies in the fishing industry in Iceland and in Boston.

4.1.5 Interview framework

In order to get the necessary information on the market and make use of the market entry model an interview framework was created. The questions used for the interviews were created to gather information on the factors presented in the market entry model. Two sets of questions were created (Appendix A & B) for the interviews. One for the managers in Iceland and one for the managers in Boston. The reasons for not using the same set of questions for both parties was that; firstly, one is in Icelandic
while the other is in English. Secondly, the nature of the companies producing in Iceland and the companies distributing in the US is different. Thirdly, some factors displayed in the market entry model are only relevant for the Icelandic exporting companies. For instance, some factors are meant to directly assess manager’s willingness to take on more risk in the hope of gaining higher returns when considering entry modes, or if he values being flexible in his operations more than his presence in the foreign market. While for other factors that are meant to assess market conditions it is more appropriate to get the viewpoints of both the producers in Iceland and distributors in the US. Examples of these are the perceived trends in the market, levels of competition, and views on product advantage and sociocultural distance. While the set of questions were structured, the interviews were semi-structured. The researcher was therefore free to ask unprepared questions and gather additional information that often emerged during the interviews. The questions were often rephrased or explained better when the researcher felt the respondents did not fully understand them. Five interviews were conducted in Icelandic and four in English. The researcher set out to audio-record all the interviews, however during the interviews conducted in Boston notes were taken instead.

4.1.6 Quality criteria

Business research needs to be carried out and designed in a reliable way. That refers to the question of whether the study is repeatable or not. According to Bryman and Bell (2015), in order to assess the reliability of how a concept is measured, the method and procedures that structure the measure, need to be replicable. Usually, the requirement of a study being replicable is more concerned with quantitative research. They can however also be applied to qualitative research, especially in two ways: The data collected throughout the research must be presented in a way that a clear distinction is made between statements made by participants, and the interpretation made by the researcher. Also, in order to ensure comparability between the interviews, the data collection needs to be clear (Flick, 2009). The final component of the research design is the validity. Validity in qualitative studies can be described as a wide range of terms. It is not a universal topic, nor is it fixed in any way (Golafshani, 2003). Winter (2000) describes it as a contingent construct that is profoundly grounded in the intentions and processes of particular projects and methodologies.

Flick (2009) claims that validity is a question of whether the researcher is affected by biases and if he sees what he thinks he is seeing. The question is therefore
whether the relationships concluded by the researcher would be the same if the subject was not being researched. Validity can be subcategorized into internal- and external validity. Internal validity raises the question of whether the match between the data and theories that develops from it is satisfactory. External validity refers to the extent to which the results of the study can be generalized in other social settings (LeCompte and Goetz, 1982).

Unlike with quantitative research, where the researcher can in advance, attempt to design controls that deal with both anticipated and unanticipated threats to the research validity, qualitative researchers rarely have the advantage of previously planned methods that can control, or minimize plausible threats (Maxwell, 2012). In this particular study, in view of these criteria mentioned above, the researcher took measures to ensure the validity of the research. The same methods were practiced when data was collected and analysed. Using triangulation, the researcher gathered data on the same subject from different sources. This was done in a way where respondents from fisheries companies in Iceland and distributors in Boston were asked the same questions on the same factors. Additionally, data from other sources such as reports and websites was also taken into account. This study does however not provide the ability to generalise the findings to companies in general since it only studied the behaviour and actions of 8 companies. It might however offer companies in this industry and indication of how the market environment can be evaluated before making a decision on market entry mode, and it might also provide basis for further research.

4.2 Research limitations

In this study, there are some limitations worth mentioning. Even though triangulation was practised when working with the data, the evidence presented are mostly based on self-report. Meaning that the study relies mostly on the perceptions and opinions expressed by the respondents which are all working in this particular business. Even though the researcher set out to audio-record all interviews, there were some cases where the setting did not allow for audio-recording because of noise or the respondents preferred not to have the interview recorded. In these cases, detailed notes were taken during the interviews. The author also has worked with and is connected to one of the companies participating in the study. That may have affected answers given by respondents during the interviews. Personal experience and views on the industry might therefore be biased and skew the findings made in this study.
Although data was collected from multiple sources, more quantitative data would have given more accurate results on some factors. For instance, detailed numbers on prices and imports in the United States would have given a more precise picture of the levels of competition in the US market.

When using the market entry model, Hollensen (2007) points out, “most of the selection criteria are qualitative in nature, and quantification is very difficult”. The results are therefore an interpretation and assessment made by the researcher. The results of this study can not be generalized on to other firms or markets.
5 Results

The following chapter covers the results of the interviews that were conducted and the secondary data. Each factor of the market entry model is covered separately and the firms receive a score on each factor that is summed up at the end of the chapter. The general theme of the interviews is discussed, both from the angles of the Icelandic managers and the managers of the US firms. If opposite views or particularly interesting opinions were raised during the interviews, they are presented. The chapter is presented in a way that it begins with a discussion of the current export modes used by the firms. Then, a brief explanation of how the factors are valued in the model. Finally, each factor is discussed and valued, and the final results are summed up.

5.1 Current exporting methods of the Icelandic firms

The Icelandic firms taking part in this study are today, all involved in exports of marine goods to the United States, via Boston. Three of the firms’ export both fresh and frozen products, and one firm exports only fresh products to this market. One firm exports directly while the other three export indirectly via an intermediary. None of the firms have a subsidiary or are participating in a joint venture in the United States. One manager however mentioned that his firm had plans of setting up some form of a sales and marketing subsidiary in the US. In other markets, some of the firms have set up subsidiaries and joint ventures. In the market, which is the focus point of this research, all the companies sell their products using export methods and are therefore located at the export/externalization end of the market entry model.

During the interviews the managers were asked how they carried out their exports and why they choose to do it that way. Even though all the firms use an export entry mode for the US market there is a difference in their market entry strategy. One respondent uses a mix of direct and indirect exports and explained it as a method that had developed through the years:

R1: Our indirect exports are carried out through a number of intermediaries. In the last 10 years or so we have been doing more direct exports ourselves. The reason being; changed business methods in the industry. 20 years ago, most companies were members of sales organizations? (“samlög” in Icelandic)

1 Respondent
that carried out the exports. These export-houses then became corporations with new owners. That resulted in firms started developing their own business relationships with buyers abroad.

Another manager explained why his firm wanted to be in charge of their own exports:

R: We are in direct exports and we take care of all our sales and marketing activities here at home.
Q:\footnote{2} Was this a strategic decision?
R: Yes, absolutely. Over a decade ago we made a strategic decision to move all sales and marketing activities into headquarters.
Q: What about setting up subsidiaries abroad?
R: Our current policy is to keep things as is.
Q: So you feel like your current export mode is the way to go?
R: What this method enables us to do is to work closely together and there is this flow of information and knowledge. That is something you just cannot get when you spread out your marketing team between countries. Our core business is in production, and the distance between our sales team and our production facility is no less important than being present at the market. It is more important to be spot on in production, than it is to follow trends in the market.

Some of the firms seem to base their entry mode strategy on business relationships that have evolved through the years. The decision to export to a particular market seemed often to be based on the beliefs managers had; of there being demand to be met or that a buyer from that country contacted them. Others, approach the matter more systematically. However, none of the firms mentioned that they approach the matter of selecting an entry mode with a strategic assessment of market variables or factors. Or by using a market analysis tool as a framework.
5.2 Factors

The results are based on interviews conducted with managers of Icelandic fisheries companies and with managers of companies that are located in Boston and are importing seafood from Iceland and distributing it in the United States. The results are presented in a way that every single factor of the entry mode model is valued based on qualitative data from the interviews, relevant data from websites and in some cases quantitative data. Based on the data presented, the factors indicate whether firms ought to use hierarchical entry modes or export modes. According to Hollensen’s model, the factors all have the same weight and will therefore be valued equally. The method of summing up the results will be the same as presented by Hollensen in Global Marketing (2007). After valuing different data for each factor, it will get a score, which is then summed up towards a final result.

Table 5
This table shows how the factors are valued.

<table>
<thead>
<tr>
<th>Result</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>++</td>
</tr>
<tr>
<td>High</td>
<td>+</td>
</tr>
<tr>
<td>Low</td>
<td>-</td>
</tr>
<tr>
<td>Very low</td>
<td>--</td>
</tr>
<tr>
<td>Neutral – Data suggests different methods</td>
<td>+/-</td>
</tr>
</tbody>
</table>

“All the factors are measured with plus signs and minus signs, depending on, whether the factor points in the + (plus) direction of internalization (hierarchical mode) or in the – (minus) direction of externalization” (Hollensen, 2007).

Some of the factors represented by the model will evaluate aspects that differ from firm to firm. To address this issue, the results for the factors; firm size, international experience, risk averse, control and flexibility are represented in a table showing different scores for each firm. Other factors that take on the behaviour of other firms, or on the external environment will be valued the same for each firm.

5.2.1 Firm size

The size of the firms involved in this research was assessed using the standards recommended by the European Commission (2003). Using the number of employees and the total turnover from the firms 2014 annual reports the size of the firms was identified as either micro, small, medium sized or larger.
Three of the firms involved are larger than what the EU qualifies as a medium-sized company. One of the companies is considered medium sized. The score is either ++ for large firms and + for medium sized firms. The size of the firms involved indicates they should move towards a hierarchical mode.

### 5.2.2 International experience

The result was based on answers from respondents during the interviews and partly from the firm’s websites. The firms involved are currently exporting everything, or nearly everything of their production to foreign markets. Export is therefore a core process within all these firms. There is however a difference in the way the export is carried out and for how long the firms have been involved in product exports. If the company has experience in carrying out operations abroad, with its own subsidiary or as a partner in a contractual agreement such as a joint venture, it will present a higher score.

All companies have clearly long experience in exporting of seafood.

### 5.2.3 Product complexity

Species exported to the U.S, such as Cod and Haddock, accounted for almost 95% of the value in 2014 ("Útflutningur sjávarafurða eftir afurðum, fisktegundum og lóndum 1999-2014," n.d.). They can be exported frozen or fresh. Frozen, as fillets, blocks or portions, or frozen-at-sea as blocks or fillets. The fresh fish is exported as portions or fillets (Markó Partners, 2015). Even though the product is sold in different ways, fish is not considered to be “technically complex”, as Hollensen’s model defines it. As a product, it does not require services both before and after sale.
Table 8.
Product complexity

<table>
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<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
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<tbody>
<tr>
<td>Factor score</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Factor score: -- for all firms, meaning that the product is not considered a technically complex one. This favours export methods.

5.2.4 Product differentiation advantage

The Icelandic producers all agreed that the quality of the Icelandic product was of superior quality than their competitors’ products in the US market. Also, they said that their buyers in the US considered the Icelandic fish to be of high quality. They did however; all raise concerns that this sense of quality sensed by their buyers was not reaching the end user.

One respondent that sells to the American supermarket-chain Wholefoods said that the store had run a marketing campaign where they emphasized that that the fish was Icelandic. The author asked the Icelandic managers if they felt that Icelandic products had an advantage because of quality:

R: Yes, that is clear. The quality of our fresh product is higher than of what our competitors are offering. Often, our competitors’ “fresh” product is thawed from frozen material and sold as fresh at a lower price, and the result of that is that the buyer becomes more focused on prices. One segment of restaurants will only look for the best prices but another segment will focus on the quality. In stores, where fish is sold as fresh it will both come from fresh and frozen materials. In those cases, it comes down to the consumer; if he is only driven by price he will buy the cheaper product.

Another respondent felt that his buyers were becoming more aware of the higher quality of her product:

R: Yes, our reputation is good, that’s a fact.
Q: Why do you say that?
R: It has happened that our buyers have stopped buying from us when they have had the chance to buy from others at lower prices. They have, without an exception, always returned back to us because of our quality.

Further into the interview, when the same respondent was asked if he (the respondent), felt that the consumer perceived the quality of Icelandic fish (Cod in this case) to be of superior quality she answered:

R: Our fish is better. We know that. But they are not experiencing it. We have not been able to differentiate ourselves from others, Norway for instance. The consumer does not perceive this difference. That is a serious matter.

Q: Can you tell me why you think that?
R: I’ve heard that buyers are asking for “skrei”, which is this lousy Cod. But they have been able to advertise it as the “King of Cod”. This is what the consumer hears. With all due respect, the consumer doesn’t know much about fish, he simply walks into a restaurant and asks for skrei because he has seen it advertised as the king of Cod.

Another respondent noted that he felt that when the end-customer is actually eating the fish, the feeling of “origin” was lost. He also noted that he did not feel the consumers in this market were particularly knowledgeable about the product.

Respondents from the American firms all agreed that the quality of the Icelandic fish, as a whole, was very good. One respondent noted that the Icelandic fish had a positive reputation and was known for being of high quality. During one of the interviews with a buyer of frozen fish from Iceland, the respondent noted that:

R: Let me put it this way; I would buy fish from Asia to sell to others, but Icelandic fish to take home and cook myself.

However, when they were asked if they felt that this sense of quality of the Icelandic fish was felt by the customer, most answered that it did not. Some said that the supermarkets (Wholefoods was mentioned) had a preference for Icelandic fish and recognized the quality, but not the end customer necessarily. When one respondent working for an importer of seafood in Boston was asked if she believed that the
consumer felt that Icelandic fish was of higher quality than of its competitors, she answered.

R: No, probably not. The amount of B2C (*business to consumer*) marketing has not been enough for the consumer to have a preference.

Both the producers in Iceland and the buyers in the US recognize the superior quality of the Icelandic product. There is however a clear concern raised by both parties if the consumer himself thinks it is of higher quality.

**Table 9**  
*Product differentiation advantage.*

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Factor score: + for all firms, meaning that product differentiation advantage is considered to be high and thus favouring hierarchical entry modes.

### 5.2.5 Risk averse

The Icelandic managers all talked in a way that they wanted to minimize risk when discussing foreign expansion of their companies. There were however differences in to what level they valued minimizing their risk, and what they considered risky. One of the Icelandic managers talked about risk associated with the allocation of resources to the market:

R: Yes, setting up an operation in a foreign market is risky. No question. It also means allocation of funds. Also, if you take that step, you are dealing with smaller firms that you don’t know as well and cannot trust as well.

A manager with a lot of experience in foreign ventures said:

R: We want to do things ourselves; we don’t always trust the intermediaries over there (talking about the U.S).

Another said his firm always practiced much caution in these matters:

R: “I always wear a belt and suspenders.”
The managers showed different attitudes towards taking risks. Although different between managers, the overall results indicate that the Icelandic managers are risk averse when it comes to internationalization.

### 5.2.6 Control

The Icelandic managers all agreed that being in control was very important in terms of marketing, sales and distribution of the product. One manager gave an example of how some of his smaller buyers acted in a way that they presented her product to buyers but then went and sold them Norwegian fish of lower quality. By having more control over distribution and sales of the product, this sort of thing was less likely to happen. Another manager had the same opinion but named a different reason for it:

> R: We try as we can to control the distribution of the product. The reason is that we don’t want to be in competition with ourselves on the market. If we know who is selling our products and where, it is less likely that more than one vendor is selling our product at the same time.

One manager thought it was extremely important to have maximum control and having maximum market presence.

> R: We want to be on top of things. It is vital for us to know exactly how the market conditions are and to have a good overview of sales and marketing in each market.

The managers gave similar responses and value highly to have control over operations overseas. That favours hierarchical entry modes.
5.2.7 Flexibility

Out of the three desired mode characteristics, the managers seemed to value flexibility the least in comparison with the other two factors (risk averse and control). There was coherence in the answers given and the managers talked in a way that when evaluating new market opportunities, they always thought long-term and were not likely to jump ship if the market suddenly became less desirable. Changes in currency rates or demand occurred all the time and were seldom a reason for exiting the market completely. One manager described how his firm tried to be flexible:

R: We must be flexible. How we manage that is different between products. Sometimes, our flexibility is within our partners abroad. Through them we can access different market segments and sometimes in different countries.

Table 12
Flexibility.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>-</td>
<td>+/-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The managers considered it important to have flexibility in foreign ventures. The results indicate that either export or intermediate modes are appropriate.

5.2.8 Tacit nature of know-how

Considering the nature of the industry, the Icelandic managers did not feel there was a particular know-how involved in their business that would be hard to transfer. If there were any, it would be associated with employees working on board the vessels or in the production. For marketing, sales and distribution however, there was no mention of know-how that is hard to articulate and transfer on to others.

Table 13
Tacit nature of know-how.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Factor score: - for all firms, meaning that the results will favour export modes.
5.2.9 **Opportunistic behaviour**

The Icelandic firms that had exported products via an intermediary or export house of some sort, mentioned that they had experienced what can be seen, as an opportunistic behaviour on be half of the intermediary. Some were described as minor incidents where there had been friction with the partner as a result of limited space on board the airplanes transporting the fresh fish to Boston. Another respondent said that this was definitely something you have to deal with when exporting through an intermediary, and that it was a part of the reason they would rather want to handle their own exports. One respondent had one particularly negative experience from a distributor located in Boston when he was asked if he had experienced such behaviour of his business-partner’s behalf:

(Talking about smaller buyers in the US)

R: Once I sent them packages that where clearly labelled with our logo. Their reply was that if we ever did that again, they wouldn’t buy from us anymore. This buyer is maybe buying around 10 boxes from us every day and meanwhile, he is buying 200 boxes from Norway each day. He knows that our fish is better, but he gets cheaper fish from Norway. He then goes ahead and showcases our fish, but sells the Norwegian fish like it was from us. And they do this without blinking.

<table>
<thead>
<tr>
<th>Factor score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Icelandic fisheries companies</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Factor score: + for all firms, meaning that intermediaries can behave in an opportunistic way. The results will therefore favour hierarchical modes.

5.2.10 **Sociocultural distance**

By comparing the two countries, Iceland and the United States based on Hofstede’s cultural dimensions (“Dimensions - Geert Hofstede,” n.d.) we get a comprehensive comparison of cultural aspects of the countries. According to Figure 14, differences in uncertainty avoidance, long-term orientation and indulgence are almost none. Power distance is relatively higher in the United States than Iceland. The main
difference is presented in very different scores when it comes to levels of individualism and masculinity.

![Graph](image)

*Figure 15 Cultural Comparison of Iceland and the United States. (“Iceland - Geert Hofstede,” n.d.).*

The answers given by managers of the American firms were coherent and suggested that differences in sociocultural matters were not in any way hindering when forming and maintaining business relationships with Icelandic companies. One respondent said that Icelandic business-people were “honest” but also mentioned that they were often “stubborn”. Another respondent mentioned that doing business with Icelanders was easy compared with others:

Q: Do you recall having encountered any incidents with Icelanders that may have been caused by socio-cultural differences?
R: Not that I can recall. I would say, that 95% of the time there are no issues.
Q: Is this the same with people from other countries you do business with?
R: No. It can be much more difficult doing business with people from Asian cultures.

The Icelandic managers seemed to see things the same way. They all thought that doing business with Americans was relatively easy and straightforward. One respondent who does business with companies in many different cultural environments mentioned that doing business with American business people was probably the easiest. Another one put it this way:
Q: Do you recall having encountered any incidents with Icelanders that may have been caused by cultural differences?
R: No, I don’t think so. The business relationships we have with Americans are probably the best we have.

There were however some minor incidents mentioned during the interviews, like this one:

R: There is always some cultural-friction present. Americans usually talk very much and it can take them a long time to get on topic.

These incidents were however, never seen as something that could threaten a business relationship or be viewed as a hindrance for Icelanders doing business in the US.

Table 15
Socio-cultural distance.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor score</strong></td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>++</td>
</tr>
</tbody>
</table>

Factor score: ++ for all firms, meaning that there is very little socio-cultural distance between Iceland and the United States (east coast). That will favour hierarchical modes.

5.2.11 Country risk

According to data from Global Edge, the United States has a very low risk rating both in terms of country risk, and business climate. On a seven point Likert scale, the country receives an A1 rating on both matters. The political and economic situations is considered very good. On average, corporate default probability is also considered very low (“United States: Risk Assessment >> globalEDGE: Your source for Global Business Knowledge,” n.d.).

![Figure 16](image-url)

*Figure 16. Global Edge considers the United States to be a very low risk zone for conducting business. Source: (‘United States: Risk Assessment >> globalEDGE: Your source for Global Business Knowledge’, n.d.)*
On the whole, the Icelandic managers agreed that, in comparison with other countries they conduct business with, the US was a relatively low risk market. However, even though the respondents thought the country as a whole was a low risk market environment, there were some concerns:

Q: Do you consider conducting business in the US to be relatively risky, compared to other countries where you also conduct business?

R: Yes, and no. The US market is special. It can be difficult for us to know which partners we can trust. This is made much easier in the UK with more detailed data on the distributors. On the whole, I would still say that it is not difficult conducting business over there.

Table 16

<table>
<thead>
<tr>
<th>Country risk:</th>
<th>Icelandic fisheries companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>1 + 2 + 3 + 4 +</td>
</tr>
</tbody>
</table>

Factor score: + for all firms, meaning that the levels of risk indicate that a hierarchical entry mode is appropriate.

5.2.12 Country demand uncertainty

The Icelandic managers all said they were not worried about market demand and believed it would remain solid or increase. When they were asked about the soon-to-be increase in fresh product exported to the market, the answers were all on the same lines; the market would handle it. When talking about the size and potential growth of the market, one of the managers said:

R: There seems to be a general increase in the demand for fish.

The managers at the US firms raised very similar views and believed there was very little demand uncertainty. There was however one manager in Boston that feared that the market would not handle the sudden increase of fresh products coming to the market, as a result of the increase in air freight space:

Q: How would you rate the market demand for Icelandic products?

R: I am mainly worried about the fresh fish. I’m not sure if the
market can handle the sudden increase in volume coming in from Iceland. I think that prices will drop.

Cod accounted for almost 58% of the total value of seafood, exported to the United States in 2014 ("Útflutningur sjávarafurða eftir afurðum, físktegundum og löndum 1999-2014," n.d.). Numbers from NOAA Fisheries show that from 2013 to 2014, imports (in metric tons) of Cod to the US increased by 50.7%, from 2,416 to 3,642 (NOAA Fisheries, 2014). From 2014 to 2015, the total live weight exported volume to the US increased by 12.3% and prices increase by 27.9% (Markó Partners, 2015). According to the views expressed by managers and the data, demand uncertainty is considered to be low.

Table 17.
Country demand uncertainty.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor score</strong></td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Factor score: + for all firms, meaning that demand is believed to remain steady, which favours hierarchical entry modes.

5.2.13 Market size and growth

The Icelandic managers all agreed that this is a promising market as a whole. Producers exporting both fresh and frozen fish to the market talked about good prospects on both fronts. When asked about how he perceived the market prospects in the US, one Icelandic manager answered:

R: I think prospects are good for this market. There has been an increase in the amount of frozen products sold to the market. The reasons being, the US dollar has been getting stronger and there also seems to be a general increase in demand for fish. Even for species that have not been exported in any quantities before, like Pollock. The amount of fresh fish has been limited by the room available in the airplanes, but that will increase now.

When talking about the fresh fish, another Icelandic manager said:
The growth for the fresh products has been with the products exported with cargo ships. Looking ahead, I believe that more will be exported via air. There are good opportunities for the fresh fish in the U.S, I believe that. That market is sure to grow in the foreseeable future.

The managers in the US had a similar feel for the market. They all said that the market has been growing and they felt that it would continue growing. A manager at a firm that is mainly importing frozen products from Iceland said:

R: The market is growing. We have three main segments, and they are all growing.

Table 18

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Factor score: + for all firms, meaning that market conditions are likely to favour hierarchical modes.

5.2.14 Direct and indirect trade barriers

According to Global Edge (“United States: Trade Statistics >> globalEDGE: Your source for Global Business Knowledge,” n.d.), the United States are the largest importer of goods in the world, and second largest exporter of goods. Each year, the Heritage Foundation and The Wall Street Journal publish the Index of Economic Freedom, a guide that measures economic freedom all over the world. One index that is measured is the freedom of trade, which is a composite measure of non-tariff barriers and of the absence of tariffs that will affect the exports and imports of goods and services. According to the index, trade freedom in 2016 in the United States is considered to be 87%, and the world average is 76.1% (‘Index of Economic Freedom’, n.d.).

The Icelandic managers agreed that overall, conducting trade with firms dealing with authorities was relatively easy and straightforward. None described trade barriers as being a hindering factor for them when they did business with their partners abroad. One manager that does business in many different countries said that it was very easy to export to the U.S:
R: The rules and regulations is very good and clear in the US In other countries, things are often more unclear and there is more corruption. The US is a safe place for conducting business.

Another manager that is very experienced in the field described it like this:

R: Often, we have received threats of embargos from the U.S, for instance because of whaling here in Iceland. But in the end, these threats have never been followed with action.

Some respondents mentioned that recently, the FDA (US - Food and Drug Administration) had paid them a visit and inspected their facilities. According to the FDA, they are increasing the number of routine inspections with foreign processors, manufacturers, packers and holders of foods. This increase of inspections is mandated as a result of new laws signed in January 2011 (Nutrition, n.d.).

The respondents were asked if they had received such visits. Some of the respondents said that they had received inspectors from the FDA and that they had been mainly routine and went well. They did not consider this to be of an issue.

During observations at the Boston Seafood Expo in March 2016, the author noticed that many people from different firms and political figures, both Icelandic and American were discussing the possibility of the North-Atlantic Cod to be placed on a list published by IUCN called the Red List of Threatened Species and to be listed as vulnerable. According to the IUCN, a species is considered vulnerable if it is “considered to be facing a high risk of extinction in the wild” (“Categories and Criteria,” n.d.).

In the interviews, the Icelandic managers had different opinions on this matter. They all agreed that if the North-Atlantic Cod would end up on the list, it could cause them problems in that particular market. On the other hand, some were more optimistic than others that Icelandic authorities would manage to sort out the issue before it came a serious problem:

Q: Do you consider the possibility of the NA-Cod to be registered on the IUCN red list to be a considerable threat to your business?

R: I think this is a very serious matter. I believe, that if we end up on this list, it will be very difficult to get off it again.

Another manager was not as worried:
R: This came as a surprise, but I am very confident this will be worked out.

Over all, the data suggests that for foreign firms, conducting business in the US is relatively easy. The Icelandic managers agree on that and according to the *Index of Economic Freedom* it rates very high on freedom of trade. However, at this moment, the threat of the North-Atlantic Cod being red-listed by the IUCN is a serious one, and especially since the species accounts for over 57% of the value of exported seafood to the US in 2014 (“Útflutningur sjávarafurða eftir afurðum, fisktegundum og löndum 1999-2014,” n.d.).

Table 19
*Direct and indirect trade barriers.*

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Factor score: - for all firms, meaning that although doing business with the US is considered easy and straight forward, it might not be wise to invest to heavily in the market because of the possible red-listing of the Atlantic-Cod.

### 5.2.15 Intensity of competition

The answers given by the Icelandic managers were on the same lines when they were asked about how they perceived the intensity of competition in the US market. They believed that the levels of competition are increasing in the market. When talking about the fresh product, one manager explained:

R: The talk on the market today is that competition in the fresh-fish market is increasing and that it will lead to an increase in producers and intermediaries exporting to the market.

Manager at an Icelandic firm that exports both fresh and frozen products to the market said that with an increase in certain fish quotas and the amount transported with airfreight, competition will “surely rise”:

R: It will surely rise with the increased supply coming from Iceland. It will be a survival of the fittest.

Q: There have been concerns raised by some importers and distributors in Boston that the market cannot handle this increase
of supply, do you agree on that?

R: I think the market can handle it. I believe however that the firms that have had reserved room in the limited space on board the airfreight are afraid of increased competition. The competition will rise and prices will fall.

The managers of the US firms all believed that the competition was growing and some noted they where already feeling it. An importer of frozen fish from Iceland said that he was feeling increased competition from Russia. Another mentioned that the Norwegians were flooding the market with their products, causing lower prices. When it came to the fresh fish, there was one thing all the US managers mentioned, and that was the soon to be drastic increase in air freight space:

R: We are very worried about the increasing supply, and we believe that the prices will drop. The increased capacity of Icelandair Cargo might result in more competition. The number of brokers might increase by 10-20.

A manager at a larger firm was not as worried:

R: The levels of competition will rise to begin with, but it will then bounce back (Meaning that the small players will be pushed out of the market).

There are high levels of competition in the US market and similar outlook is shared from both the Icelandic and American managers that it will increase.

Table 20.
Intensity of competition.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Factor score: - for all firms, meaning that prospects of higher competition will discourage firms from investing in the market and instead, favour export modes.

5.2.16 Small number of relevant export intermediaries available

The Icelandic managers all agreed that there were plenty of intermediaries available that could service the market for them. One respondent noted that there was, at
the moment limited amount of firms that could fly with fresh with directly to Boston, but there were others that did the same thing via London. None of the respondents said that a lack of intermediaries was the reason they would instead conduct their own exports. One respondent put it this way:

R: It would be no problem for us to sell all our product-range through intermediaries here in Iceland if we wanted. The supply of these firms is plenty, and it has been increasing in recent years.

Managers also mentioned during some of the interviews conducted in the US that because of an increase in competition on the market, they were expecting an increase in number of intermediaries exporting from Iceland to the US via Boston.

Table 21
Small number of relevant export intermediaries available.

<table>
<thead>
<tr>
<th>Icelandic fisheries companies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor score</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Factor score: -- for all firms, meaning that there are plenty of intermediaries that could take care of all exporting for the firms. That will favour export modes.
5.3 Visual representation of the results

Table 22
Results of factors where firms are valued separately

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size</td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>International experience</td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Risk averse</td>
<td>-</td>
<td>+/-</td>
<td>-</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>Control</td>
<td>+</td>
<td>++</td>
<td>+</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>-</td>
<td>+/-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Table 23
Results of factors impacting all the Icelandic firms equally

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product complexity</td>
<td>--</td>
</tr>
<tr>
<td>Product differentiation advantage</td>
<td>+</td>
</tr>
<tr>
<td>Tacit nature of know-how</td>
<td>-</td>
</tr>
<tr>
<td>Opportunistic behaviour</td>
<td>+</td>
</tr>
<tr>
<td>Sociocultural distance</td>
<td>++</td>
</tr>
<tr>
<td>Country risk</td>
<td>+</td>
</tr>
<tr>
<td>Country demand uncertainty</td>
<td>+</td>
</tr>
<tr>
<td>Market size and growth</td>
<td>+</td>
</tr>
<tr>
<td>Direct and indirect trade barriers</td>
<td>-</td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>-</td>
</tr>
<tr>
<td>Small number of relevant exports intermediaries available</td>
<td>--</td>
</tr>
</tbody>
</table>

Table 24.
Final score for the Icelandic fisheries companies

<table>
<thead>
<tr>
<th>Firm</th>
<th>Total score</th>
<th>Recommended entry mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Intermediate/Hierarchical</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>Intermediate/Hierarchical</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>Intermediate/Hierarchical</td>
</tr>
<tr>
<td>4</td>
<td>-3</td>
<td>Intermediate/Exports</td>
</tr>
</tbody>
</table>

Figure 17. A visual representation of the results. The numbers indicate the firms.
6 Discussion

6.1 A lack of framework

This first thing the author noticed during the interviews was the way the managers assessed foreign markets and market opportunities. The way they enter markets often seemed to be the results of business relationships, personal contacts or they were contacted from a buyer in that particular market. There did not seem to be an analytical evaluation of markets nor a framework or model of some kind to aid in the process. This is similar to the views presented by Eyjólfssson (2012), where he argued that it was difficult to assess the internationalization of Icelandic exporters of marine goods, and there was no single theory that could explain it. Eyjólfssson mentioned that it bore a resemblance to the network model, where firms build long-term relationships with its customers, distributors, suppliers and even competitors. These relationships form a network between the organizations, which they all benefit from. Based on the interviews conducted in this research, the author believe this is an accurate description of the firms’ internationalization process. Some interviewers described that they were careful when they ventured into new markets and carried out operations in small steps. That behaviour is similar to what Johanson and Vahlne (1977) describe in their Uppsala model, where firms will take small incremental steps of gathering knowledge on the market and in then increase its commitment to the market.

The approach of the fisheries companies use in internationalization might also be described as being ad-hoc (adhocracy). Ad-hoc can be thought of as the opposite of bureaucracy, and where business management emphasizes task oriented procedures (Miles, Snow, Meyer, & Coleman, 1978). This might explain the way the companies expand into new markets. More than one respondent described that the reason for their presence in a particular market could often been traced back to having been contacted by a buyer from that market. After making this connection, the company entered that market. The case therefore seems to be that the managers will face a challenge or problem and will design a fitting solution, but it will not necessarily be intended for solving problems elsewhere.

6.2 What is the model telling us?

The results of the model are clearly that the Icelandic companies should choose an entry mode that involves more commitment and levels of equity than is done today. It however recommends different levels of involvement in the market for the four
companies. That difference is mostly due to the different size of the companies, as well as international experience and characteristics of their managers.

An investment that requires much allocation of resources and commitment, such as wholly owned subsidiaries can on the other hand not be recommended either. The answer lies in between, where the increased risk and possible returns would be divided between parties. A partnership of two or more companies that are exporting to the same market might therefore offer the companies the possibility to share the added risk, but at the same time, share the added returns and benefits that come from the increased involvement in the market.

The results of the model recommend intermediate entry modes such as strategic alliances or joint ventures. However other intermediate modes such as contract manufacturing, licensing and franchising cannot be recommended since they require the production part of the operation to be located in the target market. An X or Y coalition joint venture (explained on pages 39-40) could both be fitting for the Icelandic fisheries companies. With an X coalition, a one single Icelandic company could form a venture with a company located in the foreign market that specializes in marketing and sales. With a Y coalition two or more Icelandic companies could join forces and form a separate organization in the foreign market that takes care of marketing and sales. There is also the possibility of mixing X and Y, and having two or more Icelandic companies forming an alliance with a foreign marketing and sales organization.

6.3 Is the model a fit for Icelandic fisheries companies?

The market entry model is a straightforward and accessible tool that can help managers make decisions on selecting entry modes. During the research however, the author realized that it was flawed in a way: It does not take into account if a firm is exporting products to many different markets. Instead it seems to be a much better fit for firms that have operations in their home market and are considering expanding operations into one other market. The case with the Icelandic firms is that they are all involved in exports to many different markets. In some cases, dozens of markets. So, even if a firm has plenty of resources to form a subsidiary in one foreign market, the number of other markets it is involved in will hinder that.

The author also questions that the factors are all considered of equal importance. The model might work better if the factors were weighed differently when the score is summed up. Examples of that might be factors such as firm size or market size and
growth that could perhaps be considered more important in the decision than opportunistic behaviour of the intermediaries.

Another example of this is for instance the red-listing of the Atlantic Cod that is mentioned in the trade-barriers chapter. If this were to happen and Icelandic fisheries companies could not export Cod to the US market, it would change the environment completely. So, although all other factors might suggest entry modes with high levels of equity, it might be the wrong decision because of the trade-barrier factor alone.

For the model to be a better fit for Icelandic fisheries companies, there needs to be more emphasis on the resources that the firms have available. The firm size factor does address this in some way. But if a firm has already allocated much of its resources in other markets, firm size alone is far from being enough of an indicator of the level of resources the firm has available.

The author believes that assessing these factors is extremely useful for firms considering entering new markets. It should still only be considered as a tool that gives an indication of market entry mode and its results should be considered in context.

6.3.1 What does the industry say?

After an analysis of the results, the author interviewed two managers at one of the companies taking part in this study. The model was explained and results of the study were presented. The objective was to get feedback on the model and if companies in the industry could apply it in a practical way.

They were asked if this particular model was a fit for their company. The answer, was they believed that it could definitely be of help, but not necessarily in its current form. Changes could be made to the model were certain factors would have different weight and the results calculated in a different way. Instead of giving score in the form of plusses and minuses, each factor would get a numerical score that would be multiplied with its given weight.

They also had other ideas of ways it could work in a practical way. For instance: Firstly, as a way to compare the same market between years. That way it is easier to keep track of changes in the market environment and it could show a more detailed and unbiased vision of how the market used to be. Secondly, as a way to compare different markets and thirdly, it could be used as a checklist when assessing new opportunities.

The results of the model in this study are quite different from what the companies are doing today. When asked about this difference and what might be causing it, they replied that it was a matter of short-term vs. long-term thinking.
Markets are constantly changing and companies have to be really committed to the market to be willing to allocate resources to it.

R: The markets are constantly changing and for instance, this particular market is completely different from what it was 10 years ago (talking about the US market).

This gives an indication that flexibility is very important in the decision process and it could possibly be a factor that could have an increased weight in the model.

The author also asked if they considered it to be a flaw in the model that it did not take into account any other foreign ventures the company was a part of. They agreed that is was an obvious flaw in the model.

The author suggests that in addition to the internal factors in the model (firm size and international experience) that there would be a third internal factor; resources. This factor would take into account the level of resources (in terms of manpower and financial resources) the firms would be willing to allocate to a particular market. This would be along with the research of Dunning (1977, 1980, 1988) and later Agarwal and Ramaswami (1992) that suggested that the firm-specific and market-specific factors that influence the entry mode decision were control, return, risk and resources.

6.4 In summary

There seems to be a lack of a structured framework when it comes to the internationalization of Icelandic fisheries companies. That fits with previous research in the field. The author then adds that decisions on market entry taken within the companies seem to show signs of being ad-hoc. The results of the model indicate that the firms should use intermediate entry modes when exporting fish to the US market. The author suggests that a joint venture using X or Y coalition could be a good fit for the companies. The market entry model offers a good framework when assessing new markets and can help companies making decisions on entry mode selection. However, after discussing the model with managers in the industry, the author would recommend that it be adjusted to give a result that is more fitting for Icelandic fisheries companies.

6.5 Further research

This research confirms what previous research had already stated, that there was no single theory that could explain the internationalization of Icelandic fisheries companies, and adds that there seems to be a lack of framework around the market entry decision process. It might therefore be interesting to dig deeper into the management
style of the Icelandic fisheries companies and see if this is also the case in other aspects of those businesses.

It might also be interesting to do a comparative research of two or more Icelandic fisheries companies with different levels foreign operations. The companies might be similar in other ways, but one would be fully dedicated to exports with zero investments in foreign subsidiaries, while the other might have invested heavily in subsidiaries in foreign markets.
7 Conclusion

The results suggest that three (no: 1, 2, 3) of the four Icelandic fisheries companies should use an intermediate, or even a hierarchical entry mode. Meaning, that for this particular market, the market environment indicates that an entry mode involving more internalization and investment is fitting. One firm (no: 4) ends up with a net score of -3, meaning that intermediate modes or export modes would be fitting for it. The model does not give a clear indication that any of the firms should use an export mode for this particular market, as they all do today. It can be argued, in accordance to the results of the model, that intermediate entry modes, such as joint ventures would be optimal. Using an entry mode like a joint venture of two or more parties would allow the companies to share the added risk which is associated with the allocation of resources to the market.

The answer to the proposed research question is therefore, yes, the chosen market entry modes of Icelandic fisheries companies differs from what the market they are entering suggests.

The objectives of the study were to examine the current market entry modes that the companies are using and to gain a deeper understanding of the process. Also, to assess the characteristics of the market using the market entry model. One objective was to see if the model was a fit for the Icelandic companies and if it could be used in a practical way. The findings of the research indicate that the model is not a fit in its current form. However, with some adjustments it could help companies compare different markets, compare the same markets in different years and serve as a checklist for managers. That confirms that with adjustments, the model can be of practical value for the companies.

7.1 Managerial implications

As suggested by the literature the right market entry mode is one of the most important decisions for an international firm to make (Root, 1998). The results of this study indicate a lack of a structured framework when assessing market opportunities and choosing entry strategy. Therefore, adopting a framework where all the relevant factors or variables in the market environment are addressed could aid Icelandic fisheries companies that seek to enter foreign markets.

The market entry model suggests that an intermediate entry mode is a fit for these companies and the US market. It can however not be said with certainty that entry
modes involving high allocations of resources such as wholly owned subsidiaries are the way to go in this market. However, the market environment does suggest higher levels of internalization/equity to be allocated to the market than is currently being done. Joint ventures of two or more parties might therefore for be suitable for this market.

The author discussed the results of the research and the model itself with two managers of one of the participating companies. The results of that discussion was that the model could be of much practical value for similar companies if it was adjusted accordingly. These adjustments were to give each factor in the model an appropriate weight when calculating the score, and take into account other foreign ventures the companies were involved in. The model could that way serve as a framework that would make comparison between different markets easier as well as comparing one market in different years.
8 References


9 Footnotes

1 Respondent

2 Question from the interviewer.
11 Appendix A

Questions asked during semi-structured interviews with U.S managers.

Introduction
1. What is the nature of your business?
2. How large is the company in terms of number of staff?
3. Is your company distributing only in the Boston area, or do you have distribution channels elsewhere?
4. Do you import products from many different countries?

Market size and growth
5. Do you feel like the Boston market is getting larger or shrinking?
   a. Is it different between fresh and frozen products?

Intensity of competition
6. How would you rate the intensity of competition in the Boston market?
   a. What are the trends?

Sociocultural distance
7. Do you recall having encountered any incidents with Icelanders that may have been caused by cultural differences?
   a. Is it easy to do business with Icelanders?

Demand uncertainty
8. Do you feel the supply of fresh Icelandic fish is enough? Would you be likely to buy more of it it was available?

Product differentiation
9. Do you feel like Icelandic fish is of superior quality compared to others (both domestic and international)?

Product complexity
10. Do you think customers would pay more for Icelandic fish than the same type of fish from others?

Other relevant questions
11. Is it more common for foreign producers of fish to use local distributors or agents, rather then having their own subsidiaries here?
12. Do you deal with producers directly or through some kind of an intermediary?
   a. What kind?
   b. Would you prefer to deal with the producers directly?
12 Appendix B

Questions asked during semi-structured interviews with Icelandic managers.

Firm size

1. Hversu stórt er fyrirtækið, miðað við fjölda starfsmanna?

International experience

2. Hve lengi hefur fyrirtækið staðið í útflutningi?
   a. Hvernig hefur honum verið háttar? (beinn/óbeinn, dótturfyrirtæki)
   b. Hvað ræður því hvaða inngönguleiðið er valin inn á nýja markaði?

Desired mode characteristics (Risk, Control, Flexibility)

3. Telur þú áhættusamt að velja inngönguleiðið á markaði sem fela í sér aukna
   skuldbindingu á fjármunum og mannafla? (t.d. með stofnun dótturfyrirtækis
   erlendis)

4. Telur mikilvægara að lágmarka áhættu heldur en að hafa mikla stjórn yfir
   dreifingu og sölu vörurnar erlendis?

5. Telur þú að inngönguleiðið sem fela í sér miklar skuldbindingar á fjármunum og
   mannafla bjöði upp á nægjanlegan sveigjanleika? (t.d. ef eftirspurn eða verð
   falla á markaðnum og fyrirtækið vill leita á aðra markaði)

Questions about the market

International experience

6. Hve lengi hafið þið flutt út vörur á Boston svæðið?
   a. Flytjið þið bæði ferskar og frosnar vörur?

Sociocultural difference

7. Selur fyrirtækið til dreifingaraðila á Boston svæðinu?
   a. Ef já, hafa komið upp samskiptaórðugleikar sem rekja má til
      mismunandi menningarbakgrunns aðila?

Market size and growth

8. Hvernig metur þú markaðshorfur í Boston og á austurstönd Bandaríkjanna?

Intensity of competition

9. Hvernig metur þú samkeppni á mörkuðum?
   a. Telur þú að hún muni aukast eða minnka?

Product differentiation

10. Telur þú að vörurnar sem þið flytjið til Boston hafi meiri gæði en vörur frá
    samkeppnisáðilum (frá öðrum löndum)?
Trade barriers

11. Telur þú viðskiptahindranir hafa þyngjandi áhrif á starfsemi íslenskra sjávarútvegsfyrirtækja í Bandaríkjunum?

Country risk and demand uncertainty

12. Upplifir þú óvissu í eftirspurn á mörkuðum á austurströnd Bandaríkjanna?
13. Telur þú áhættusamt að stunda viðskipti í Bandaríkjunum?

Number of relevant export intermediaries available

14. Telur þú að það sé nægt framboð af útflutningsaðilum á Íslandi?

Opportunistic behaviour

15. Telur þú að núningur (eða samskiptaörðugleikar) í samskiptum við dreifingaraðila, umboðsmenn eða útflutningsaðila geti verið þess valdandi að sjávarútvegsfyrirtæki kjósi frekar að sjá alfarið um sinn útflutning sjálf?
   a. Hefur þú upplifað slíkt?