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Track 2: Internationalisation Process and International Entrepreneurship

Foreign Operation Methods: Challenges to Existing Treatments

Abstract

In this paper we address the long-standing discrepancy between theory and practice regarding companies' choice, use and development of foreign operation modes. Theory typically treats foreign operation modes as choices among well-specified discrete alternatives. Observation of business practice reveals a "messier" reality: in particular, mode packages, mode changes and mode role changes, seem quite common. These aspects of international business development have been relatively ignored in the literature and in theoretical and empirical research. The discussion and analysis in this paper aims to develop richer and more realistic conceptualisations of foreign operation methods.

Foreign Operation Methods: Challenges to Existing Treatments

1. Introduction

In the development of international business thinking, theories and research, foreign operation mode action by companies in developing international activity has occupied an important place. Companies' choice of foreign operation modes has been a central topic in international business research for four decades (Root, 1964, 1977). Many concepts have been developed around firm behaviour on this front. Much of the early conceptualisation of firm internationalisation grew out of empirical investigations of companies' foreign operation mode development over time and explanations of the revealed patterns (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 1977; Luostarinen 1979). To some extent this focus was inevitable given that operation mode actions in foreign markets often are the most concrete, and recorded, form, of companies' international development. Interest in the topic was reflected in, and perhaps also boosted by, theoretical development principally based on transaction cost theory (Anderson and Gatignon, 1986) and knowledge and resource based perspectives (Kogut and Zander, 1993; Madhok, 1997). Subsequently, there has been widespread empirical research and theorising regarding various aspects of operation mode decisions and outcomes – sometimes with a focus on specific mode forms such as joint ventures, licensing and franchising, and with a mix of cross-sectional and longitudinal investigations; for recent reviews, see Brouthers and Hennart (2007), Datta, Hermann and Rasheed (2002), Welch, Benito and Petersen (2007), and Zhao, Luo and Zuh (2005). The bulk of empirical studies – which Brouthers and Hennart (2007) count to about 100 in the past 15 years alone – have used cross-sectional designs. Longitudinal mode studies have been less common because of the empirical problems of obtaining reliable data over extended periods of time. Nevertheless, some studies have emerged in recent years and they reveal that mode changes occur with sufficient frequency to merit much closer investigation than they have yet received (Benito, Petersen and Pedersen, 2005; Clark, Pugh and Mallory, 1997; Fryges, 2007).

Problems associated with empirical investigations of foreign mode entry and change, even when there are detailed case investigations, have tended to restrict the ability of researchers to develop deeper explanations of international business decisions and processes (Benito and Welch, 1994). It has been noted that the focus in research and conceptualisation of foreign mode activity has been on modes as lumpy, unitary entities. For example, Hill, Hwang and Kim (1990, 117) comment that 'among the array of alternatives a MNC can choose between are a non-equity contractual mode (e.g. licensing), an equity-based cooperative venture, or a wholly owned subsidiary'. This comment can be contrasted to the common practice of modes being used in combination. A major reason for the combination reality not being reflected in the literature is because of the manifest problems of obtaining empirical detail about sometimes complex mode packages from respondent companies – in many cases because they are simply unable to provide it in sufficient detail (Petersen and Welch, 2002). In addition, as March notes, there is a tendency to confuse measurability with importance. He comments: 'Some things are more easily measured or estimated than others. Variables that can be measured tend to be treated as more 'real' than those that cannot, even though the ones that cannot be measured may be more important' (March, 2006, 203-204).

As an illustration of the problems faced in understanding companies' internationalisation through following mode development, it is useful to think about what mode change means in a world of mode combinations. Does dropping/adding one mode from/to a mode package constitute a mode change? Similarly, does a re-assignment of mode roles within a given package constitute mode change, and qualify as evidence of a process of incremental expansion or withdrawal? At the least, evolving research on such issues raises basic questions about what is meant by the term foreign operation mode (or method) – sometimes referred to as foreign market servicing mode or foreign entry mode with reference to mode use in foreign market entry situations (Benito and Welch, 1994).

While the term foreign operation mode is generally understood to refer to the company's way of operating in foreign markets, how to define it, and what it means in practice, are more difficult questions to answer. And the issue does matter – using the simplistic singular mode approach that is dominant in current and past mode studies has implications for the types of conclusions drawn about companies' international business development. For example, mode steps in individual markets tend to appear as major changes in commitment by companies in the markets concerned, even more so in cases of leap-frogging over seemingly intermediate to high commitment modes, such as when a manufacturing company moves from a foreign agency operation to a direct investment manufacturing operation rather than using the more incremental step of sales subsidiary establishment. In contrast, a more fine-grained treatment of modes might reveal a greater range of intermediate steps and related activity, and indicate an overall pattern of internationalisation that is far more incremental than broad, singular mode change would seem to show. The use of foreign agents or distributors by exporters is often accompanied by substantial investments over time to the point where the foreign intermediaries become partially internalised, and operate like quasi-subsidiaries. In some cases, Danish firms in south-east Asia sent staff to work alongside the local employees of their intermediaries as part of an exercise in increasing control, and developing local knowledge and networks, thereby easing the path of potential takeover or independent local establishment (Petersen, Welch and Nielsen, 2001). This was used in addition to sales subsidiary establishment alongside existing distribution arrangements by some firms. In fact, addition to existing modes, creating mode packages, was a common approach by the Danish companies examined – demonstrating that mode combination adjustment through time can be an important component of international business expansion, and a contributor to incremental adjustment outside mainstream observed mode development patterns such as those portrayed in the literature.

As well, mode choice and mode comparison exercises and associated empirical tests become much more problematic when a broader interpretation of the term foreign operation mode is applied. It is far more difficult to undertake mode comparisons on strictly economic grounds when mode packages are involved. Comparisons of FDI, exporting and licensing are relatively straightforward when treated as singular modes (see e.g. Buckley and Casson, 1981), but less so when they are part of larger mode packages.

Further, even the terms mode package or mode combination are awkward, with different approaches to how they are defined (Petersen and Welch, 2002).

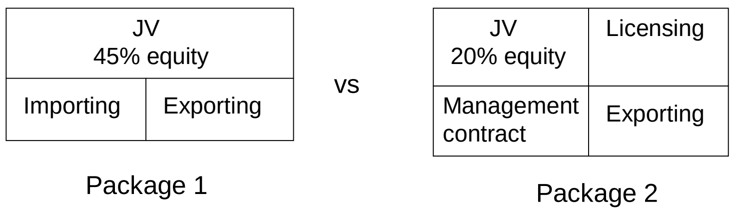
Licensing has long been used as tool alongside FDI – for a variety of purposes that are not necessarily directly connected with the penetration of a particular foreign market – such as financial transfers, taxation reduction and overall risk reduction (Welch, Benito and Petersen, 2007). In fact, many businesses have become very adept at building innovative mode combinations that deliver a range of enhanced revenue, market and strategic outcomes. For example, the multinational express delivery firm FedEx entered into a 50:50 joint venture in China in 1999 as a way of upgrading its Chinese operations. Importantly though, attached to the JV was a management contract which ensured managerial control of daily operations from FedEx's perspective (Welch, Benito and Petersen, 2007). Such mode combination steps appear to be undertaken frequently by companies, as a a response to factors such as company control concerns, foreign market demands or evolving experience of international expansion and foreign partner relationships, seemingly as a relatively straightforward response to the circumstances faced: mode packaging of itself was not viewed as a major step. It was part of the perceived means of achieving certain foreign market outcomes. For businesses, frequently the question is not which mode but which mode combination? Contrariwise, researchers have been slow to take account of this business reality and its implications. To do so will require a momentous change in thinking for international business scholars, leading to a questioning of some of the accepted, basic foundations of parts of international business theory, and necessitating major adjustment in the content of empirical research if it is to be seriously taken into account.

Accordingly, in this paper we address the long-standing discrepancies between theory and practice regarding companies' choice, use and development of foreign operation modes. Our starting point is the "messy" reality revealed by observing business practices: in particular the use of mode packages, the processes involved in switching from one mode or mode package to another, and changes that do not imply overall mode switches *per se* but involve significant changes within a given mode or mode package which is being employed in foreign market operations, including changes in the role performed by individual modes within a broader package. While these phenomena might have been overlooked in the research literature, they are nevertheless quite common. They need to be discussed and analysed in order to develop richer and more realistic conceptualisations of foreign operation methods and their role in international business development. Further, we address managerial and research implications of the richer mode conceptualisations examined.

2. Comparing Modes

Mode comparisons become particularly awkward when mode packages are contemplated. Take the examples illustrated in Figure 1, and for the sake of simplicity assume that the location and scale of activities are the same (or very similar) in the two packages: on the surface it is difficult to make a judgement about the two packages on dimensions such as resource commitment and control. A concentration on FDI and the equity factor would normally lead to a conclusion that Package 1 involves greater resource commitment and leads to greater control than in the case of Package 2. However, when full consideration of the components of the two packages is undertaken, the conclusion is not as clear-cut. Through the use of licensing and a management contract, Package 2 may generate a higher level of control. Despite the higher up front financial commitment in Package 1 in the purchase of a higher level of equity, the management contract in Package 2 may require substantial and demanding allocations of staff to the JV operation, such that the ongoing resource commitment may be as substantial as in Package 1. Management contracts can be a highly human resource-intensive mode of operation, requiring, in some situations, the transfer of a substantial number of managerial and technical staff for extended periods to the foreign operation (Welch, Benito and Petersen, 2007). For example, in the case of the management of the Water Authority of Jordan, the French multinational with the task sent a total of ‘fifty to sixty expatriates . . . Six of these, each of them directors, were appointed for periods of between two and four years . . . the remainder . . . middle management . . . for more than one year’ (Al-Husan and James, 2003). This represents a substantial demand on a key company resource, which cannot be readily met through external hiring because of the need to have a close link between staff and internal company systems, practice and knowledge. Taken overall though, the uncertainty with regard to comparisons of the mode packages shown in figure 1 on control and resource commitment dimensions stands in contrast to the certainty of analysis presented in much of the literature (eg Hill, Hwang and Kim, 1990).

Figure 1: Mode comparisons?



From a theoretical perspective, it is also difficult to evaluate the profitability effects of packages 1 and 2 *a priori,* so that application of a maximisation of profit rule in mode choice is difficult to apply (Buckley and Casson, 1981, Welch, Benito and Petersen, 2007). At the least, it is difficult if not impossible to draw a clear link between expected profitability and a specific mode as in normal economic comparisons. It might be feasible to argue that a broader package such as package 2 is more profitable than a minority JV on its own given that the addition of licensing and/or a management contract in such situations tends to be seen by firms as profit enhancing. Nevertheless, it is not always possible to separate out the specific profit effects of each individual mode in a package as they are interdependent and the whole is often larger than a summation of the component parts. In the circumstances, it is inappropriate to simply place each package under the umbrella of one specific mode, such as the JV component in both packages, and draw conclusions about the profitability of the JV mode, and subsequent choice implications, in comparison to contractual (e.g. licensing) and 100% FDI mode forms, or other variants. In general, it would appear that foreign mode use by companies frequently, if not mainly, comes with ‘baggage’ – i.e. as part of a package – and the baggage does matter in terms of the type of operation, its profitability, strategic value and deployment of resources.

3. Kone in Japan

The case of Kone’s penetration of the Japanese market illustrates many of the issues surrounding mode definition, mode combinations and mode dynamics. Kone (Finland) and Toshiba (Japan) are major players in the global supply and service of elevators and escalators, with Toshiba heavily focused on the Japanese market whereas Kone is an important supplier in a wide array of global markets. While there had been informal interactions and discussions between the two companies from 1982 onwards, the first major step by the two parties was in 1995 when Kone began exporting ‘hydraulic passenger elevators’ to the elevator systems division of Toshiba. In order to ensure that the product fitted Toshiba’s requirements, technical cooperation formed an important part of the ongoing relationship between the two organisations. In 1997 Kone won a contract to supply 57 elevators for Tokyo Metro’s new subway line, in competition with Toshiba. However, the two companies agreed to cooperate on installation and maintenance in fulfilment of the contract. In 1998 the relationship was extended further through the signing of a licensing agreement covering the transfer of new technology (elevators and hoisting machines) that had been developed by Kone. The licensing agreement gave Toshiba exclusive marketing rights to use the new technology in the Japanese market, and non-exclusive rights to China, Hong Kong, Singapore, Malaysia, Taiwan and Indonesia. The companies also agreed to extend technical cooperation into new product development. In 2001 the alliance was further extended: Toshiba established a subsidiary, Toshiba Elevator and Building Systems Corporation, in which Kone took a 20% share, while this same company purchased 5% of Kone’s shares (sources: annual reports and personal communication).

Over time, the operation modes used by Kone developed through a process of mode addition from a simpler to a more complex package, in line with the expansion of activities and its relations with Toshiba. From a start via exporting with some cooperation on product modification, the alliance extended to a mode package that included exporting, widespread technical, market (e.g. in China) and systems (e.g. component sourcing) cooperation, as well as licensing and a cross-equity arrangement. At no point was there a clear-cut shift from one mode to another, as is generally portrayed in the literature. Perhaps the main overriding mode perspective over the period could be defined, as Kone did, as that of a 'strategic alliance'. But the nature of the alliance changed substantially through both mode addition and the evolving utilisation of different modes within the overall package. In the end, it is difficult to say what Kone's primary mode of operation was in the Japanese market: all modes in the package played an essential role in the overall activity.

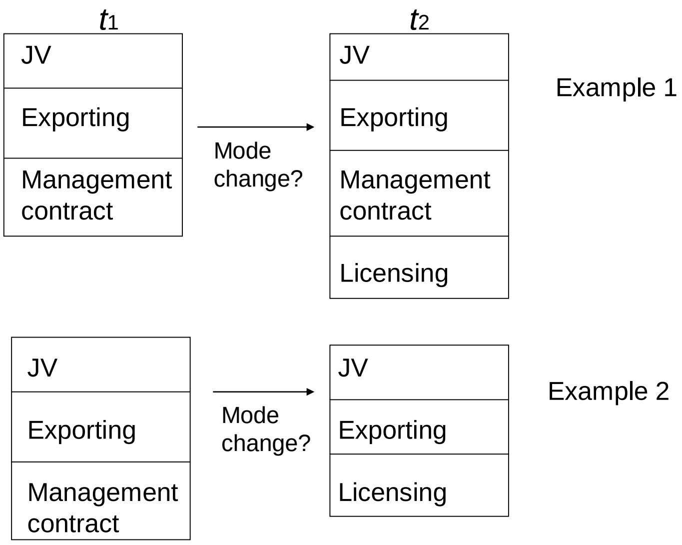
Looking over the whole period of mode development, it is clear that the comprehensive mode package at the end is substantially different from the starting point, albeit within what could be loosely called the overall Kone-Toshiba alliance umbrella. It would be difficult to argue that the 'mode' remained unchanged, even to use the term mode is misleading given both the mix of modes used in the package and the diverse roles that each played in an individual sense as well as in concert. Positions in the package shifted over time: at the outset, exporting was the primary mode and defined the relationship, but it became less important as Toshiba took over more of the production activity, embedded within an expanded, interactive alliance at many levels. The dynamism imparted by mode addition and deletion, and the shifting roles of the different modes within the overall package is an important characteristic that is virtually missing from existing mode analysis and empirical research. Instead, existing treatment of operation modes tends to be in a relatively inflexible way, with a focus on overall, substantive mode change - induced by alterations in a company's internal or external circumstances. The lack of attention to change aspects is an important issue given the judgements based on mode pattern analysis – more recently leading to criticism of Uppsala-style incrementalism.

Given that mode changes are treated as significant events, the possibility that mode change might well have occurred internally already, in very substantial ways, while an existing ‘mode’ or mode package shell has been in place is rarely considered. It is inevitable that the ways a company uses existing modes in different foreign markets will alter in smaller and larger ways over time; as experience evolves, market circumstances change, relationships with foreign parties alter, and resource commitments are adjusted in various directions – for example, through a firm appointing one of its own staff to ‘back up an agent’ in the foreign market (Valla, 1986, 33). Internal mode change could then be considered the norm for internationally involved companies, in ways that are not reflected in the generally comparative static approach to mode development in international business (Petersen, Welch and Nielsen, 2001). This is apart from the mode additions or deletions to mode packages that occur over time.

Further, the Kone case demonstrates the way in which market penetration might be enhanced through mode package development, rather than discarding an existing mode and undertaking complete replacement by a different mode. Toshiba was in a powerful position within the Japanese market, and it was always going to be a demanding exercise to dislodge Toshiba from its entrenched position. Exporting by itself would have been a difficult penetration mode to competitively maintain long term, particularly without the establishment of on-the-ground maintenance facilities. The addition of licensing at least ensured that access to a Japanese manufacturing and service connection was opened up, albeit with all the limitations inherent in the use of licensing to a major competitor, and substantive technical cooperation was essential anyway. Thus, the move to a more comprehensive alliance, including the equity arrangement, ensured that Kone had a major market penetration vehicle for Japan, with cooperation extended to other markets, and a substantial stake that ensured long term, continuing involvement. Of course, there are many, different patterns of package development in foreign markets that are conceivable and used by companies. Packages might be built, and altered, over time around a stable, core joint venture – as shown in Figure 2 – in response to changing market conditions and experience. Mode package addition and deletion may provide flexibility while a core, successful mode form is retained.

Additionally, there may be constraints on the ability of a company to switch modes, so that it looks for ways of enhancing or buttressing the performance of the existing primary foreign operation mode via internal mode adjustments or mode additions. Switching constraints might be related to the actual or perceived costs of changing modes – such as contractual partner termination costs, increased competition resulting in the loss of customers and revenue losses, and the cost and difficulty of setting up a new mode form (Benito, Pedersen and Petersen, 1999; Ellis 2006). Contractual constraints and switching costs can generate a sense within a company that it is locked into an existing arrangement with a foreign partner, so that it has to look at other ways than mode replacement to achieve its foreign market goals (Petersen, Welch and Welch, 2000).

Figure 2: Mode change?



4. Mode changes

The handful of studies that exist on mode changes treat them as choices among discrete alternatives: for example, moving from direct exporting to an intermediary (Fryges, 2007), moving from using intermediaries to setting up a local sales subsidiary (Benito, Petersen and Pedersen, 2005; Calof, 1993), from joint ventures to wholly-owned subsidiaries (Hennart, Kim and Zeng, 1998; Hennart, Roehl and Zietlow, 1999), or even a sequence of several changes (Clark, Pugh and Mallory, 1997). While the assumption of discrete alternatives obviously simplifies the research task, it should be acknowledged that business practices are somewhat messier. The Kone-Toshiba case points to the reality that within package mode changes may be occurring over time that change operation performance within a foreign market in ways that are not necessarily obvious when the empirical research focus is on the outer shell or a specific, seemingly dominant mode within the package, such as the FDI component. The question arises then as to how mode change should be defined: for example, as any and every mode addition to or deletion from an overall package? To what extent and in what form should internal mode adjustments be taken into account, if at all, as utilisation proceeds. At what point can we say that an overall mode package has been altered to an extent that it can be defined as a different package? Two examples of mode package change between time points t_1 and t_2 are shown in Figure 2. The first example shows a case of mode addition, with licensing being added to a package that is being driven by a joint venture – what might be referred to as minor package change, and it is questionable whether a company would report it as mode change. The second example is similar to the first, dominated by the joint venture, although it does involve a mode switch (mode deletion, then addition) within the package, and while a company may see this as a more substantial mode alteration, requiring a greater range of associated adjustments by the company (e.g. repatriation of staff from the JV), again it may not be recorded as a mode change because of the unaltered primary role of the joint venture.

The questions raised about what constitutes mode change, particularly when mode packages are taken into account, are important in terms of our understanding of what are very basic concepts in international business research - of what constitutes companies' mode use and change over time. However, it is difficult to obtain such detailed information from companies, particularly with a focus on aspects of longitudinal development that often are not available in company records. Nevertheless, if the place of mode analysis in international business theory and empirical studies is to have any validity, this issue has to be confronted. The Kone-Toshiba example and some limited empirical research indicate that, despite the inherent difficulties in the empirical investigation process, it is possible to build a basic picture of companies' mode packages and their evolution over time, as well as some components of internal mode adjustments, so this would seem to be a reasonable starting point for future research (Petersen, Welch and Nielsen, 2001).

Of course, the multiple modes used by a company in a foreign market are not always linked and directly supportive of each other as in the examples presented so far. Multiple modes used by a firm in a foreign market might be somewhat disconnected from each other, such as when focused on different product/market segments or on different parts of the value chain. For example, the Australian company, Foster's, for some time had its beer for the US market brewed under licence by Molson in Canada (see Figure 3). Distribution and marketing in the US has been separately undertaken through a joint venture with Miller Brewing of the US called Foster's USA. Because of a result of a recent merger between Molson and Coors of the US, Foster's has cancelled the licensing arrangement for the US with Molson and shifted the production activity to a licensing arrangement with Miller Brewing. As a result, the production part of the value chain is being handled via licensing, while the marketing and distribution through the existing joint venture operation, although now both parts will be handled through the same partner firm – thus generating what might be considered a tighter overall mode package, and an arrangement that has the hallmarks of a general strategic alliance. All parts of the value chain (production, marketing and distribution) in Canada will continue to be handled through a licensing agreement with Molson Coors (Speedy, 2007).

For Foster's beer operation in the US, particularly that preceding the new arrangement, to ask what 'mode' is being used by Foster's in the US would be difficult to answer, and even the question is somewhat misleading: at least two modes were, and continue to be used, and they are performing very different, specific and important roles within its total US beer venture, in different parts of the value chain. This begs the question, then, as to what companies, or the representative respondents, mean when they answer questionnaires regarding what mode/s they use in different markets. The mode use picture for Foster's is further clouded by the significant and diverse activities, apart from beer, that it has in the US - particularly associated with its wine operations, including those resulting from the takeover of Beringer, one of the US's largest wine companies, in 2000.

Figure 3: Foster's beer in US

Production	Marketing and distribution
Before 2007: via licensing agreement with Molson	Before 2007: JV between Foster's and Miller
2007: licensee change from Molson (Canada) to Miller (US)	Foster's + Miller JV: no change

The value chain-mode connection and decision-making could be even more complicated than that shown in the Foster's case. It is not unusual for parts of the marketing activity to be undertaken through different modes in the foreign market. A common example is for companies to use independent distributors to reach smaller, widespread customers while larger customers are handled through their own salespeople, perhaps supported by a sales office in the foreign market (Valla 1986). In a study of sales channels in the European PC industry, Gabielsson, Kirpalani and Luostarinen (2002, 78) found an increasing number of cases where 'marketing functions are shared by the producer and the channel intermediary; the former usually handles promotion and customer generation activities, whereas the intermediary is in charge of sales and distribution'. Similarly, it is not unusual for the sales and service functions to be split in the foreign market, and different modes used for each. Thus, an array of modes could be used along a company's value chain that extends into a foreign market. When the potential mode options are assessed against the different parts of the value chain that may be feasibly broken up and considered separately by a firm, the full range of mode-value chain activity options can become almost endless, and certainly beyond the scope of managers to reasonably take into account, especially when foreign market and location options are added to the choice mix (Petersen et al, forthcoming).

5. Changes in Mode Roles

So far we have considered mode changes in the form of mode additions and deletions to or from an existing mode arrangement, and internal mode adjustments. An additional type of mode alteration is change in mode role (Petersen and Welch, 2002). Similar to the internal mode adjustments noted, it does not involve modification of mode package content. An important aspect of mode package use is the roles that different parts of the package perform in achieving a firm's foreign market penetration and performance objectives. The structure of a package of itself does not necessarily reveal the assigned roles: for example, licensing in association with a JV might be used for various purposes – to control the way technology is exploited and limit the risk of unwanted dissemination; to generate additional revenue; and/or to assist in financial transfers and tax minimisation. Exporting also could be used in the early stages of its establishment to support the JV's operations in various ways. At the outset, the JV is likely to be viewed as the primary mode within the package with licensing and exporting playing supportive roles. However, there is no certainty that these roles will not change over time for the market concerned. In fact, it could be expected that there will be changes in roles, some minor and subtle, others major and tantamount to overall mode change even though the mode package remains unaltered. Because of JV partner concerns, the company might de-emphasise the importance of the JV and place greater reliance on the licensing and exporting components. Role expansion and upgrading are common for companies' foreign establishments if foreign market sales expand and show promise. As well, foreign sales subsidiaries are often called upon to assist with companies' foreign purchasing function (Welch, Benito and Petersen, 2007). The point about mode role changes is that they are relatively unseen in empirical investigations, and yet they may constitute a major alteration in international operation strategy. From a theoretical perspective, they may represent another unacknowledged form of the process of incremental adjustment in international activity – effectively advancing or diminishing foreign market involvement.

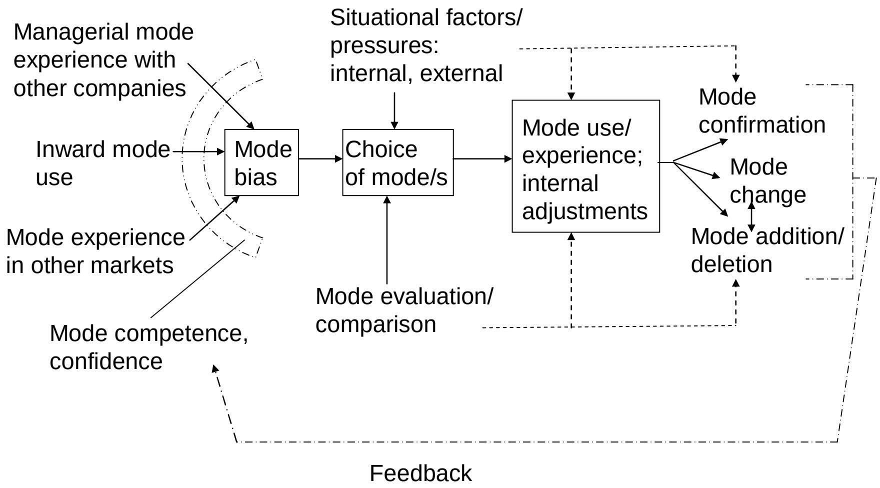
6. Mode Complexity, Choice and Change: an Overview

The preceding analysis has shown a theoretically bewildering array of mode use possibilities, which are frequently opaque, faced by decision-makers in internationalising companies, rather than the simple, clear-cut mode choices often presented in much of the international business literature (Petersen et al, forthcoming). This is why managers tend to use a range of coping, simplification approaches in mode choice – such as drawing on past experiences within their current or past firms, and utilising developed competence with respect to a restricted range of modes in certain situations, or simplifying the decision context in some way, such as by limiting the choice set (Larimo, 1987). In analysing the choice behaviour of managers, March and Shapira (1987, 1405) have noted the common response 'that individuals look at only a few possible outcomes rather than the whole distribution'. Decision-makers appear to use a variety of approaches to minimise mode combination decision complexity. Past experience and existing mode approaches in different markets create their own biases, positive or negative (see Figure 4). Negative outcomes from using particular modes, for example when licensees misappropriate technology obtained through a licensing arrangement, can lead to a strong bias against further use of these modes in subsequent mode strategies (Welch, Benito and Petersen, 2007). Positive mode experiences, and growing knowledge and assurance through continued employment of particular modes, tend to reinforce existing mode use strategies. Research shows that mode experience may be developed first through international inward operations, for example when a company accesses foreign technology via a licensing-in arrangement, subsequently building on that foundation in outward foreign licensing deals (Welch and Luostarinen, 1993). Sometimes, only one mode form, or package, is evaluated, particularly when companies are approached with an offer to sell by a foreign company or an offer to act as a distributor or licensee in a foreign market. In such cases, there may be limited room for mode variation with effectively only one form on the table as an option in initial negotiations, so that the company's mode bias comes up against contrary foreign market situational pressure.

Mode competencies developed through experience, including such aspects as mode package exploitation, allied with other elements of growing international knowledge and skills, can be seen as contributing to the unique resources that the company is able to draw on to its advantage in further international operations, in line with internationalisation process and resource-based perspectives (Barney, 1991; Johanson and Vahlne, 1977; Madhok, 1997; Peteraf 1993). However, the vagaries of individual markets ensure that it is difficult to maintain a consistent approach to mode use patterns as international expansion proceeds. The Australian concrete pipe manufacturer, Rocla, initially developed a wide range of foreign markets over an extended period via licensing, but eventually had to change that approach because of host government pressure, entering into a joint venture arrangement as the first step outside licensing (Welch, Benito and Petersen, 2007). Such situations inevitably cause companies to take stock and consider a wider range of mode options – perhaps including combination possibilities that still retain existing mode competencies, for example combining a joint venture with licensing as a step beyond the sole use of licensing. In addition, companies have been found to conform to internal as well as external isomorphic pressures when venturing abroad (Davis, Desai and Francis, 2000), such as seeking to gain legitimacy by imitating the ways in which incumbents in given markets operate.

Figure 4 presents an overview of some of the disparate elements that have been shown to play a role in the process of mode decision-making, from initial mode choices that reflect earlier mode experiences of the company and managers, and the mode bias that they create, impacting on current decision-making that involves a response to evaluation processes and the information generated, and the perception of resources, pressures and opportunities within the company as well as in the foreign market. In addition, Figure 4 shows the further stages of mode use and mode changes consequent upon the evaluation of mode use outcomes. Mode experience may be seen by companies as confirming the original choices, supporting a continuation of existing mode strategy. However, evidence noted earlier indicates that mode change is common, sometimes forced by external pressures, but could develop almost unseen in an evolutionary way, as mode packages and/or mode roles are altered, with mode additions and deletions from existing packages and various within-mode developments. Ultimately, these changes and outcomes feed back into a company's mode experience, bias and competence base, thereby affecting future mode decisions.

Figure 4: Mode choice and change



7. Conclusion and Managerial considerations

What type of modes to use, and how to use them, are not simple questions to answer – they do not present simple choices, and yet mode decisions are critical part of long term international strategy and performance. Nevertheless, companies are using foreign operation modes in a range of creative ways in seeking to deliver positive, strategic outcomes in existing and new foreign markets that have not been reflected in the bulk of mode research and literature in international busines. Mode packages or combinations are an important part of this picture, and it is not surprising that they are such a common feature of international activity given the range of benefits that they are potentially able to generate compared to singular mode use. Through broader mode packages, a company may be able to extend control over the foreign operation, as in the case of FedEx's use of a management contract with its 50:50 JV to enhance managerial control. Licensing agreements also are sometimes used as a way of buttressing managerial control of a JV

(Welch, Benito and Petersen, 2007). Importantly, for companies, revenue generation can be assisted by mode packaging – such as when licensing is used in association with a JV or project to provide an additional revenue stream from the foreign operation. The financial transfer resulting from the additional revenue that an extra mode like licensing contributes could further assist a company in global financial and taxation efficiency by reducing taxation in a high taxation country and transferring revenue to a lower taxation jurisdiction. It is not surprising that national taxation authorities have shown greater interest in foreign licensing as a form of revenue shifting in companies' global operations (Welch, Benito and Petersen, 2007).

Manipulations of mode packages or internal mode adjustments may be particularly useful to companies that are seeking to change the way they operate in a foreign market, due to emerging foreign market pressures and/or opportunities, without wholesale mainstream mode replacement, especially in situations where they feel locked into their existing arrangements – because of contractual terms or the switching costs of change (Benito, Pedersen and Petersen, 1999; Petersen, Welch and Welch, 2000). For example, switching from a licensing arrangement to a JV with a new partner may be very difficult to undertake contractually, with the risk that the former licensee could set up a competitive operation, leading to substantial revenue losses in the short term along with the additional set-up costs associated with establishment of the new venture. Thus, it is not surprising that other approaches are sought in order to achieve a similar outcome on key dimensions (control, revenue, etc), or to start the process of moving to the desired, altered operation mode state.

Adding a mode or modes to an existing contractual arrangement may be feasible, but if not, within mode adjustments might be an effective alternative. Research on Danish companies shows that it is feasible to undertake a range of adjustments while a given mode is being used that place a firm in a stronger position to eventually act alone, thereby easing the path to mode change, or to engineer expanded control of the foreign partner in a maintained relationship (Petersen, Welch and Nielsen, 2001). Examples were found of steps by the Danish firms like appointing staff to the relevant distributor as a prelude to separate subsidiary establishment or quasi-integration: the staff member was in a position to assess the value of different employees at the distributor and to get close to relevant networks. The employees of interest at the distributor were attracted to a newly established operation by the Danish firm, ensuring a substantial foundation of market and cultural knowledge, local networks, skills, experience, and a market base from preceding involvement via the distributor, such that the separate establishment could be viewed as an important, but effectively incremental, step in involvement in the foreign market in question. In such cases, the within-mode changes may be only a temporary arrangement, smoothing the process of transition to the ultimate, preferred mode setup, but important and useful nonetheless in a key area for internationalising companies: achieving non-disruptive change, with minimal revenue losses and other switching costs.

It seems that some companies have become adept at devising and enacting the possibilities of mode manipulation in international operations – formulating various types of mode combinations and internal mode adjustments – albeit out of perceived necessity in many cases under the stress of market pressure, foreign partner problems and the like. For example, the Israeli payments systems software solutions provider, Fundtech, simultaneously in the US had for its R&D activities '…a joint venture, a greenfield subsidiary and an acquired subsidiary. In parallel, Fundtech's marketing and customer support services to the American market were conducted through distributors, a joint venture, a greenfield sales office and an acquired subsidiary' (Welch, Benito and Petersen, 2007, 394)

Little is known about how managers actually construct mode combination possibilities, evaluate the different package options and decide on the most appropriate format in the situation faced. Some mode combination option situations in a sense are resolved for a company in that they are proposed by a potential foreign partner – for example a potential JV or licensing partner, with some mode combination manipulation being undertaken in the throes of the negotiation process. There are cases of minority equity investment being effectively a forced element of a management contract deal, as in the use of management contracts by the Hilton hotel chain in Russia in the 1990s (Welch, Benito and Petersen, 2007). However, there is little research evidence indicating how companies behave on this front: how many mode combination options are seriously considered? Are they proactively or reactively developed? Do decision-makers have a concept of mode combinations as a type of business solution or strategic element of foreign market operations?

Clearly, there are many questions regarding companies' mode manipulation behaviour that remain unanswered. Nevertheless, there appears to be considerable scope for improving the effectiveness of mode use in international operations through strategic employment of mode combinations, mode additions and deletions thereto as international operations unfold, and internal mode adjustments. For this to occur, though, companies first need to have a clear view of the state of mode use in their international operations and of mode competence amongst staff. For companies with substantial international operations, an audit of company-wide mode activity is an essential first step, including the extent of detail that, for example, enables managers to form a picture of where and how mode combinations are being employed. Further, staff training in the use of the broad array of mode manipulation techniques is likely to be a basic starting point to implementation of a more comprehensive and effective foreign operation mode strategy. There may be a need to counter what might be called *mode myopia* through this process – the tendency to avoid or limit the use of some modes in package development because of various factors, including previous bad experiences or a simple lack of relevant experience and competence in their use (Welch, Benito and Petersen, 2007).

8. Research issues

In this article we have stressed the reality of mode packages, within mode changes and mode role changes, and argued that these aspects of international business development have been relatively ignored in the literature and in theoretical and empirical research. An obvious conclusion, therefore, is that there is a need for a substantial research program to better expose and understand these foreign operation mode issues. The extent of detail and nuance required is unlikely to be obtained via large questionnaire surveys: the burdens on informants' knowledge, reflection and memory are just too excessive.

Longitudinal research is needed to obtain acceptably accurate accounts of companies' internationalisation patterns and processes. Such longitudinal studies could be (i) of an archival type (eg. studying company documents) like those that typify business history research, (ii) quantitative analyses of company panels, and/or (iii) qualitative in depth studies of specific companies. More exploratory, in depth and longitudinal qualitative studies would seem to be a critical first step. This is in line with the conclusion from a recent review of 40 years of research on the link between internationalisation and firm performance, stressing the need for more in-depth field research and "clinical" case studies that are longitudinal in focus (Glaum and Oesterle, 2007, 315). Theoretical inclusion of the mode aspects noted in this article is likely to be even more demanding because of the serious challenges posed to existing theoretical approaches. At the least, empirical research is likely to reveal many more cases of mode manipulation without overall mode adjustment that represent incremental international expansion, contrary to the current tendency to downplay incrementalism in internationalisation. Research in this area should also inject much needed, and called for, dynamism into the treatment of international business development.

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