Change of Entry mode

-A Case study of Swedish retail firm in the United Arab Emirate

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Change Of Entry Mode

- A case study of Swedish retail firm in the United Arab Emirate

Förändring i organisationsform vid marknadsexpansion

- En fallstudie av ett svenkt företag som expanderar i Arabemiraten

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Abstract

Over a decade, there has developed a strong tendency in International Business studies to discuss the internationalization of multinational corporations. This development is not surprising as the ongoing globalization has pushed corporations to seek entry into foreign markets at a relentless pace. When a firm decides to operate outside domestic market, it has to choose which market to enter, the organizational structure and the entry mode for entering the new market. There are varieties of modes which firms might use to enter to foreign markets, firms, for instance, might chose to use exporting through independent intermediaries to enter to one market, where as in another market might change to either sole ownership or franchising modes. There are several Factors that can cause firm to change from one mode to another. A situation arose where a Swedish retail firm enters to over thirty foreign markets with a particular entry mode, when this firm enter to a certain market in a particular year that is United Arab Emirate, the firm's normal entry mode was changed . The purpose of this study is to investigate what factors (such as internal or external) that caused or was responsible for Swedish retail firm change of entry mode. The study only focus on the internal factors comprises of resources commitment as well as external factors consists of target country laws and regulations. Different theories on factors causing entry mode change together with empirical data were analyzed. The analysis clearly indicates that Swedish retail firm has sufficient resources to compete and operate in UAE and that the nature of UAE law on foreign investment demands that this firm must use UAE agent to establish in the country. The paper however concludes that Swedish retail firm change of entry mode was as result of constraint places by United Arab Emirate laws or policies on their normal entry mode.

Sammanfattning

Under senare delen av nittonhundratalet ökade intresset för att studera den trenden bland företag att expandera utomlands, en så kallad internationaliseringsprocess. Att söka nya marknader för företag med behov av expansion är inget nytt fenomen, men en allmän globaliseringstrend innebär att många utmaningar som är förenade med internationella expansionen förtydligas.

För ett företag som planerar en internationell expansion kan etableringen ske i olika organisationsformer (som i uppsatsen benämns med "organizational modes"). Ett sätt att göra en etablering på en ny marknad är att driva verksamheten mellan en lokal aktör (intermediary). Ett annat sätt är att bygga en helägd verksamhet på plats. Ytterligare ett alternativ är att tillämpa franchising, där lokala aktörer skapar en försäljningsenhet givet ett licensavtal. Beslut om vilken organisationsform som är mest lämplig vid etablering på en ny marknad bestäms av interna faktorer, som företaget självt råder över, och externa faktorer, som företaget i ringa grad kan styra över.

En fallstudie av ett svenskt företags etableringstradition valdes för att beskriva hur interna och externa faktorer påverkar organisationsformen vid nyetablering. Valet av företag, H&M, är baserat på önskemålet att det skulle vara ett stort företag med en historia av erfarenhet av tidigare internationella etableringar. Fallstudien bygger på en litteraturgenomgång, intervjuer med företagsrepresentanter samt tillgängligt material om företaget.

Företaget, H&M , har historiskt haft en etableringskultur som innebär fullt ägarskap för nya enheter. Vid expansionen i Förenade Arabemiraten sattes villkor för etablering upp från regeringen som innebar att företaget inte själva kunde välja organisationsform. Det var inte var tillåtet att göra en helägd etablering i Förenade Arabemiraten. Forskningsstudier som visar avgörande interna faktorer fick utgöra en bakgrund som inte var tillämpbar i just det här fallet. Interna faktorer blev sekundära eftersom villkoret för att få etablera sig i landet förutsatte att de externa faktorerna (lagar och regleringar) efterlevdes.

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1 Introduction

This chapter presents the research background, problem discussion which leads to development of research purpose and question .The delimitation of the research is also presented.

1.2 Globalization of business

Increased globalization has put pressure on Multinational Corporation to seek entry into foreign regions, as markets are becoming more integrated with one another and countries are becoming more dependent of each other for exchange of resources. Simply put, the gradual decline of national barriers, that is creating accessibility for foreign investments by international competitors. In addition to increased access , major developments in communication and transportation have reduced costs and risks, improved the flow and filtering of information thus making foreign investments more attractive than ever before (Rasheed, 2005; Hill, 2000).

In this globalized market, prices are being bargained down as companies are not just competing with only domestic rivals, instead with foreign rivals. Goods and services are also sourced from one location to another, where costs of production are cheaper. Buyers can easily sort for sellers or vise versa. In this globalized world, transportation of goods and services from one country to another has becomes much easier due to innovation in telecommunication and transportation technology.

As a consequence of the globalization of business, world trade has grown faster than world output. Foreign direct investment has surged, import have penetrated more deeply into the world of industrial nations and competitive pressures have increased from one industry after another .To retaliated to this global pressure firms started expanding to foreign countries (Hill, 2000; Ekeledo, 1998; Barlet & Ghoshal, 1987; O’Donnell, 2000).

1.3 Entry into foreign market

Entry into foreign market increases both firm market shares and sales. Despite these benefits entry into foreign market is challenging from managerial point view (Lam & White, 1999). When a firm decides to operate outside the domestic market, it has to choose which market to enter, the organizational structure and the entry mode for entering the new market.

Entry mode is an institutional arrangement that a firm uses to market its product in a foreign market for the first three to five years (Ekelodo& Sivakuma, 2003). Or a means of linking a company's product to foreign market (Kwom & Kanopa, 1992).

There are varieties of modes which firms might use to enter to foreign markets, firms, for instance, might chose to use exporting through independent intermediaries to enter to one market, where as in another market, the firm might chose to export through integrated company- owned channel, or operate overseas either via contractual mode (such as licensing and franchising) or through foreign direct investment (Joint venture and wholly owned subsidiary) (Eramilli, 1992). The selection of appropriate entry mode plays an important role in determining the success and performance of firm in the new market (Ekeledo & Sivakumar, 2003).For example inappropriate selection of entry mode may result to substantial financial losses and exist from the foreign market (*Ibid*.).

1.4 Change of entry mode

Investigation by group of researchers at Uppsala University shows that Swedish manufacturing firms does not follow specific modes when they established abroad rather that they changes to different entry mode in different countries (Johanson &Wiedersheim 1975 ; Johanson & Vahlne, 1977). Change of entry mode is however described as organizational or strategic changes that arise when firms expand to foreign markets or modes at which firm respond to various international business environmental factors (Calof & Beamish, 1995).

1.5 Factors causing change of entry mode

There are several different factors that can influence and lead to firm change of entry mode. Kwom & Kanopa (1992) claimed that both internal factors specific to nature of product/company and external factors specific to foreign and domestic market can affects and lead to firm change of entry mode. The research by Calof & Beamish (1995) and Rosson, (1987) shows that both internal and external factors can also cause firm to change from one mode to another.

Internal factors are factors that are within firm control (Cateora, 2000).They includes; firm specific resource , company size/resources, management risk attitudes, market share targets, profit target , experience in using one particular mode, international experience, firm specific resources , nature of the product and degree of control (Root, 1994; Ekeledo, 2003; Koch, 2001).

External factors are defined as factors that are outside firm direct control (Cateora, 2000). They are ; target country environmental factors(such as legal barriers, level of economic development/performance, political environment), market barrier, industry feasibility, popularity of using individual entry mode in the overseas market, market growth rate, image support requirements, and global management efficiency requirements (Goodnow *et al*.1972; Koch , 2001; Root, 1994).

Since these factors play an important role in the firms' international success, managers need to analyze them and determine the most suitable mode to adopt. The influential factors in entry mode decision can be different in each market. In addition, the degree of influence of each of these factors can vary between countries. As consequences, firms need to analyze and determine which mode to change to (Johanson &Wiedersheim, 1975).

1.6 Problem Discussion

The past decade has been characterized by profound changes in foreign investment barriers, advancement in technology and an increased rate of globalization. This has resulted to dramatic shifts in the way businesses are organized and how they compete (Hill, 2000). These rapid changes in the nature of global competition have caused firms both retail firms to greatly expand abroad.

A company that considers expanding to foreign markets is faced with many questions. One of them that deserves special attention is however, what form of entry mode will the company select and changes to? This question is critical as it largely determines the success of the company's entry. What makes the task of selecting and changing to the most appropriate mode so difficult, is that both internal and external factors have profound effect in this decision. Although numerous factors appear to influence a firm's particular choice of entry mode in a given situation, external factors seem to be more important (Goodnow& James, 1972)

Davis *et al.* (2000) argues that pressure from both internal and external factors can influence and lead to entry mode change. Even though pressure from all the afro-mentioned internal and external factors seem to have significant effects on firm entry mode change, this study will focus more on Foreign Government laws and regulations on foreign ownership restrictions, classified as external factors, belonging to target country business environmental and specific resources classified as firm internal factors (Root 1994).

The above discussion leads to the problem that there are many possible factors that may influence and cause firm's change of entry mode.

1.7 Swedish Retail Firm's Change of Entry mode in United Arab Emirate

A situation arose where a Swedish retail firm enters to over thirty foreign markets with a particular entry mode, when this firm enter to a particular market in a particular year that is United Arab Emirate, the firm's normal entry mode was changed. Although research on factors that can cause firm to change its normal entry mode has less been explored, most research focus on factors that influences firms selection of entry mode and factors affecting firm choice of entry mode (Ekeledo& Sivakumar, 2003). If however one of these factors identified by previous researchers was to influence firms selection of entry mode, there is a need to investigate whether these same factors was responsible for Swedish retail firm change of entry mode? Since influence lead to change .This question is critical, has less been explored, therefore offers interest for investigation

The existing research on change of entry mode mostly focused on manufacturing firms, and less of retail firm that expanded to United Arab Emirate, Such as research by (Johanson& Wiedersheim, 1975). Retailers are different from manufacturers in their international expansions, because retailers must physical be present in the foreign market while manufacturers can use exports as one means of linking their product to foreign markets. In addition to that, retailers must have direct contact with consumers at the foreign countries, this however make retailing business more specific.

1.8 Purpose and research questions

The purpose of this study is to investigate what factors (such as internal or external) that caused or was responsible for Swedish retail firm change of entry mode when expanding to a particular geographical market

To fulfil the objective of this study, the following question will be answered:
What factors (such as internal or external factors) can cause firm's change of entry mode? Or was responsible for Swedish retail firm entry mode change?

1.9 Delimitation

The key limitations in this paper are related to availability of data. The author had difficulties in getting the whole primary data that was needed. As a consequence of that, secondary data will be used to support the available primary data. Some assumptions will also be made when interpreting certain information. The secondary data leads to an empirical delimitation, since the studied factors should ideally be both internal and external. The study focuses are external factors (i.e. foreign government laws and regulations) as determinants of change of entry mode, even if both internal (resources) and external factors set the conditions for change of entry mode that would appear to be ideal.

2 Method

This chapter presents and motivates how the data, necessary in answering the research question will be collected. It starts with presenting research purpose, followed by the research approach. The research strategy will thirdly be motivated, furthered to data collection, sample selection and data analysis. Finally, the means on how to increase validity and reliability are presented.

2.1 Research Purpose

Research according to Saunders *et al.* (2003) can be classified, based on the purpose that it wants to fulfil. Yin (1994) identified three different categories of research purposes; exploratory, descriptive and explanatory.

Exploratory research are valuable means of finding out what is happening, seeking of a new insight , asking questions , accessing a phenomena in a new way Saunders *et al.* (2003). It is also very useful when one wants to clarify an understanding of a given problem (*Ibid)*. Descriptive research portrays an accurate events or situation Robson (2002:59). It is an extension of a piece of exploratory research that is used when there is little research on a topic. It gathered as much as possible information through the use of different sources. It is conducted when researching a problem area with already existing theories or information. It try to answer what, when, who, where and how questions (Zikmund, 2000).

Explanatory research establishes casual relationship between variables, it study problems and situations with the aim of explaining relationship between variables Saunders *et al.* (2003).

Based on the above criteria, this study can be classified to be mainly descriptive, since it wants to study an accurate event or what has happened that is a factor that was responsible for Swedish retail firm change of entry mode when expanding to United Arab Emirate, since there exist little or restricted study on this phenomenon and Since the study try to answer what, when, who, where and how questions, through the use of different sources, existing theories and information.

2.2 Research Approach

There are two types of research approaches used in social science, they includes; qualitative and quantitative research approaches. There is no one best or most appropriate approach to study management research rather the approach that is most effective for resolution of a given problem depends on a large number of factors such as nature of the problem etc Gill & Johnson (2006).

Qualitative approach is described as a research strategy that usually emphasizes on words rather than quantification in collection and analysis of data, this however means that qualitative research do not employ measurements (Bryman & Dell, 2003). Qualitative research also emphasizes on inductive approach (Saunders *et al*, 2003). The researcher in inductive approach collects data and develops theory from data analysis (*Ibid)*. It is an approach that is used to understand the social world through an examination and interpretation of that world by its participants (Bryman & Bell, 2003), it emphasis on seeing through the eyes of research participants, it is descriptive in nature (*Ibid*). It views social reality as a constantly shifting emergent property of individual creation.

Quantitative research can be described as a research strategy that emphasizes on the quantification in the collection and analysis of data. That is, it entails the collection of numerical data; it is deductive approach (Bryman & Bell, 2003). Deductive approach develops theories, hypotheses and designs a research strategy to test the hypotheses Saunders *et al*. (2003). Qualitative researches incorporate the practices and norms of natural science that view reality as a social construct.

Based on the above criteria for choosing research approach which includes: descriptive purpose, collecting a data and developing theory/finding from the data analysis, understanding social reality by interpretation and since the purpose of this study will be establish without quantification of numerical data, to approach this study with qualitative method seems to be suitable alternative.

2.3 Research strategy

This part deals with general plan on how to go about answering my research question. Yin (1994) considered several research strategies within social science. This includes experiments, survey archival analysis, history and case study. Case study will be described here since is the best strategy suitable for this thesis, for more information on the other strategy please (see Yin 1994).

Case study according to Saunders *et al* (2003) is a strategy for doing research that involves empirical investigation of a particular contemporary phenomenon within real life context. Case study strategy according the Saunders has considerable ability to generate answers to why, what and how questions. Case study according to (Bryman & Bell, 2003) is mostly associated to qualitative research method use to study organization.

Since this research investigates real life context, and give answer to what factors that caused or was responsible for Swedish retail firm change of entry mode, this however, involved the study of organization by use of qualitative approach. Case study is the most suitable strategy for this thesis.

2.4 Data collection

Evidence for case study according to Yin (1994) may come from six different sources; documents, interview, archival records, direct observation, participant observation and physical artefacts. Whatever source that researchers chose to use, they have be aware of the sources weakness and strength Saunders *el al.* (2003*)*. For this reason researchers are therefore advice to combine both primary and secondary data in a single case study, this will however enables triangulation *Ibid*. Triangulation is used when researcher wants to ensure or confirm that the data that they had is telling them what they think the data is telling them (Saunders *et al*, 2003). For example, semi structured interviews may be valuable way of triangulating data collected by other means, such as questionnaire *Ibid.* Yin (1994) urged researchers to use multiple sources of evidence in as much as it covers the same set of fact and since no single sources has a complete advantage over others. Bearing this in mind I have chosen to use multiple sources of data to answer my research question due to weakness of using only one source. I had e-mail interview with Nils Vinge who is the company's head of investor relation and Johanna Dahl who is the marketer, but based on the Yin recommendation which states that good case is performed by use multiple sources. In this case, data from interview source is confirmed and complemented with documentary sources.

2.4.1Interview

Interview is essential sources of case study information. It takes several forms such as open-ended interview in which the key respondents will be asked the facts of the matters as well as his/her opinion about the events Yin (1994). Alternatively, the interviewer may ask the respondent to propose his own insight into certain occurrence and may use such proposition as the basis for further inquiry or data collection (*Ibid)*. In this study a Swedish retail normal entry mode was changed when entering to United Arab Emirate. To better understand the rationale behind this change, an open ended question was first thrown to the respondent (see Appendix 1) so that   the study will not be biased with any theory. The fact obtained from the first respondent was further developed and used for second interview (see Appendix1)
The interview was conduct via an e-mail. Gill & Johnson (2006) pointed out the importance of using an e-mail interview against postal equivalents; they argue that e-mail interview is much quicker to conduct especially when the researchers have limited time. Due to limited available time of this thesis, an e-mail interview was used to collect some of the data.

Interviews with H&M

	Names	**Role**	**Interview date**
1.	Johanna Dahl	Marketer	Email: 2008-10-01 *2008-11-18*
2.	Nils Vinge	Head of investor relation	Email: 2008-11-18

2.4.2 Documentary information

According to Yin (1994) documentary information is relevant to every case study topic. It is used to match and argument evidence collected from other sources. Since this study deals with factor that is responsible for Swedish retail firm change of entry mode as well as strategic issues, it is difficult to get hold of the whole data, needed to answer the research question. In this thesis, the available data from interview is matched and confirmed with documentation from previous studies, annual reports etc (Saunders *et al*, 2003).

2.5 Sample selection

Saunders et al. (2003) identified two types of sampling techniques that research might use, especially when they are constrained by time factor and when they find it difficult to access large number of firms. They argue that non-probability sampling is best used for case study. With this said technique the possibility of selecting all the company will be minimized. Due to time limit and impossibility of accessing all the Swedish retail companies, H&M is selected to answer the research question, proposed in chapter one of this paper. This selection was made base on what (Saunders *et al*, 2003) termed purposive or judgmental sampling. In this study judgmental sampling was used in selecting the company.

In selecting a company to study, there were a number of factors that was taken into consideration. First off, how H&M, Swedish retail fashion firm outgrew its competitive market to become a multinational corporation .One of the most significant factor that finally influenced the author's choice was the degree to which the company had established a presence in different countries. This is an important issue reflected upon because it expressed how many different factors the company had come in touch with and how successful the company had been in dealing with each instance. The size of the company was another important aspect that was evaluated because larger companies usually have more say in the markets in which they operate in and therefore, to a certain degree they could not be influenced by internal factors. Different industries was also looked into throughout the process of selecting a company, however, only the fashion retail industry gained more interest since clothes are adapted very specifically to each market that they are sold in. What made the company especially interesting to study was that this company has usual way of establishing to foreign market but in the case of expanding to the United Arab Emirate this usual way was changed. In addition to this change, there exists a little or few number of studies on this phenomenon, this study focus solemnly on one company known as Hennes & Mauritz (H&M).

2.6 Data Analysis

After collecting a data, next is to analyze the data. The rationale behind that is to find answer to the research question. Saunders *et al.*, (2003) state that due to the complex and non-standardized nature of collected data, researchers needs to classify them into categories, before they can be meaningfully analyzed. Data analysis is described by Yin (1994) as a process of examining, categorizing, tabulating and recombining collected data.

There are three techniques of analyzing case study, this includes; data reduction, data display and drawing and verifying conclusions (Miles & Huberman, 2002). Data reduction is a process where by researchers select, abstracts, simplifies, focuses and transforms the collected data; this however can be achieved according to (Saunders *et al*, 2003) by document summaries etc. where as in Data display the researchers organized and compressed the data in order to enable them draw easy conclusion and interprets their data. Conclusion drawing and verification, in this approach researcher start commenting and clarifying what thing means, reason for occurrences, explanations, possible configuration and proposition
To reduce the difficulty in analyzing data due to its nature and complexity Yin (1994) advice researchers to focus on the theoretical proposition that led to the case, develop a descriptive framework for analysis the case.

The objective of this paper will be established by using data reduction techniques which follows the theoretical framework of this thesis.

2.7 Validity and reliability

Validity according to (Saunders *et al*, 2003) deals with to what extent, the research findings are really what they appear to be, where as reliability assesses whether the measures yield the same results on other occasions, whether similar result will be reached by other observers and is there a transparency in how sense was made from data. However to ensure credibility and trustworthiness of research findings, emphasis has to be laid to reliability and validity (Saunders *et al.*, 2003).

To ensure or increase the validity of this study the followings measures was taken.
The interview question was constructed based on relevant theories, the question was open in nature, no choice on the factors was initially included on the first question rather the respondent deliberately identified the factors. Follow up structured questions was asked on the second interview in order to validate the analysis and conclusions. To increase the reliability the primary data was complemented with documentaries.

3 A Theoretical framework

This chapter presents an over view of previous research related to the research question. The chapter starts with theories of internationalization, followed by entry modes and further presents theories on change of entry, types of entry mode, lastly presents, the theories on internal and external factors causing change of entry modes

3.1 Internationalization of the firm

The internationalization theories explain why firm would produce and market a product in the foreign market. Joynt (1989) argues that cost associated to production of goods and services in Norway, caused Norwegian firms to start transferring their activities to other part of the globe where such costs are cheaper. However, internationalization can be seen as a strategic option which firms uses to achieve growth Buckley (1994). Lam & White (1999) argue that firms internationalize their operations because multinationalism is a symbol of success, progress and profits improvement. Hill (2000) also argues that firm's expansion to foreign market is as a result of pressure for cost reduction, local responsiveness and economic of scale. Having established why firm internationalized, another question that needs to be touched is how firms internationalize. The Uppsala model describes how firms that lack foreign market knowledge and resources reduced the obstacles through incremental decision-making and learning (Johanson & Wiedersheim, 1975), according to the model firm progress from no regular export to active exporting, and from exporting to establishment of subsidiary and from subsidiary to production (*Ibid)*.

3.2 Entry modes

Entry mode is an institutional arrangement which make possible the entry of a company's products, technology, human skill, management or other resources into foreign market Root (1994). Once a firm decides to enter to new market, next question is what mode should the firm utilized to enter to the market. Firm can chose from variety of different entry modes, ranging from exporting, licensing, franchising, establishing joint venture with host country's firm and sole ownership. Entry mode can also be described as the degree of resource that firm wants to commit to foreign operation

3.3 Change of entry mode

An approach for understanding firm change of entry mode according to (Calof & Beamish, 1995) is to ask the managers and stake holders why they change their entry mode. Several studies have followed this step. Rosson (1987) asked the executive from 21 Canadian manufacturing firms why they change distributors in United Kingdom. What he found was that the change of these Canadian firms to different business environment was responsible for the entry modes changes.

A Study by Calof & Beamish (1995) based on interview with 38 Canadian firms, regarding 139 modes changes, shows that firms can only changes from exporting to sole ownership mode when they felt that they have sufficient resources to engage in production. In a case where firms do not have sufficient resources; they will change from a mode that requires high resource commitment to a mode which requires low resources commitment. For example, firms whom lack international and good management skills in coordinating their international activities tend to change from sole ownership to franchising. These resources factor is viewed as internal factors (Root, 1994; Ekeledo 2003). The last but not the least observation was that constraints from foreign business environmental factors such as laws and regulations prevented some of the firms from previously selecting their most desired mode, therefore led to a change in entry mode.

The study by group of researchers in Uppsala University shows that Swedish firms who developed their operation in different foreign market uses or changes to different entry mode (Johanson & Wiedersheim, 1975). These changes they see as consequence of incremental adjustments to changing conditions of the firms and its environment. They further argued that these changes were result of firm exposure to new problems and opportunities and as a result of firm lacking the solution to these sporadic problems and opportunities (Johanson & Vahlne, 1977). They also relate these changes to psychic distance. Psychic distance is described as factors preventing or disturbing the flow of information between firm and market (Johanson & Wiedersheim, 1975). Examples are differences in language, political system and level of economic development etc (*Ibid).*

3.4 Types of entry mode

Once a firm has decided to enter to a foreign market, question arises as the best mode to enter the market. Firms can either use exporting, licensing, franchising, joint venture or sole ownership to enter to foreign markets Hill (2000). Root (1994) classified licensing and franchising as a contractual mode, sole ownership and joint venture as an investment mode, and export as an exporting mode

3.4.1 Exporting

Export entry mode differs from other entry modes in the sense that company's final or intermediate product manufactured in domestic market or else where is transferred to the target market Root (1994). It is channel through which firm gets fairly regular information about sale influencing factors Johanson & Weidersheim (1975).

3.4.2 Licensing

According to Root (1994) licensing agreement is an arrangement whereby a company transfers to foreign entity (i.e. another company) for a defined period of time the right to use its industrial property (such as patents, know-how, trademarks) in return for royalty. It is generally viewed as a supplement to exporting or manufacturing. Licensing are most apparent , when import restrictions forbid other means of entry , when country is sensitive to foreign ownership or when firm wants to protects patents and trademarks against cancellation. Licensing is adopted as an alternative entry mode when foreign markets are too risky or small or when firms has limited resources or experience of operating with exporting and manufacturing mode (Welch, 1984).

3.4.3 Franchising

Franchising is the cornerstone of international market expansion strategy for retail firms. Retailers franchised their brand and store concept in return of franchisee fee and margin on any product sold within the store Doherty (2006). Franchising mode is rapid growing form of licensing. The only different between franchising and licensing, according to Root (1994) is that the terms of contract or arrangements in franchising tends to be permanent while that of licensing exists for a given period of time. In franchising mode, the franchisee provides market knowledge, capital and personal involvement in management. The combination of both skills permits flexibility in dealing with local market condition and also provides the parents company with reasonable degree of control.

3.4.4 Joint venture

Joint venture is an arrangement whereby a firm shares an equity and business control with host country's partner Taylor *et al.,* (1999). Joint venture is a less risky way of entering to a market with high legal and cultural barrier.

3.4.5 Sole ownership

An alternative entry mode open to international firms is to fully owned production facilities in the target market Root (1994). In this form of entry, firms owns 100 percent equity stake of the operation. Full ownership can involve either setting up a new operation in the foreign market or acquiring an established foreign firm. Unlike franchising and licensing, full ownership mode reduces the risk of loosing control over firm competence, provides tighter control over foreign market operation. It is the most expensive and risky mode of entry. Full ownership is however required when cost pressure is intense Hill (2000).

3.5 Internal factors causing change of entry mode

Internal factors are factors that are within firms' control Cateora (2000).These factors can easily be altered and adjusted to fit to different market conditions *Ibid.* These same factors are found in a number of cases to affect and lead to firms' change of entry mode and in some cases did not affect and caused entry mode change. For example Root (1994) claimed that resources/ commitment which are internal factors might influence and result to firms entry mode change.

3.6 Resources factors

Internal firm resources are seen as important determinants of entry mode (Ekelodo, 2003; Koch, 2001; Root1994). According to Root (1994) the more abundant resources a company has in management, capital, technology, production skills and marketing skills, the more the company goes for entry mode that requires high resource commitment. These resources according to (Ekeledo & Sivakumar, 2003) are drivers of firm competitive advantage, strategic issues and the degree of control that the company tends have.

Strategic issues, refers to marketing options opens to a firm due its resources and due to the constrain faced by the firm's lack of certain resources *Ibid*. Strategic issue can also be seen as firm's value creation (Hill, 2005). According to Hill, a company create value by converting inputs that is resources into a product which the consumers places value. To be competitive, a company need to create more value by making the product more attractive through superior design, functionality, features, quality so that consumers will place more value and be willing to pay any price (Hill, 2005).

Firm resources in marketing and selling helps in creating superior value Hill (2005). The marketing and sale function increases firm value by discovering consumer needs and communicating them back to Research and development department (R&D) which design the products that will better match those needs (*Ibid.*). The R&D is concern with the designing of products and production processes, increase functionality which makes the product more attractive to consumers. The human resources help in creating more value by ensuring that the company has the right mix of skilled people to perform its value creation activities effectively and also to ensure that people are adequately trained, motivated and compensated to perform their value creation tasks (*Ibid)*. Information system resources refers to electronic systems for managing inventory, tracking sales, pricing products, selling products, dealing with customer service inquiries.

According to (Ekeledo& Sivakumar 2003) a firm that lack certain resources in value creation is likely to adopt a collaborative mode when entering to foreign make. However, a firm deviation or change from sole ownership which is a default entry mode occurs when firms lack certain resources that will be necessary in creating foreign customers value or to conduct foreign business activities *Ibid*.

3.7 Resources on entry mode change

Resources located in a particular market are often considered as a commitment to that market (Johanson & Valne, 1977). The amount of resources posses by firm and its willingness to commit these resources to a particular market determines the firm's entry mode to that market (Osland *et al*, 2001). For example a firm that has abundant resources might use sole ownership mode (WOS) to expand to one market, the same firm might also when expanding to another market, abandoned its sole ownership and change to licensing mode when it lacks abundant resources to commit to the market see Figure 1. Figure1 shows that whole own subsidiary (WOS) or sole ownership mode has the highest resource commitment and ownership control, while joint venture has middle or average resource commitment. The figure also relates franchising, licensing and exporting modes to low resource commitment and control of foreign business operation. WOS as indicated in the graph means sole ownership.

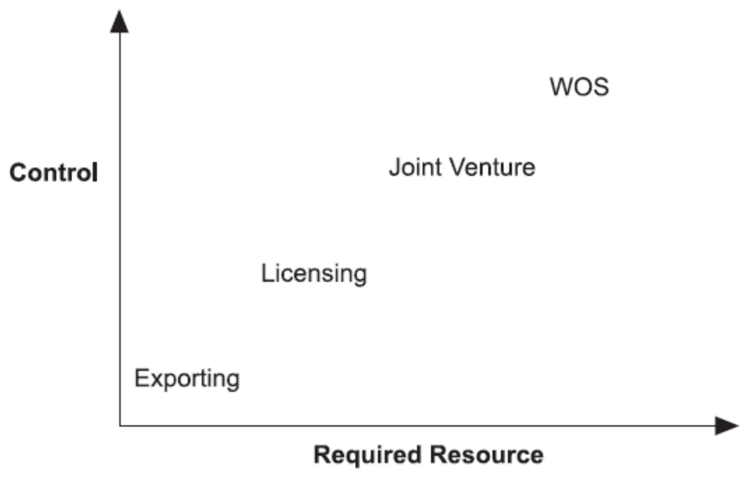

Figure1. Key characteristics of modal alternatives (Osland, Taylor & Zou, 2001, pg 15).

The more specialized the resources of a firm is, the greater is the degree of commitment to foreign market Ekeledo &Sivakumar (2003). These resources can also easily be directed to development and production in other markets. Ekeledo &Sivakumar (2003) hypothesized that a firm with specialized resources that is capable of sustaining its competitive advantage in a target market should use sole ownership to enter to the market, however should change to joint venture or franchising mode in absence of specialized resources. Specialized resources are both physical and human investments that are available for firm to use, only in a narrow range. Specialized physical resources include a piece of equipments that makes parts to the specification of one user only. Specialized human resources include special working relationships between firms and their employees. These assets allow firms partner to gain intimate knowledge of their activities. In service firm specialized resources is known as high level of professional skills, specialized know-how and customization of service being offered. A specialized asset significantly contributes to firms' competitive advantage Ekeledo& Sivakumar (2003).

There is direct relationship between market knowledge and resource commitment. Knowledge according (Johasson & Valne, 1977) can be considered as firm resources. The better the knowledge of a firm regarding a market, the stronger will the firm's commitment to that market be *(Ibid)*. Resources commitment according to Ibid is made based on market knowledge, the authors distinguished between general market knowledge and market – specific knowledge. General knowledge concerns, firm knowledge on marketing methods and common characteristics of certain customers in different geographical location.

Resources commitment is made based on knowledge of opportunities and problems, perceived by companies Johanson & Valhne (1997). Knowledge of Problems and opportunities are firms' awareness of needs and possibilities of exploiting those needs. However lacking the routine or solutions to these sporadic problems can cause firm change of entry mode.

Ekeledo& Sivakumar (2003) claims that a firm with a valuable knowledge that is capable of sustains its competitive advantage in a foreign market should use sole ownership to enter the market. However should change from high mode to low mode when the firm lacks knowledge that is capable of understanding foreign market demands. In addition, a firm that posses both substantial industry experience and geographic experience should use sole ownership to expand to foreign market and should change to franchising when it lack substantial business experience. Industry and geographic experience are two type of experience in international business.

Ekeledo& Sivakumar (2003) hypothesized that a firm with employees that are capable of adapting to any culture should use sole ownership to enter to foreign market and should change when the employees are unwilling to adapt to foreign culture. Organizational culture is identified as important sources of sustainable advantage.

3.8 External factors causing change of entry mode

External factors are factors that are beyond firms' control, these factors cannot be altered instead demand active adaptation Cateora (2000).These factors are found in a number of cases to influence and lead to firms' change of entry mode. For example Root (1994) claimed that target country environmental factors influence and result to entry mode change

3.8.1 Target country environmental factors

According to Root (1994) target country environmental factors such as the economical, political and social cultural factors can result to entry mode change. The most important factors highlighted by (Root 1994 & Koch, 2001) are government laws and regulations on foreign ownership.

3.9 Institutional Laws and regulations on entry mode change

Huang & Sternquist (2007) used institutional theory to explain the relationship between retail firm's entry mode decision and impact of foreign country laws or regulations on this decision. The theory however explains the roles of institutional environment on organizational behaviour. For example, the theory relates firm change of entry mode, to firm conformity to institutional law or firm attempt to gain legitimacy through following of the institutional laws Huang & Sternquist (2007).

Huang & Sternquist (2007) view firm as an organization, embedded in both internal institutional environment (consisting of the structures, standards and practices) and external institutional environment (consisting of other organization such as suppliers' customers, competitors and regulators). Huang & Sternquist (2007) claimed that in any society, there is an institution that creates rules and laws governing the society. Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour of a society *Ibid.* country's institution also operate multiple levels of jurisdiction.

Davis *et al*, (2000*)* finding, shows that firm isomorphism to institutional pressure, affects and result to entry mode change. In addition to isomorphic pressure, firm striving for legitimacy by confirming to the laws and regulations that is governing the foreign market, affects and result to entry mode change.

3. 9 .1 Regulative dimensions

Institutional theory focuses on legal and political factors; both are often specific to country. However legal regulation of a country is noted to be the strongest environmental pressures faced by today's organizations. Government in its discretion formulate policies and laws, on how businesses which in this case applies to retail firms is conducted

3.9.2 Regulatory forces

When a retailer considers expanding into foreign market, it first takes into account the country's regulations on foreign investment, if there are any. There are two primary types of regulatory forces according to Huang & Sternquist (2007) that is often faced by international retailers. Imposition and Inducement

In *imposition,* the government of the target market imposed numerous laws which will restrict retailers from making foreign direct investment; the retailers also have to follow the laws. For example Indian bans on foreign retail direct investment, prevented foreign retailers from investing and operating their own stores in Indian. However, the regulation that was imposed by Indian government caused many foreign retailers to use franchising agreements as an alternative entry mode to expand to Indian Huang & Sternquist (2007).

In *inducement*, the host country provides strong inducements in order to attract foreign firms. For example, the Argentina government once issued a decree providing tax and import benefits for supermarkets, which however triggers the entry of US firm into Argentina. In China, many special economic zones along with tax incentives and lower foreign exchange restrictions for potential overseas investors were created in order attract foreign firms Huang & Sternquist (2007).

Huang & Sternquist (2007) however hypothesized that when imposition governance of the host country is pronounced, that retailer whom wants to expand to this market with sole ownership should abandon it and change to franchising which is entry mode, that involves low-resource commitments as well as entry mode that will not limits gains and share of profits with other parties.

In the research by Kwom & Kanopa (1992) seeking to find which factors that play determinant and selective role in choice entry mode. They claimed that the nature of foreign market legislative requirements and restrictions such as foreign ownership restrictions can cause firm change entry mode. They also hypothesized that in a situation where the host government imposes numerous legislations the venturing firm should expand with contractual mode and abandoned wholly owned subsidiaries. With this in mind, one can strongly believe that foreign government restriction can cause change of entry mode. Anderson & Gatignon (1986) argue that the legal restrictiveness of the country being entered can put constraints on the multinational’s choice and that some countries prohibit foreign firm from establishing with wholly owned subsidiaries in most industries, while others make it difficult to obtain high levels of control. Erramilli1(992) claimed that restrictions on foreign ownership by host country governments can force retail firms into joint ventures and licensing agreements and prevents integration of their resources to foreign market operation.

In the studies on the foreign investment practices of U.S multinational corporations, Stopford & Wells (1972) found that in countries where ownership restrictions were prevalent, the entrants U.S firms boycott these restrictions by changing from full ownership to licensing mode. Ekeledo& Sivakumar (2003) urged retail firms to adopt collaborative mode when host country restrictions represents a strong challenge in using sole ownership mode.

4 Empirical findings

This chapter provide a presentation of empirical data from the investigated company. The company background is first of all presented, followed by empirical findings on the company's resources refers as internal factor , United Arab Emirate laws on foreign establishment i.e. external factor. The presentation is made in accordance with the research question

4.1 H&M background

H&M was established in Västerås, Sweden in 1947(www, H&M, 2008a). H&M business concept is to offers fashion and quality clothes for men, women, teenagers and children. H&M have about 1700 stores spread across 33 countries, and about 68000 employees working to bring fashion and quality at best price , In 2007 H&M had turnover of 92.123 million SEK *Ibid*.

4.2 H&M internationalization

Internationalization of H&M can be trace back to 19th century shortly after the decline of international trade barriers coupled with global recession and oil crises (figure 2). The competition in Sweden was tough due to relative smallness of Swedish market (www, Ekonomifakta, 2008a).

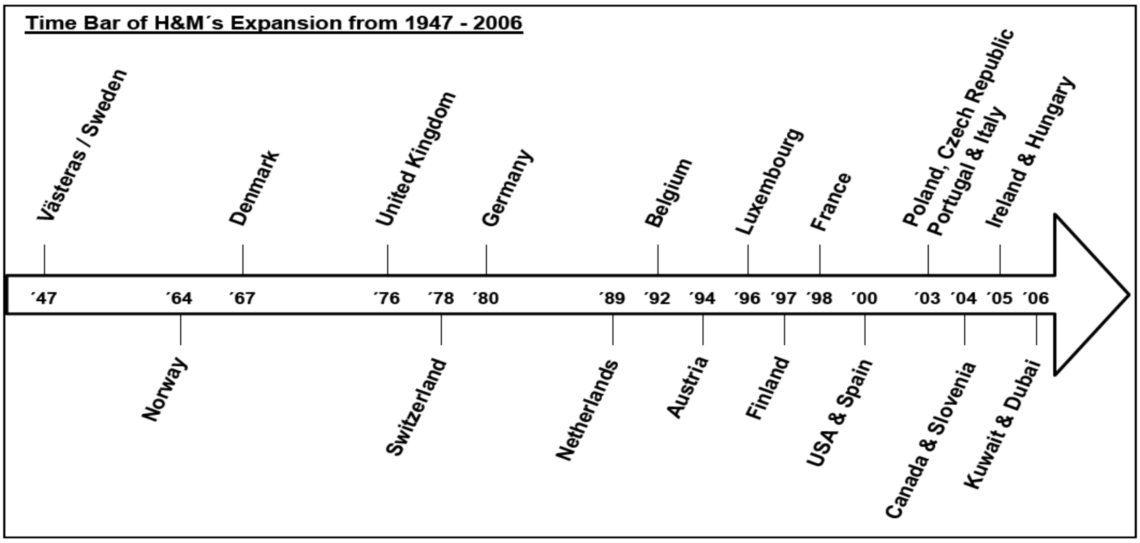

Figure 2. *H&M´s international Expansion from 1947 – 2006* (*Feldhusen, Schmidt & Strauch, 2006 pg 30).*

In order to survive Swedish firms of which H&M is among turned their attention to neighbouring countries and to the rest of the world as summarized in above figure 2. The first store outside Sweden was opened in Norway 1964, followed by Denmark 1967 etc (Feldhusen et al, 2006). In 2007 H&M also expanded to China, Hong Kong, Greece and Slovakia.

4.3 H&M Entry mode

The above figure 2 shows the countries which H&M had successfully established as well as the years at which the establishments were made. When H&M expanded to the above foreign countries they does that with the help of sole ownership accept in Dubai (United Arab Emirate) were they change from sole ownership to franchising mode.

H&M franchising to Alshaya allow them to reach UAE, a region where is not possible to establish with wholly-owned subsidiaries, which is their principal model of international expansion (H&M Annual report, 2006:18). However this franchising is seen as an exciting business opportunity that provides effective access to H&M, in a region with high growth and customers with plenty purchases power (*Ibid*, 2006:20).

4.4 Findings on H&M resources via interviews

H&M has sufficient resources in business experience, organization culture, management, marketing skills, capital, specialized assets, technology and production skills to compete or to sustain their establishment in United Arab Emirate (see Appendix1)

4.5 Findings on H&M resources via documentary information

This section gives a detail account on the amount of resources posses by H&M.

4.5.1 H&M organization culture & business experience

H&M has certain key personnel who are capable of adapting quickly to any culture, willing to relocate to new market, for the purpose of transferring H&M concepts and values to the newly employees (H&M Annual report 2006:39). When it comes to business experience, H&M has over 60 years of extensive geographical, fashion and garment experience (Ibid :38).

4.5.2 H&M Management skills, capability and specialized assets

H&M has more than 100 designers that is knowledgeable of creating and adapting to any sort of market, and over 500 workers, working together to create women, men, teenagers and children seasonal collections as well as to meet the needs of customers of all markets and their particular styles (H&M Annual report, 2005:24-25). H&M has designing and buying department that is capable of maintaining good balance between H&M ´s business concept (fashion, quality and best price) and their markets.

H&M has a team of designers, buyers, assistants, patterns makers, quality controller and section managers with specific skills that are united with common knowledge in fashion, quality and common understanding of customer needs, all working together to produce the right mix of garment that will be suitable for each market (H&M Annual report, 2006). H&M employees are the greatest assets (H&M Annual report 2005). However, the competence and commitment of H&M employees are the major reason why they have succeeded in growing with good profitability for a long period of time.

4.5.3 H&M Production skills, technology and capital

H&M has, as of 2005, about 22 production offices, nine in Europe, eleven in Asia and one each in Central America and Africa that are capable of producing large volume of product with good quality and best price, suitable for each market (H&M Annual report 2005:16).

H&M has good IT support system that is capable of feeding sale information from the stores back to the production offices quickly and newly transport technologies such as boat, train, truck and airplane which make it easier for their goods to be transported from production offices to distribution centres (H&M Annual report 2006).H&M is expansive and financial strong company, therefore their international expansion has been entirely self- financed (H&M Annual report, 2005:16).

4.5. 4 H&M marketing resources

H&M has dedicated marketers whom before deciding to move into new market assess the new markets potentials (Annual report 2005:29). Factors such as demographic structure, purchasing power, economic growth, infrastructure and political risks are analyzed by these skilled workers. After the analysis, the product mix is adapted to each market

Communicating strong brand which H&M seen as an increasingly important for their competitive advantage, their marketers have the skill of conveying the company ´s offers to communicate the same message with fashion, quality and price. The advertisements are created centrally in marketing department in cooperation with external creative professionals (Annual report 2006:36). This advertisement is however adapted to each market circumstances and requirements *Ibid.*

4.6 Findings on United Arab Emirate business laws and regulations via interviews

United Arab Emirate has different laws and regulations regarding business ownership compare to previous countries that H&M has been to (see Appendix 1)

4.7 Findings on United Arab Emirate business laws and regulations via documentary information

UAE consists of Dubai, Abu Dhabi etc that are situated in the southeast of Arabian peninsular and southwest of Asia Persian gulf. UAE has rapidly grown to be second largest economy in the Arab nations. The UAE´s per capita GDP is on par with those of leading western European countries (www, CIA, 2008a). UAE was ranked 29 competitive economies in the world and number one in Arab countries (Ozlati & Abrami, 2008). The country is politically unstable and that is why (Carin Johansson, 2007) a respondent in a study performed by (Österlund & Åberg 2007) advice managers to be aware of latest rules and regulations when expanding to UAE.

Since the discovery of oil in the UAE more than 30 years ago, the country has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with high standard of living (www, CIA, 2008a). However dependence on oil and large expatriate workforce are significant long-term challenges to the country, the strategic plan adopted was to focus on diversification and creating more opportunities for nationals through increasing private sector employment *Ibid*, according to report over 90 per cent of UAE private sector output comes from non- UAE resident (www, GAO, 2008a).

To continue with rapid growing economy witnessed by the UAE, the government has adopted numerous policies to safeguard and to respect individual freedom in ownership means of production and practicing of any type of business activities (www, FreeZonesuae, 2008). The government of UAE plays a supervisory role in legislation and organizing the functioning of various economic sectors *Ibid*

4.8 UAE regulatory forces

The UAE Company and the agency law were implemented to ensure that the country’s economic growth benefits its small citizen population and to draw the citizens into workforce and private sector (www, FreeZonesuae, 2008). The company’s law and agency law according to documentary represents the largest legal barriers to foreign direct investment (www, GAO, 2008).

4.9 The UAE Company law (inductive regulatory forces)

The company’s law came into force in its amendment form on 8 January 1989 (www, FreeZonesuae, 2008). Since that date all companies and partnership established in UAE for the purpose of engaging in commercial activities are required to be organized in conformity with provision of the companies law (O´ Connor 1998). The company law prohibits foreign companies from owing more than 49 per cent of any establishment done outside the free trade zone (www, GAO, 2008). In the UAE, foreign companies are not allowed to establish and own 100 percent of equity stakes; they are instead limited to incorporate their establishments with UAE companies. In this type of establishment, UAE national is allow to own 51 percent of the company while Foreign investors are only restricted to 49 percent of the ownership This mode of investment is known as the limited liability company (LLC) and resembled joint venture. The LLC permits between minimum of two and maximum of 50 partners in which UAE national must have 51 percent of the ownership.

The law in the UAE permits foreign investors to use sole ownership without having to partner with emirate national when investing in the medical, engineering, legal and computer consultancies industries (www, FreeZoneuae, 2008a). The condition is that the investor should have a local service agent authenticated by a notary public. The agent must not involve in the business operation, they mainly assists in visa and resident permit. These professionals industries are only allowed to establish in their area of specialization and not to extend their practice to other commercial activities (www, Freezoneuae, 2008a).

In order to attract foreign investors, UAE´s government offers free trade zones. Investors who wishes to establish in these zones are entitled to 100% ownership, exempted from paying taxes on imported and exported raw materials, repatriation of capital and profits, no corporate tax for 15 years(renewable for an additional 15 years), no personal income taxes, in addition the investors will be assisted with labour recruitment (www, UAEinteract, 2008a).

In UAE, industrial and trade companies is allow to establish in the free zones using sole ownership when they want to produces or buy a product, however these companies are restricted to sell their product outside the free trade zone. Where by the companies wants to sell their product outside the zones (i.e. UAE) they are obliged to use an official agent (www, Freezones, 2008)

4.10 The UAE commercial Agency law (impose regulatory forces)

The UAE commercial agencies law regulates and governs the appointment of commercial agents, sales representatives and distributors in the UAE (www, mideastlaw, 2008) This law defines a commercial agency as any arrangement whereby a foreign company is represented by agent to distribute, sell, offer or provide goods and services within the UAE for a commission or profit (www, Freezonesuae, 2008)

The agencies law states that foreign importers must operate through an agent to bring goods into the UAE (www, GAO, 2008). This agent must either be a UAE national or a company that is wholly owned by UAE national. In addition to national requirement, only commercial agents which are registered in the UAE commercial agency register of ministry of economy and commerce are authorized to engage in the business of commercial agents (www, Marinafox, 2008).However, the law prohibits UAE customs authorities from clearing any goods imported by agent that is not approved by the ministry of economy and commerce *Ibid*.

A foreign company is prohibited from conducting commercial activities in UAE using sole ownership. In order to conduct activities, a foreign company is required to appoint and use an agent which is UAE national or company owned by UAE nationals (www, Government, 2008 a).

The UAE commercial code established a regulatory framework on various types of commercial agencies, permitted under the law (www, MideastLaw, 2008). The most common type of agency is the contracts agency, whereby the agent undertakes on permanent basis and a specific area of activity, the instigation and negotiation of the conclusion of deals to the advantage of principal and return for payment *Ibid*. Commercial agents are entitled to receive commissions on sales of the products in the designated territory irrespective of whether such sales are made by or through the agent (www, MarinaFox, 2008). When comparing the features of franchising and commercial agencies, it seems reasonable to believe that franchising falls within definition of commercial agency (www, Stovall-law, 2008).

5 Analysis and discussion of the findings

This chapter reveals the analysis of the empirical findings presented in the empirical case study. The empirical data and the theories are compare and contrast.

What factor was responsible for H&M entry mode change?

Since the primary concern of this paper is to find what factors such as internal or external factors that cause H&M entry mode change. The analysis looks at the amount of resources posses by H&M and whether these resources impacted and resulted to their entry mode change. Resources in its limited interpretation will not have and result to entry mode change when a company have (abundant, etc) resources to commit and to compete to foreign market. To investigate whether external factors are responsible for H&M entry mode change, the analysis also looks at impact of UAE laws and regulations on their entry mode.

5.1 Internal factors on H&M entry mode change

The internal factors that will be analyzed here includes; H&M organization culture, business experience , followed by H&M resources in management skills, capability and specialized assets, production skill, technology, capital the last but not the least of the analysis is their marketing skill.

5.1. 1 H&M organization culture and business experience

In the investigation to find if H&M has the resources in organization that is capable of adapting to UAE culture, I found that H&M has certain key personnel who are capable of adapting to Emirate business culture and are willing to relocate to UAE market for the purpose of transferring H&M concepts and values to the newly UAE employee. According to (Ekeledo& Sivakumar 2003) a firm with culture that is capable of sustaining its competitive advantage in foreign market should use sole ownership to enter to foreign market and should change from sole ownership to contractual mode when it lack organization that is capable of adapting to foreign culture. In this case H&M have organization that is capable of adapting to

UAE culture, and it is therefore assumed that their change of entry mode was not explained by organization culture.

According (Ekeledo & Sivakumar, 2003) a firm that posse's extensive geographic experience should use sole ownership to expand to foreign market and should change when it lacks substantial business experience. When it comes to business experience, H&M has over 60 years experience in providing quality fashion at best price , it is this experience that helped H&M to successfully establish to other geographical region of the world without franchising mode. If this experience acquired from using a particular mode helped H&M to successfully establish to bigger markets like United States without franchising, establishing to small market like UAE with their normal entry mode will never be a problem. For this reason, I claim that H&M change of entry mode was not by internal factors (that are presented in detail in the previous section) rather attention will be turn to external factors in a continued analysis.

5.1.2 Management skills and specialized assets

In the investigation to find if H&M has the resources in management and specialized assets that is capable competing in UAE, I found that H&M has more than 100 designers that is knowledgeable of creating and adapting to any sort of market, and over 500 workers working to create women, men, teenagers and children seasonal collections. According to (Root, 1994) a firm should use sole ownership to enter to foreign market when it has abundant resources in management. However the entry mode should be change when the firms lack good management skills in coordinating their international activities (Calof & Beamich 1995). In this case, H&M has sufficient resources in management. It was these resources that enable them to adapt to previous established new markets, some of these markets requires more resources due to number of consumers that they have to satisfy; above all, H&M was able to expand to those markets with sole ownership modes due to the amount of resources that they posses. If H&M however was able to establish in those bigger market with sole ownership which demand more abundant resources, establishing to UAE which is small market with sole ownership mode will not be a problem. Based on this fact I will therefore argue that H&M entry mode change when establishing to United Arab Emirate was not caused by one of the resource factors known as internal factor

H&M has a team of designers, buyer's assistants, patterns makers, quality controller and section managers each with specialized skills united with common knowledge in fashion, quality and common understanding of customers needs. All of these assets are combined together, to produce the right mix of garment that is suitable for each market, However the competent and commitment of H&M employees towards producing the right product for each market will in the case of UAE enable them to succeed. According to (Ekeledo & Sivakumar, 2003) a firm with specialized assets, capable of sustaining its competitive advantage in a foreign market, should use sole ownership to enter to the market.

H&M has high level of professional skills that has the knowledge of adapting fashions and styles to any market which in this case include some Asian market. It is clear that UAE is in the same geographical location with Asia. H&M has established to some of these Asian markets with sole ownership. If H&M was able to establish to these countries with sole ownership mode, establishing to UAE with sole ownership when resources (i.e. possession of professionals and assets who has the skills to adapt to this market) is in question, will not be a problem. In this case H&M have used franchising which represents entry mode of firm that has low resources. According to (Ekeledo & Sivakumar, 2003) firm should change to franchising mode when it does not have abundant resources necessary to adapt and compete in the foreign market. In this case H&M has the abundant assets, but still change their entry mode; this change of entry mode. I do not believe is a question of not having abundant resources in assets and skills. Base on this I will argue that H&M change of entry was not as result internal factors(management, capabilities and specialized assets) since they have the resources that will enable them to compete in this market.

5.1.3 H&M Production skills, technology and capital

According to Calof and Beamish (1995) & Root (1995) firms should change from wholly owned subsidiaries to contractual mode, when they felt that they have insufficient production skills, technology and capital to engage in production. In this case H&M has around 22 production offices, Nine in Europe, eleven in Asia and one each in Central America and Africa that is however capable of producing and meeting UAE market demands. In addition to that, H&M has good IT support system which will enable them to maintain good communication with UAE. H&M also has modern technologies which will make it possible for them to transport their goods from one of the nearest production office to UAE. When it comes to financing the establishment in UAE, H&M is financial strong company, therefore does not need any partner to help them finance their project in the market. Given that H&M has sufficient resources in serving, communicating and financing their establishment to UAE. I will establish that H&M entry mode change was not caused by internal factors (production skill, technology and capital), since they have the resources to compete in this market, however this change could have been caused by factors that are outside their control.

5.1.4 H&M marketing skills

When it comes to marketing skill, H&M has dedicated marketers whom have the skills of interpreting customer needs from UAE market to H&M and from H&M to UAE. These marketers also have the skill of conveying H&M offering to communicate the same messages with fashion, quality and price. Given that H&M has marketers whom have the skills to compete in the UAE market. I claim that H&M change of entry mode when expanding to UAE was not as result of not having skilled marketers whom lack the ability to act between the firm and the market.

5.2 UAE external factor (company and agency law) on H&M entry mode change

The above discussion has shown that resources which H&M needed to compete in UAE market was not a problem to them, therefore did not cause their entry mode change. Huang & Sternquist (2007) states that firms attempt to gain legitimacy by following or confirming to the rules or norms made by institutions, might influence and lead to change of entry mode. The retailers' international expansion, according to *Ibid* leads to transfer of retail management technology or the establishment of international trading relationships across regulatory boundaries. However the legal regulation in the home and host country represents the strongest environmental pressures faced by international organizations. The Government according to *Ibid* formulate policies and laws regarding retailing international business operation.

H&M is a Swedish retail firm that has been in over thirty countries, in this case it assume that H&M has come in touch with over thirty different regulatory boundaries and institutions, but what amazes me was that H&M established in these countries with sole ownership mode but when they came to UAE they changed to franchising mode. According to Huang & Sternquist (2007) retailers abandoned sole ownership mode and change to franchising mode when imposition governance of the host country is great.

According to Kwom & Kanopa (1992) nature of foreign market legislative requirements and restrictions on foreign ownership can cause firm change entry mode. The nature of UAE institution demands that H&M should not own 100 percent their equity stake instead they should incorporate company with UAE national or company. In this law, UAE national or company is allow to owns 51 percent of the equity at all time where as H&M will own 49 percent of the equity.

The nature of UAE law demands that foreign companies which in this case apply to H&M should use sole ownership without having to partner with emirate national if only they want to invest in the following professional companies (medical services, legal practices, and engineering and computer consultancies). The law also demands that these professional companies should have local service agents who will only assists in visa and resident permits. The nature or UAE institution demands that foreign company which in this case apply to H&M should establish 100 percent only if they can invest in the free trade zone, this investment will be exempted from import tax on imported raw materials, repatriation of capital and profits, no corporate tax for 15 years and renewable for an additional 15 years, no personal income taxes and assistance with labour recruitment.

The UAE institution also demands that industrial and trade companies which H&M belong to should establish in the free zones using sole ownership only when they want to produce or buy a product in the country. But in a situation where H&M want to sell the product outside the free trade zone the law demands that they must have an agent who has the sole right to sell the products on a commission basis.

The UAE institution demands that foreign importers which in this case apply to H&M must operate through an agent in order to bring goods into the UAE. This agent which they will choose must either be a UAE national or a company that is wholly owned by UAE national. In addition to national requirement, the agent must be registered in the UAE commercial agency register of ministry of economy and commerce .However the law prohibits UAE customs authorities from clearing any goods which will be imported by unauthorized agent.

The institution regulating retail operation in UAE prohibits H&M to conduct commercial activities in the country with their normal establishment mode i.e. sole ownership, however will only allow them, when they appoint UAE agent or company that to run their activities.

The UAE regulatory boundary in which H&M wants to transfer their resources for the purpose of gaining access to potential customer with high growth and plenty purchasing power , demands that H&M must undertake a contract with an UAE agent on a permanent basis and that the agent should receive commissions on sales of any products.

I have seen that when H&M wants to expands to UAE, that there were numerous regulations, imposed and induced by institution which regulates UAE foreign investment. These legal regulations represent the strongest pressure which H&M has ever faced in their effort to achieve growth through expanding to foreign market.

According to (Huang & Sternquist, 2007) firms following of the institutional rules, in order to gain legitimacy influences their pattern of entry mode choices and growth. H&M has seen huge potentials in UAE and to exploit these potentials they have be present in the market. When H&M move to new market, they do that with help of sole ownership, which represents high resource commitment, control and no shared of profits , but when it come to UAE the law set by UAE institution has made it compulsory that H&M must operate through UAE national which has the sole right to sell the products. What H&M should have done is to pull out this market, but in this case they did not due to opportunities that they saw in this market. However H&M is now faced with pulling out of the market or confirming to the law of the country for legitimacy. Confirming to the laws will result to change of entry mode while pulling out the market will result to lose of business opportunities. In this case H&M has chosen to franchise their brand and store concept in accordance with UAE laws. Based on this I will argue that H&M conformity to the laws set by UAE institution (external factors) resulted to their change of entry mode.

According (Johanson & Valne, 1977) entry mode is made based on the knowledge of opportunities and problems, perceived in the foreign market, however lacking the routines or solution of these sporadic opportunities and problems can cause firm to change its entry mode or degree of resources commitment. In this case H&M saw an exciting business opportunity in United Arab Emirate and that by expanding to this market they will gain access to a region in which they classified as a region with high growth and customer with plenty purchasing power. But there is problem associated with exploiting these opportunities, the problems was from United Arab Emirate government which places numerous restrictions on their normal entry mode. However lacking solution to this legal restriction on H&M entry mode has caused them to change from sole ownership to franchising.

Calof & Beamish (1995) has found that both internal and external factors can cause firms change of entry modes. After careful analyzing the data provided for this study, I found that internal factors cannot cause firm change of entry mode rather it is only external factors that can cause retail firm’s change of entry mode, this finding is consistent with (Huang & Sternquist, 2007) findings and to an extent contradicts (Calof & Beamish 1995) findings. This may be explained by the fact that Calof & Beamish (1995) and my research was approached in different ways. Calof & Beamish (2005) quantified data from 38 Canadian firms established in only highly developed countries(competitive market) while mine research described data collected from one Swedish firm that expanded to both medium and highly developed countries.

The findings of this paper could have been complemented to (Calof &Beamish 1995) findings and contradicts (Huang & Sternquist, 2007) findings if small and medium firms were integrated. Above all, the reason while this finding contradicts with (Calof & Beamish 1995) findings and complement to (Haung & Sternquist, 2007) findings is because of nature of the countries been studied as well as the companies sizes.

6 Conclusions & suggestion for future research

In conclusion, this chapter answers the aim stated in chapter one and gives suggestions for future research.

The objective of this thesis has been to investigate what factors (such as internal or external factors) that can cause firm to change its normal entry mode? Or was responsible for firm entry mode change?

After conducting the empirical study and careful analyzes of the data, I found that Swedish retail firm has sufficient resources (belonging to internal factors) to compete in United Arab Emirate, therefore internal factor was not the cause of their entry mode change.

When I move on to external factor I found that United Arab Emirate places numerous policies and regulation on the Swedish retail firm normal entry mode and in order to be legitimate in the market the firm change from its normal entry mode to accepted or legal mode. Therefore Swedish retail firm change of entry mode was as result of constraint places by United Arab Emirate Government laws on their normal entry mode, or as a result of Swedish retail firm striving for legitimacy by conforming to UAE laws. This finding is also consistent with (Huang & Sternquist 2007) findings and to an extent complements (Calof & Beamish 1995) findings. Based on this I will conclude that internal factors cannot cause firm change of entry mode instead an external factor which the firm cannot control or lack the solution to was responsible or can cause firm change of entry mode.

During the investigation to find what factors has been the caused of Swedish retail firm change of entry mode. I found that there are different collaborative modes that United Arab Emirate allows foreign investors to change to. Some of this collaborative mode might yield higher return when compared to franchising which H&M has changed to. Had it been that much time is given to further this thesis, it would have been ideal to investigate why H&M does not change to other available entry modes with higher returns. This I suggest future researcher to investigate.

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Appendix 1(interviews)

The First interview with Johanna Dahl (2008-10-01) was focused on this question

Why are you able to establish 100 percent H&M in the country like Norway Demark etc while in United Arab Emirate you used franchising?

The Second interview with Johanna Dahl (*2008-11-18)* was focused on this issue:

Was your change of entry mode as a result of not having sufficient resources in management skills, capital, business experience, organization culture, technology, production skills, marketing skills and assets to compete in the UAE?

The Interview with Nils Vinge (2008-11-18) was based on the following question s:

What was the cause of your entry mode change when establishing to Unite Arab Emirate?

Was it because you don't have sufficient resources to compete in the United Arab Emirate?

Was it because of the country's external factors, such as foreign government laws and regulations, economic policies and cultural differences between Sweden and United Arab Emirate?

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