



Title page

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Dedication

This Master's Thesis is dedicated to my close friend and Master's Thesis partner, Kristian Skak Mikkelsen, who suddenly past away during the writing of this thesis. Kristian and I has known each other for several years, but the previous two years on the master's program brought us particularly close together. Kristian and I did not only collaborate on every possible university related assignment, but we also spend a lot of time together besides school.

It shall be known that the choice of subject as well as the whole composition of this project was as much Kristian's idea as mine, and it is with great regret that he is not here to finish what we started together.

In honor of Kristian's memory

- Andreas Nørgaard

Executive Summary

This Master's Thesis is written in extent of the 4th and final semester of M.Sc. in International Business Economics, and wishes to answer a relevant and time typical problem in the field international business.

Through the last years a number of Danish and foreign companies has indulged to the strategy of Second Home Market. Second Home Market is claimed to be a recipe for success for certain companies in some of the world's fastest growing markets. This should naturally make its appearance in international business very important, but Second Home Market is a rare sight in international business literature. As by now, Second Home Market has not yet been acknowledged by any theorists in the field of international business, which is why its specific shelf in the international business literature remains unknown.

This thesis aims to understand Second Home Market in the contexts of; why it has suddenly come about, and generally what is and consists of, in order to be able to categorize it in the field of internationalization. In this connection, this thesis seeks to answer if Second Home Market is an entry modem and if it is, whether it is a distinct new one, or is similar to an existing entry mode.

Relevant fundamentals of internationalization are examined and the specific requirements of an entry mode are identified which together form the basics of a comprehensive analytical framework, where the data collection of Second Home Market is analyzed through.

This thesis concludes that Second Home Market is in fact an entry mode, and the fact that it brings a significant new approach the selection of entry modes leads to the decision that Second Home Market is a new entry mode. Second Home Markets will in terms of commitment, risk & control, etc. join the entry modes based on foreign direct invest, but in such a way, that Second Home Market is the most 'internationalized' entry mode available.

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Preface

This Master's Thesis is made in extent of the 4th and final semester of M.Sc. in International Business Economics at Aalborg University.

The aim of the project is to address a topic that I have had since the start of my M.Sc. degree. During the first semester a case study about the Danish pump manufacturer 'Grundfos' were initiated, along with a company visit. At this company visit the speaker were running through Grundfos global strategies, when he said that China was going to be Grundfos' "Second Home Market". Though I at the time had only been an International Business student for a short time, I had learned about the internationalization of companies, entry modes etc., but never heard of this concept 'Second Home Market'.

During my 9.th semester I was living in Shanghai, China and Beijing, China working along my studies at the Danish marine fuels provider O.W. Bunker as Marketing Coordinator. My stay resulted in a comprehensive investigation of the Chinese relations phenomenon "*Guanxi*", and its importance for Chinese and international business negotiations. This is also where my interest in the importance of understanding some countries special requirements emerged, a central issue of this thesis as well. Concurrent with my master's degree, I am undergoing the international diploma; Asian-European Management, which requires his Master's studies to be within this area alone. My studies has been aimed towards China, which means that during the last 4 semesters, including a semester abroad in China, this Second Home Market kept coming up, but from companies and news media, but not from international business literature. This is why I chose to investigate what this undefined concept really is, and where it belongs in the endless shelves international business literature.

The project is on purpose made solely on secondary literature, because it is a wish from me that other students, companies, etc. can access information about this phenomenon as it becomes more and more popular and widespread. The use of primary literature will typically cause the project to be confidential, due to the risk of disclosing information that can be vulnerable for the company.

Acknowledgements

In the making of this thesis I have many people to thank. Firstly I want to thank my girlfriend Anne Sophie and my family for the continuous support throughout the complete project. I would also like to thank my supervisor Reimer Ivang, study secretary Birgitte Krogner, and Coordinator Svetla Marinova for the immense support, flexibility and understanding of my unusual situation.

Naturally a special thank to Reimer Ivang for his both personal and professional contribution in the making of the project but also having to write on alone, when it was not the intention.

Abbreviations

SHM – Second Home Market

FDI – Foreign Direct Investment

BRIC – Acronym of the four most rapidly growing markets (Brazil, Russia, India & China)

EU – European Union

MNC – Multinational Companies

TNC – Trans National Companies

R&D – Research and Development

HR – Human Resources

1. Introduction

This chapter aims to create the context of the problem, being the central issue of this thesis. This process should be seen as a funnel; guiding the reader towards the same understanding as guided me towards this problem.

During the last decades, the globalization has made the world more closely connected, and the increasing technological development and societal exchange between different countries and continents has made globalization an important topic in today's business development (Ghemawat (2003); Li *et al.* (2004) ; Dicken (2007) ; Czinkota *et al.* (2009)). Global markets offer greater opportunity for companies to access more capital flows, technology, cheaper imports, and larger export markets, etc. These international opportunities are very valuable for companies since they can facilitate, growth, and profit through market expansions (Dicken (2011) ; Johansson (2003) ; Lee & Carter (2005) ; Czinkota *et al.* (2009)

In the era of a globalized business environment, where products and services can be marketed and sold through modern, innovative methods in the so-called, 'global marketplace' (Lee & Carter (2005) p. 129), companies need to compete for their market share and even survival, not only within their home market, but globally. This means, it has become strategically important for some companies today to enter new markets internationally (Kuada & Sørensen (2000)).

1.1. The strategic importance of internationalization

To achieve sustainable growth in markets that are becoming increasingly global, a lot of businesses are going global today; a complex and challenging process due to the diversity of international business activities and behavioural patterns (Johansson (2003) ; Doole & Lowe (2008) ; Lee & Carter (2005) p. 148). Welch and Luostarinen (1999) presented a growing interest in the international operations of firms over the last decades, with a concern to make such operations more effective and efficient in a more competitive global environment. This means that along with the increasing internationalization of firms, the competition among companies worldwide has increased, forcing the business development units of some firms to think globally from the first step. The outcomes of the internationalization could be described as inputs to

the firm's strategic foundation serving as its base for the international operations (Welch & Welch (1995)).

Internationalization of firms has become a vital part of the business plan in many companies today, and the question is no longer whether to internationalize or not, but rather consider the entire business plan in order to achieve the most possible benefits of growth, knowledge, and efficiency, in order to become or remain competitive. (Czinkota *et al.* (2009) ; Malhotra & Hinings (2010) ; Hollensen (2011)).

Now that the reasons and importance of internationalization has been expained, I will look deeper into *how* to undertake this process, and what methods to choose to enter the markets in the 'global marketplace'. In order to do so, I will look a bit deeper into the term 'internationalization' in the next section.

1.1.1. Internationalization of firms

The internationalization of firms is described in literature as a process of increasing involvement in international operations (Lee & Carter (2005) ; Malhotra & Hinings (2010)). Traditionally, this has been presented as an incremental process of building up commitment in a host country through gradual investment, integration, and use of knowledge about the host country. This will reduce the market uncertainty and make the company gain confidence in the market, which traditionally result in a pattern of incremental market commitment (Johanson & Vahlne (1977) ; Malhotra & Hinings (2010)).

The increasing tendency of internationalization of firms worldwide has led to a large number of studies and researches, analyzing the internationalization strategies of companies through a series of theories such as the *stages model* and several definitions of motives as presented above (Johansson & Vahlne, 1977; Kuada & Sørensen, 2000; Hollensen, 2011). These theories define the internationalization process of a company in different ways, but common to them all is that they seek to clarify some common reasons for going global and how to do it. (Czinkota *et al.*, 2009; Malhotra & Hinings, 2010) In other words, the stages and motives defined in the frameworks have helped companies to realize why and in which way it would be most beneficial for the company to internationalize (Kuada & Sørensen, 2000). By starting at a level of sporadic export, moving to a process of establishing clear export modes and for-

foreign sales subsidiaries, and finally end up with production and manufacturing units, a company would, traditionally, be considered as more and more internationalized, as commitment increases. (Czinkota *et al.*, 2009; Malhotra & Hinings, 2010: 330; Hollensen, 2011) Concurrently, the company would gradually enter new markets that are further away in terms of *psychic distance*; a central term in international business that is used to explain differences between countries in a large variety of matters, including; culture, distance, politics, economy etc. (Johansson & Vahlne (2009) p. 1412) This leads us on to the different ways to effectuate the internationalization of a company.

Once a firm has decided to establish itself in the global market, the next step is to choose the most suitable markets for the firm and consider the options available to enter the foreign market (Joshi (2005)). As explained by Doole and Lowe (2008), “*the most significant international marketing decision they (marketing managers) are likely to take is how they should enter new markets*” as the commitments they (firms) make will affect every aspect of their business for many years ahead. (Doole and Lowe (2008) p. 231)

While the choice of market to enter is determined by a variety of company and industry related potentials and is different from company to company, the variety of market entry modes does not change.

1.2. Market Entry Modes

As presented by Joshi (2005), the mode of an international market entry could be identified as “*an institutional mechanism*” that makes the products or services available for the customers in international markets. (Joshi (2005) p. 263) More specifically, the market entry strategy was presented by Root (1994) as “*...a comprehensive plan which sets forth the objectives, goals, resources and policies that guide a company’s international business operations over a future period long enough to achieve sustainable growth in world markets*” (Root (1994) ; Joshi (2005) p. 263). This makes it a crucial part of a firm’s international strategy, defining the degree of resources spent on entering a given market as well as the level of control and involvement desired (Joshi, 2005). The market entry mode decision is taken within the firm and is deter-

mined by the firm's objectives and capabilities to work within a foreign country (Doole & Lowe, 2008).

A number of studies have presented various different modes of market entry available for firms to enter foreign markets. Commonly known is the basic entry modes which are based on the 'Stages model', identifying the entry modes as different stages of increased involvement in a market; no regular export activities, export via independent representatives (agent), sales subsidiaries and production/manufacturing (Johanson & Wiedersheim-Paul, 1975: 307; Johanson & Vahlne, 1977; Kuada & Sørensen, 2000: 13).

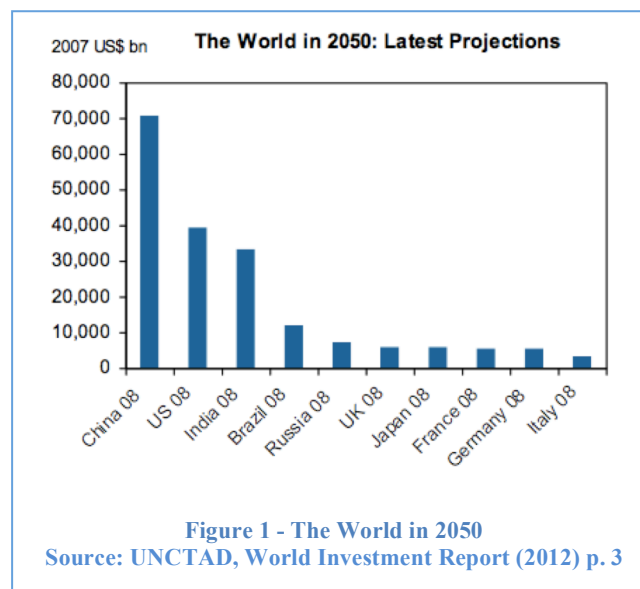
Further, the forms of entry modes have been categorized by Young (*et al.*, 1990) as; *Non-direct investment market operations*, *Direct investment market operations*, *Non-direct investment production operations* and *Direct investment production operations*. Whereas the *non-direct investment market operations* cover the indirect – and direct export modes. The *direct investment market operations* are described as the establishment of sales subsidiaries, distributor, agents, and warehousing – and service units (Young *et al.*, 1990). The *non-direct investment production operations* are presented as the modes of licensing, franchising, and contract manufacturing, whereas the *direct investment production operations* cover the shared owned and wholly owned operations such as joint ventures, assembly facilities, and manufacturing facilities (Young *et al.*, 1990; Lee & Carter, 2005: 173; Doole and Lowe, 2008: 232-233).

Hereby, it provides a simple understanding of the basic concept of how to enter new markets. But which entry modes should be used for which markets? As the level of involvement increases, so does the level of risk and control for the company (Lee & Carter, 2005; Doole & Lowe, 2008). This creates the question; '*where* does a wants to be involved - and is the company willing to take the risk, in order to remain competitive in today's global marketplace. To exploit the possibility for market expansion, growth, and profit, many companies look towards the *emerging markets* (Joshi (2005) p. 48 ; Doole & Lowe (2008) p. 38 ; Zhou *et al.* (2013) p. 474). According to Zhou *et al.*, (2013), GDP growth in *emerging markets* provide firms with the opportunity to grow rapidly. (Zhou *et al.*, (2013) p. 474) But as presented earlier, companies need to gradually enter new markets that are further away in terms of *psychic distance* (Jo-

hansson & Vahlne (2009) p. 1412) to avoid market uncertainty and failure in the market penetration. This makes quite a dilemma, since many emerging markets are very different than markets in i.e. Northern Europe, which means that many emerging markets are probably also *psychically distant* and makes the uncertainty and risk higher. To understand why companies are willing to break with this traditional thinking, the next section will explain the characteristics of *emerging markets* with the aim to clarify the relevance and opportunities of market expansion and growth for firms by entering these markets.

1.2.1 Economic Growth centered on the BRIC's

While arguing that the market entry mode is of crucial significance, Joshi (2005) states that the country to enter is of no less importance. According to the World Investment Report by UNCTAD (2012), companies have been exploiting their potential in other countries for decades and the trend seems to continue. As there are many motives for internationalization, some countries are more relevant to some industries and/or products than others. So, it goes without saying that entering the right market is an important decision (UNCTAD, World Investment Report (2012) p. 3).



One of the most renowned sub categorization of the *emerging markets* is the BRIC countries, an acronym for naming Brazil, Russia, India, and China at once. The BRIC's exist in various forms with additional letters covering more countries, but originally it only includes these four countries. Since the invention of the BRIC-term

in 2001, the BRIC countries are the *emerging markets* with the largest economic potential. (O'Neill (2001)). This potential is no longer only impressive compared to the rest of the *emerging markets*, but also to the G7 countries. As shown in Figure 1, the latest projections of the respective GDP's shows even a change in the distribution of the world's economic superpowers in year 2050 including all of the BRIC's in the top 5.

These projections emphasize the importance of the BRIC markets in the future and many firms have over the last years acknowledged the importance of these markets by entering them. In fact MNC's have rated all of the BRIC's in the top 10 prospective host countries in UNCTAD (World Investment Report (2012) p. 22).

The popularity of entering these markets for the purpose of selling goods is quite a paradigm change. As mentioned chapter 1.2. Market Entry Modes, companies traditionally expand internationally in a slightly cautious manner by internationalizing incrementally further and further away in terms of psychic distance, but when it is now so popular to enter BRIC's, it seems that the traditional thinking of internationalization is being supplemented by a new wave of internationalization. While all of the existing entry modes today are build on the foundation of the traditional paradigm of internationalization, some new approaches for internationalization have seen the light of day – approaches tailored to fit the BRIC's. One of these approaches is called Second Home Market.

1.3. Second Home Market – a new entry mode?

A home market for a company is typically the market where it all started, which means that in this market the organization is quite well developed, and the whole company is tailored to fit this market (Hoover Jr., 2006; Galvin *et al.*, 2010). Galvin (*et al.*, 2010) argues that "*multinational companies hoping to succeed in China can't treat it as an interesting side bet any longer; they need to take China as seriously as they do their home market*", which is further argued by the increasing global competition. In other words, this indicates that firms need to treat a country like e.g. China as a 'home market' to create the competitive advantages needed in a globalized world (Galvin *et al.*, 2010). The product of the article is a list of relevant areas of evaluation

for the company to evaluate on their aims for the market, actual performance, and commitment in succeeding on the respective market (Galvin *et al.*, 2010).

While the article describes the concept as a set of initiatives based on evaluation, the firms performing a process, called establishing a *second home market*, concretize some of the practical initiatives. Through press releases and interviews in the media, large multinational companies as Volvo, Estee Lauder, and Grundfos are explaining the on-going establishment of their *second home market* in the following quotations.

“Estée Lauder Companies Inc. (...) plans to introduce a new skin care brand ‘Osiao’ to further leverage its rapid sales growth in China (...) Osiao is specifically aimed at Asian consumers and the brand’s formulas contain local plants like ginseng (...) China is its third-biggest market after the United States and the U.K., and the company is looking forward to making it its second home market. So, a local brand would lead its efforts in this direction” (Trefis, 2012).

As you can see in the quote above, Estee Lauder is connecting the concept of *second home market* with creating a new local brand designed specifically for the Chinese market in order to leverage its rapid growth.

Volvo claims in an interview for the online media site (:) that *“The second important initiative is our industrial and commercial plan for China, Volvo Car Group’s future second home market (...) We are establishing our local R&D center, strengthening our dealer network and competence in our brand and investing in on-site consumer insight.”* (ChinaDaily.com.cn, 2013).

While talking about the establishment of their new Chinese *second home market*, Volvo CEO concretizes that they among other things are establishment of a local R&D facility and taking actions to create a stronger dealer network.

Grundfos Group President Carsten Berg states in an interview with Pump Industry Analyst that; *“China will be our second home market in the future. In the next few years we are going to expand our activities strongly in China.”* And elaborates; *“We must come closer to customers and we are going to develop products aimed at meeting their increasing requests for comfort, energy efficiency and environmental solutions...”* (Pump Industry Analyst, 2008: 16)

Carsten Berg connects *second home market* with a strong expansion of the activities in the country that will cause developing new products for the specific market based on the customer's requests and closeness to customers. Unlike the other companies that solely have China as a *second home market*, Grundfos recently stated in an interview with *businesstoday.com* that they were planning to make India a *second home market* as well. (Madhavan, 2013)

"We have just decided that India will also be our second home market. We now have two "second home markets", China and India, apart from our historical home market, which is Europe. We classify a particular market as our second home market if we understand the market and know what it takes to be successful there as much as in our historical home market." (Madhavan, 2013).

In this quote Carsten Berg also explains how they classify a particular market as a *home market*. Though this definition is possible to convert into direct areas of change compared to traditional entry modes, it gives one an idea of underlying aspects and essentials.

To summarize, the above mentioned companies overall associate the concept of *second home market* with expanding their activities and organization in the country with e.g. R&D, developing new products for the specific market's requirements, and increasing closeness to customers, by understanding the market as good as they understand their home market. So, the concept of *second home market* in literature and media is an initiative that raises the commitment in the market by expanding the organization in the country, making adaptations to that specific country and in every way tailoring the company to fit the market. All of these criteria seem quite reasonable for a successful performance in a market, but they are not equal to anything mentioned in internationalization literature to date.

So, this raises the question what a *second home market* can be perceived as in relation to market entry strategy. While traditional literature of market entry in general focuses on the aspect of creating growth through internationalization and different market entry modes, recent literature questions the issue of creating sustainable profitable growth. Hereby, the variety of attributes that Second Home Market affects, insinuates



that Second Home Market may be regarded as a new market entry strategy that has never been mentioned in the literature.

1.4 Problem Statement

To sum up shortly the previous sections, internationalization is an important topic of many companies' business plans today, and there is reason to believe that this importance will not disappear in the future as the competition increases with the globalization. The most 'popular' countries to enter right now are *emerging markets* with emphasis on the BRIC's, so the recipe to successfully enter these countries is a valuable asset. This recipe has yet to be found since multiple companies struggle to make their global business plan succeed in countries like China. Some sources claim to have found it, and allegedly it is called *second home market*. But what is this *second home market* then?

The aim of this project is to investigate the concept *Second Home Market* and where it can be position in international business. More specifically, I want to investigate if *second home market* can be equated with the traditional market entry strategies, and to what extent it differs from the existing modes of market entry. It is therefore interesting to look at *second home market* in relation to the above-mentioned categories of market entry modes. The question is whether the *second home market* strategy has enough similarities to be categorized as one of the traditional market entry modes or should be considered as a completely different entry modes. This leads me to the problem statement below:

"I want to understand the phenomenon Second Home Market as well as the field of existing entry modes to be able to determine whether Second Home Market can be regarded as a new entry mode?"

The problem is concretized in the research questions below:

- ❖ *Can Second Home Market be regarded as a distinct new entry mode?*
- ❖ *If yes, how is Second Home Market different or similar to the existing entry modes of internationalization literature?*
- ❖ *Where does second home market position itself in the internationalization process of firms?*

2. Methodology

This chapter aims to contribute to the understanding of the methodological considerations, making the structural foundation of this project, and the concern of how knowledge is created in this project. The main purpose is to make my ultimate presumptions and perception of the project process as clear to the reader as possible to ease the understanding of my interpretations and actions throughout this project.

This chapter will follow the methodology steps as invented by Arbnor & Bjerke (2009) as this model illustrates the relationship between the various influences and fields of methodology.

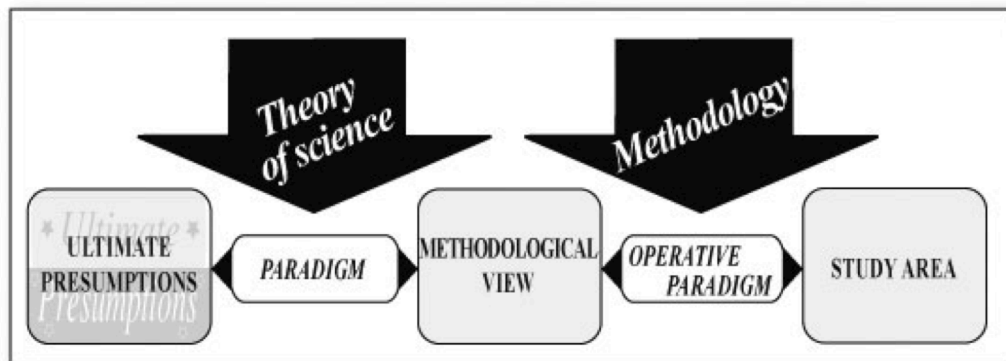


Figure 2
Source: Arbnor & Bjerke (2009) p. 15

But though I concur to Arbnor & Bjerke's (2009) conceptualization and visualization of paradigms in the context of the methodology and study area, I have chosen to discard Arbnor & Bjerke's (2009) paradigms and methodological views because I find them too wide and vague for the purpose of this research. This is why I in this project will use Burrell & Morgan's perception of a paradigm as well as choose from their range of paradigms. This approach contradicts the perception of Arbnor & Bjerke, which is why the structure of this chapter will not follow the direct flow shown in figure 2. This methodology chapter will be divided in two, one abstract part concerning the definition of a paradigm as well as the choice of paradigm, and a practical part concerning how knowledge is created in this particular context. In relation to Arbnor & Bjerke's frame of reference, 'ultimate presumptions', 'paradigm' and 'methodolog-

ical view' will conclude the abstract part, 'Research Paradigm', while the practical part retain its name.

To have a strong connection between the abstract and the practical is spelled out in the following quote:

"Methodology is a mode of thinking, but it is also a mode of acting. It contains a number of concepts which try to describe the steps and relations needed in the process of creating and searching for knowledge." (Arbnor & Bjerke (2009), p. 3)

2.1. Research Paradigm

This section of the methodology chapter will contain a definition of a paradigm, what a paradigm consists of, as well as the choice of paradigm and the reason for this.

2.1.1. Paradigm Definition

There is no definitive definition of a paradigm, and a few of the more acknowledged scholars engaged in this discussion are Guba (1990) and Arbnor & Bjerke (2009).

Guba (1990) defines a paradigm as *"...a basis set of belief that guides actions, whether of the everyday garden variety or action taken in connection with a disciplined inquiry."* (Guba (1990) p. 17) and Arbnor & Bjerke (2009) defines a paradigm as; *"A philosophical and theoretical framework of presumptive and guiding principles which are governing knowledge and the creation of knowledge, but which cannot be empirically or logically tested"* (Arbnor & Bjerke (2009) p. 424)

When comparing these two definitions it is clear that a paradigm is based on a set of fundamental presumptions and beliefs, which act as the basis for the choice of paradigm.

There are different approaches of how to break down a paradigm to make it more tangible. One of the more acknowledged ways to break-down a paradigm are the four factors of Ontology, Epistemology, Human nature and Methodology used by Burrell & Morgan (1979) and partly Guba (1990), but they clearly have a resemblance with the perception of Arbnor & Bjerke's (2009); conception of reality, conception of science, scientific ideal and ethical/aesthetical aspects which are build on Törnebohm's

perception of a paradigm. (Arbnor & Bjerke (2009) p. 15) These different classifications seek to answer the same question and for this specific purpose the four dimensions of Burrell & Morgan (1980) will be used;

Ontology; is a set of assumptions which concerns the very essence of the phenomena under investigation. Ontology is the highest level of abstraction in terms of theory of science, and one of the most important questions of ontology is whether the 'reality' to be investigated is external to the individual and whether 'reality is of an objective nature, as given out there somewhere in the world, or is the product of individual cognition, as the product of someone's mind. (Burrell & Morgan (1980) p.1)

Epistemology; this level is concerned with the grounds of knowledge. As in ontology this level also has a sharp distinction between the subjective and the. Question of whether it is possible to identify and communicate the nature of knowledge as being hard, real and capable being transmitted in tangible form, or that knowledge is in fact a softer more subjective, spiritual of transcendental kind based on experience and insight of a unique and essentially personal nature. (Burrell & Morgan (1980) p. 1)

Human Nature; Moving from the highest level of abstraction to a more tangible matter, the relation between human beings and their environment. As in the other levels the relationship between subjectivism and objectivism here also plays an important role, on one hand we have the voluntarist view, that man is completely autonomous and free-willed and on the other hand a determinist man who's actions are completely determined by the situation or environment in which he is located. (Burrell & Morgan (1980) p. 2 & 6)

Methodology; As the last level of the four, the methodology level is the most practically oriented. Each of the choices to be made above has a direct consequence on methodological nature; the way in which one attempts to investigate and obtain knowledge about the world. (Burrell & Morgan (1980) pp. 2-6)

As seen below these different levels that one choice of approach to ontology causes a certain choice of epistemology which causes certain choice of human nature and so on, as illustrated in figure 3.

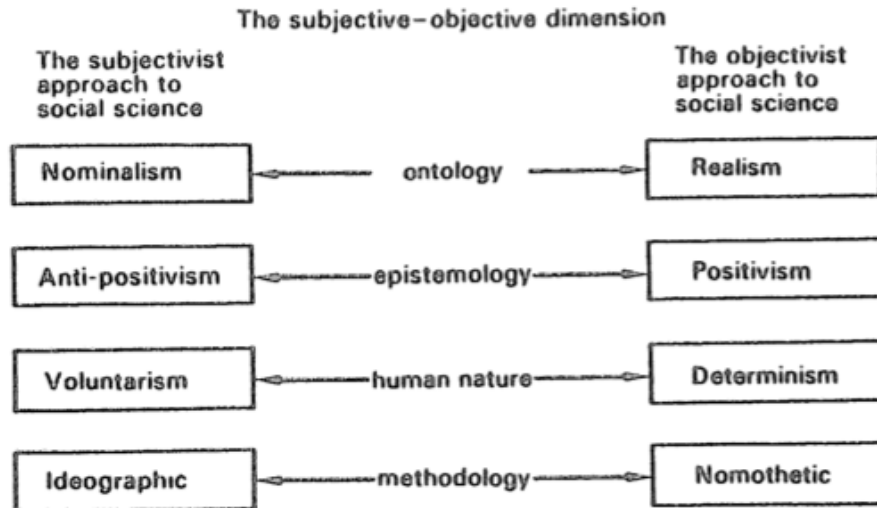


Figure 3
Source: Burrell & Morgan (1980) p. 3

In addition to the axis going from objectivism to subjectivism, Burrell & Morgan operates with one more axis, the axis of “sociology of regulation” and “sociology of radical change”. The gap between these two extremes, are as big as between objectivism and subjectivism. This axis deals with the individual researcher's attitude and approach to society as a phenomenon. It identifies the researcher by means of which normative beliefs he has on the research and the issues he believes should be investigated and examined.

The sociology of regulation draws the picture of a researcher that tries to find answers and reasons in the established society and tends to focus on explaining why society is and should be preserved as a whole and why it works.

The sociology of radical change draws the picture of a researcher that is in sharp contrast to the sociology of regulation. This researcher tends to search for the answer of radical changes, process changes and deep conflicts. (Burrell & Morgan (1980) p. 16-17 ; Fast (2001) p. 49)

The two axes together, create the four paradigms in figure 4.

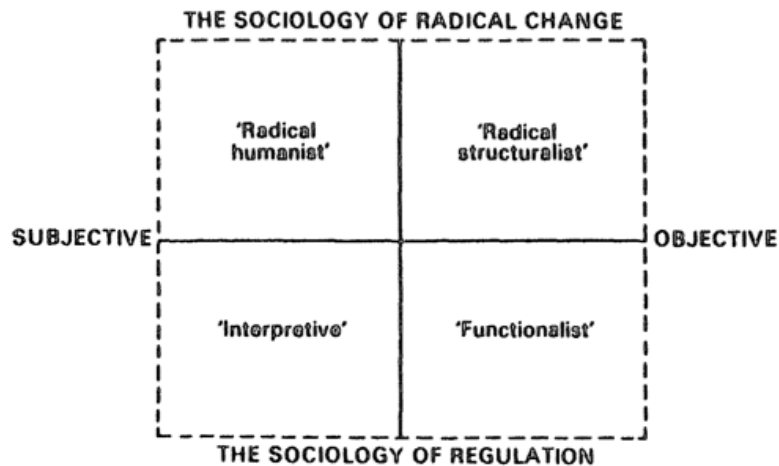


Figure 4

Source (Burrell & Morgan (1980) p. 22)

In the following section one of these paradigms will be chosen for the purpose of creating a rational frame for this project.

2.1.2. Paradigmatic stance

For this specific investigation I have chosen the Radical Humanist paradigm by Burrell & Morgan (1980). The reason for this specific choice will be spelled out in the review of this paradigm below. My reasons for choosing this paradigm in terms of ontology, epistemology and human nature will be explained further in this chapter, while how I practically come about the methodology will be explained in the *Operative Paradigm* (chapter 2.2.) where it belongs in the process

Ontology - The ontology of the radical humanist is characterized by nominalism. A nominalist has the assumption that “the social world external to individual cognition is made up of nothing more than names, concepts and labels which are used to structure reality.” (Burrell & Morgan (1980) p. 4) Nominalism believes that there apart from these names, concepts and labels are no "real structure" in the world, regardless of the individual, and what he makes of it. (Fast (2001) p. 48)

Epistemology – The epistemology of radical humanist is anti-positivistic. An anti-positivist sees the social world as relativistic, and the only way to understand that world is from the perspective of the individuals who are directly involved in the field of the study. The anti positivism does not acknowledge the stand point of the ‘observ-

er' since one the individual as a subject always will be a part of the investigated. (Burrell & Morgan (1980) p. 5 ; Fast (2001) p. 48) Apart of these standpoints another important aspect of anti positivism is that it rejects the belief that science can generate objective knowledge, at any level. (Burrell & Morgan (1980) p. 5)

Human nature – Much like the other levels of the paradigm, human nature is a product of more abstract levels. The human nature of the radical humanist is characterized by voluntarism. This means that the individual is not determined to do something but is autonomous and free-willed, and can do whatever regardless of situation and environment.

Methodology – The methodology of the radical humanist paradigm is categorized as *ideographic*. The ideographic approach stresses the importance of “*getting close to ones subject and exploring its detailed background and life history.*” The ideographic approach emphasizes the importance for the researcher to get ‘inside’ situations and involving oneself in its nature of what is being investigated. The researcher needs to let his object unfold its nature and characteristics during the process of investigating. (Burrell & Morgan (1979) p. 6) The concrete way these thoughts are practically used in this project will be spelled out in the operative paradigm.

2.1.3. Reason for paradigmatic stance

The four dimensions above explain the chosen paradigm. As stated earlier, Burrell & Morgan (1980) states four paradigms, so why this paradigm exactly? In order to choose the right paradigm according to Burrell & Morgan I need to look at the two axes of objectivism-subjectivism and ‘sociology of regulation’-‘sociology of radical change’. Since this project is exploring a rather unknown phenomenon, there does not exist a lot of data of this topic, which makes it very hard to quantify the findings, one of the fundamental methods of approaching objectivism. It is impossible to achieve objectivity in a topic like this, because my entire data field will contain statements from subjective individuals, as well as a relatively small amount of literature. If I chose an objectivist/positivism paradigm, I would not be able to approach objectivity because of the topic chosen. On the other hand, as stated several places in the ontology, epistemology and human nature of my subjectivist approach, acknowledges the fact that I have limited data sources and encourages me to go deep into these sources

and interpret across my data sources and create a synthesis. The choice of a subjectivist approach has eliminated two of Burrell & Morgan's paradigms and leaves me with 'the radical humanist' and 'the interpreter' which depends on the choice between 'sociology of regulation' – 'sociology of radical change', which is somewhat more complex. My investigation fits the sociology of radical change the best, since I want to understand a phenomenon, which at the moment has not found its place in international business-*'society'*. I do not seek to explain it in its present context, because there is none, as its context has yet to be identified. In the part of my problem statement where I present the context of my 'problem', I state a paradigm shift in international business that explains why SHM is a product of a radical change in international business. With this research I do not seek to regulate the existing world of international business but to challenge the contemporary. This choice of concurring to 'sociology of radical change' suggests the paradigm 'radical humanist', which I have chosen.

2.2. Operative Paradigm

This part of the methodology chapter seeks to operationalize and concretize the paradigmatic considerations of this project in particular. Since this project is based solely on secondary data, this part of the methodology will consist of data collection, the use of hermeneutics and validity and reliability issues, only.

2.2.1. Data collection

This section aims to cover the data collecting methods of this thesis. The data collection in this thesis is solely based on secondary data. Though a part of the secondary literature used to explain second home market literature will be based on direct quotes from key executives in relevant organizations with experience in second home market facilitation. This latter part will approximate primary literature, which is the best sources available, that can still keep the thesis from being confidential, a fundamental wish for me. I acknowledge the fact that, for the purpose of this investigation it would have ideal to use primary literature, but due to the circumstances and timeframe in that perspective, it has not been possible. But by conducting the official announcements through key executive personnel, the validity may rise to another level than else possible. It is of course also necessary to evaluate if any of these announcements

could have any interest for the company, and therefore be manipulative. Articles and other sources with this suspicion, is naturally deselected.

Secondary data is collected through professional literature, journals, articles as well as other theses written by me self and others. Due to the timeliness and novelty of the topic of investigation regarding SHM the majority of secondary data brought into this project in this field, is from journals and articles. However the secondary data collected regarding entry modes is from a broader palette of sources due to its history in international business. A comprehensive list of sources is available in the list of literature.

2.2.2. Hermeneutics

Hermeneutics was originally a concept used in relation to understanding and interpretation of biblical texts. Hermeneutics has since then been imported to the methodology of social science, and is concerned with the theory and interpretation of human action and the process of knowledge gaining in knowledge creating processes. Hermeneutics emphasizes the necessity of understanding in the perspective and context of which the actor or creator is in. (Bryman & Bell (2011) pp. 563, 715) According to Burrell & Morgan (2009) the school of hermeneutics is positioned according to Subjectivism/objectivism in the exact same field as my choice of paradigm.

As in many places of methodology, Arbnor & Bjerke operates with their own interpretation of this phenomenon. It is called *diagnose* and like the genuine hermeneutic circle, Arbnor Bjerke, divides the dynamism of the continuous learning spiral into three stages; *preunderstanding*, *understanding* and *postunderstanding* (Arbnor & Bjerke (2009) pp. 140-141)

“To Diagnose is a way to understand and interpret actors and situations through deeper insight, so that “tools/processes” can be developed that can increase self-understanding among actors and help them in their future actions” (Arbnor & Bjerke (2009) p. 139)

These three stages will be explained briefly below:

Preunderstanding is the first step in the learning process. The idea is that this step in creating the foundations to for understanding the field of information you are working

within. By Arbnor & Bjerke (2009) called a '*linguistic bridge*', but can be understood as a topic dependent codec.

Understanding is where the authors understanding it self comes about in s specific field. This understanding comes about on the basis of the preunderstanding, and the field of research.

Postunderstanding is the third stage of developing an understanding. This stage is an after-interpretive process, where the knowledge creators understanding is set in relation to the codec developed and rationalized.

It the process of making this project hermeneutics has played a large part. As the aim of this project is to "understand" (hence the problem formulation) the process has had an explorative character, and I did not have a thorough overview of this topic before the start. This is also emphasized in the matter that some companies actions and statements about SHM has published while I was in the process.

On one hand I have had a theoretical background about entry modes and internationalization in general that has evolved over time, and on the other hand a continuous learning of the term SHM. Every time a new perspective of entry modes has come to my attention, it has been challenged by SHM, Though the project is made in a chronological manner, the learning process and how my understanding has come about, is best illustrated by the hermeneutic.

In the analytical framework I have used the essence of an old say in the process of determining whether SHM can be regarded as an entry mode; *If it looks like a duck, swims like a duck and quacks like a duck, then it probably is a duck*. This is a very good illustration of one of the dimensions where hermeneutics has been used in my project. This old say is running the circle through three main times, for each of the questions, and naturally, in each of the questions there are a lot more revolutions of the circle in sublevels.

In this way the hermeneutic circle becomes a spiral of understanding that over time concretizes and expands my knowledge in this specific field, until I am as sure a I can be.

On the Even though Hermeneutics are normally associated with a very subjectivist approach my choice of paradigm within field of subjectivism legitimizes my use of the phenomenon.

2.2.3. Validity and reliability Issues

One of validity and reliability issues in this project comes about because of the exclusive use of secondary data. Traditionally in an explorative thesis where an “unknown” phenomenon is investigated, a data collecting methods like in-depth interviews are usually used, which allows wide and deep understanding of this one sample’s interpretation to the project. Such an approach will call for a much more subjectivist approach, and due to the timeframe of this particular project, as well as the access to companies with this type of information is very limited, this project rely only on secondary data. Some of the secondary data does however include interviews of high informants, but made by others. This fact does extend the frame of data considerably, and increases validity of the sources and the reliability of this projects output.

Another reliability issue of this project that needs to be addressed is that I am using a lot of theories, i.e. about entry modes where I use a lot of different authors perceptions of this phenomenon. This could be a problem since I am mixing and matching these different attributes across authors. But due to the fact that these entry modes are portrayals of real acknowledged ways of doing business in foreign countries, and the fact that they are used as general perceptions on a rather superficial level and the fact that they do not vary in the common factors, I see no reason why these theories should not be compatible to each other.

3. Limitations

This chapter will state the areas within the field of information given in the introduction, which will not be investigated in this project. These limitations are necessary to consider in order for the research to be manageable, and to ensure a reliable outcome and a realistic as well as relevant approach in terms of time, space and the ambition of the taxonomic level.

This project will be limited in three main areas as stated below;

- Firstly, the problem and the research question create the foundation for an analysis that deals with the two concepts; second home market and genuine entry mode theory. Therefore, the two concepts need to be identified more thoroughly which is done through solely theories and literature included in this report that is considered as the most relevant in relation to the problem and research question. This means that this thesis will be limited from explaining these concepts in any other context than relevant to this specific problem. This limitation is done in order to make the definition of the two concepts clear and simple, without adding deviating views and definitions, to ensure the prerequisite for a focused in-depth study of the two concepts and their interrelationship.
- Secondly, SHM is a relatively new phenomenon, and for this reason access to literature is limited and information from companies involved in the process of establishing a SHM is in short supply. So far there is only empirical evidence that companies have officially acknowledged China and India as countries applicable to the SHM strategy. The fact that this project is focusing on the BRIC countries is because of the fact that two of the countries are proven applicable and the other two countries share the same characteristics; despite the economic potential, many companies fear their relative geographical and cultural distance, and leaves these potential treasure troves unexplored. This does not mean that business ventures in Brazil and Russia – or even China and India – is guaranteed a bright future by using SHM, but the feedback on the some companies experience with the concept seems

promising. While this project is broadening the applicability of SHM to the rest of the BRIC's, the applicability is neither limited to these countries.

- Finally, this project will be limited from including cultural aspects in terms of direct analysis in the research despite the fact that culture may be an important topic in relation to internationalization. The necessity of establishing a second home market in a country like China may be assumed to be settled in some cultural aspects, due to the physical and psychic distances. Even so, this research will not include an in-depth cultural analysis of the Chinese culture. Nevertheless, the cultural aspects that are considered as relevant to discuss in relation to the problem and the research question will be included indirectly as a natural part of the analysis of the second home market concept.

4. Theories

This chapter will contain the literatures and theories relevant for creating the analytical framework, which will be used to analyze SHM in the analysis. More specifically, this chapter aims to align all relevant data required to answer the problem formulation in the smoothest manner. Every source is evaluated and the flow of the review should act as a build-up for the analysis, which will result in a smooth transition.

Firstly, the argued paradigm shift in internationalization will be reviewed to create the context of the traditional entry modes in today's internationalization patterns, and more specifically why there might be an "opening" in the current entry modes. Secondly, the different motives for internationalization in the most general sense will be reviewed from a variety of sources. This should create the foundation for what companies are seeking and aiming when they choose to internationalize.

Thirdly this section will contain a variety of different authors definition of an entry mode as well as an overview of the existing entry modes available in the business world today.

4.1. The Next Wave of Internationalization

By taking a look at the stages of the market entry decision process, there are a number of relevant factors for the company to consider.



Figure 5 – Market Entry Decision Process

Source: Stonehouse et al. (2005) p. 199

This model is a process of four dependent variables; two criteria that must be met and two choices that has to be made on the foundation of the outcome of the criteria. Given that the decision of whether or not to internationalize and the international search for opportunities both have a positive outcome, the company needs to choose which country to enter and how to enter it. This of course leaves endless possibilities dependent on motives and wishes for the companies' future, but there is a trend that has evolved over time.

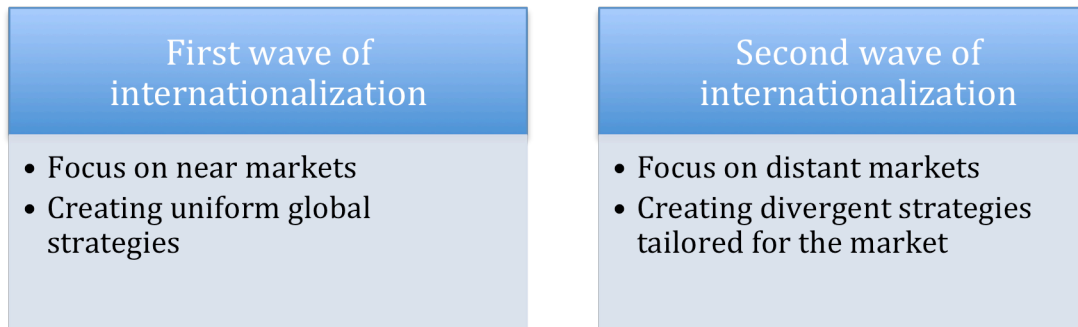
When looking at internationalization of companies in a historic perspective, it can be seen that at the time when i.e. Johanson, Vahlne and Wiedersheim-Paul were developing the Stages model, Uppsala model, etc., the companies they interacted with, were firstly internationalizing towards the nearby markets and gradually, as they became more confident, expanding their business towards the countries further away physically and psychically. (Johanson & Wiedersheim-Paul, 1975 ; Johanson & Vahlne, 1977) This traditional process of expanding to the closest market will in this thesis be re-

ferred to as “*the first wave of internationalization*”. During the first wave of internationalization a sort of mantra of this approach to internationalization was developed; ‘*Think global act local*’. This phrase has been given a lot of different meanings over the years, but in international business the meaning is widely defined as “...*the development of a global business strategy, where management operates under the assumption that a powerful brand name with a standard product, package and advertising concept serve as a platform to conquer global markets...This approach discourages diversity and puts a lot of emphasis on uniform strategies*”. (Paul (2000) p. 189)

Even today this is the internationalization approach of many firms, but now after an increasing interest in more distant markets has occurred, it seems like the tendencies of internationalization has changed somewhat. Where it earlier could take i.e. 40 or even 100 years from entering the closest markets to the most distant markets, it is for some new companies of the globalized world an immediate choice and even a part of the business plan; i.e. ‘born globals’. (Doole & Lowe (2008) p. 160) There are of course a number of factors influencing this change of interest. Firstly, the increasingly high buying power, large populations, and economic growth potential of some of the developing countries as the BRIC’s that were not anywhere near as interesting 50 years ago. Secondly, easier access to information concerning these markets, which i.e. the Internet has provided, contributes to make the choice much more transparent and manageable. Though entering a distant country has become much more manageable during the last decades, they are still in many ways radically different than the closer markets, and the large distances can be a challenge to some companies. It seems this requires some sort of change to the original approach to internationalization.

While the ‘first wave of internationalization’ has been the standard for most companies more or less since the dawn of internationalization, a new wave of internationalization seems to arise, which turns the attributes of the first wave upside down.

Earlier the focus of internationalization was limited to near markets and uniform strategies. Many companies now acknowledge the potential of the far more distant markets, such as the BRIC’s, which often requires a special attention. This new trend will be referred to as “*the second wave of internationalization*”.



As the buzz-phrase and first wave of internationalization mantra “*think global act local*” seems to be a perfect fit for attributes of the first wave of internationalization, its core meaning does not match, the attributes of *the second wave of internationalization*. Paul (2000) mention the recent change of the internationalization trends; “*Recognizing the diversity of local markets and seeing them as a source of opportunity and strength, while at the same time pushing for strategic consistency across countries seems to be a conundrum global companies face today*”(Paul (2000) p. 189) which supports the assumption of *the second wave of internationalization*.

Although growth is clearly desirable and despite the statement earlier that *emerging markets* provide firms the opportunity to grow rapidly, not all growth is necessarily good in *emerging markets* (Zhou *et al.*, 2013). According to Zhou (*et al.*, 2013: 474), an overemphasis on growth itself may result in an overextended unqualified ‘growth fetish’ which is acute in *emerging markets* because the manufacturing facilities, physical infrastructure, and other requisites that support growth “*are limited by underdeveloped market institutions*”. As distant markets such as the BRIC’s countries have become increasingly ‘popular’, an increased number of firms choose to internationalize towards these markets. This has lead to numerous articles where multinational companies lament their performance and change strategies, over and over again (Galvin *et al.*, 2010). Zhou (*et al.*, 2013) argues that *emerging markets* require a more profit-oriented approach than the aforementioned growth-oriented approach in order to sustain profitable growth. Hereby, it can be assumed that these markets require a different approach to internationalization than nearer markets, because while some are struggling to gain a proper foothold in the market, others have great success with different innovative strategies (Galvin *et al.*, 2010).

As Doole and Lowe (2008) state the relationship between the objectives and capabilities for the firm to enter a new foreign market and the market entry method chosen, it may be considered as a more complex and challenging process than anticipated (Lee & Carter, 2005). A disproportion between the company's objectives and/or capabilities and the market entry mode chosen can lead to unsatisfactory performance (Zhou *et al.*, 2013). Since this indication explains challenges within the existing market entry strategies, it has led us to conspire in unorthodox strategies; how should firms achieve sustainable, profitable growth? This further raises the question whether modern internationalization of multinational firms towards *emerging markets* requires another market entry strategy than the traditional approach to market entry modes?

The two waves of internationalization seem to be each other's opposites in some ways, which makes the less famous opposite to the renowned "think global act local"; "*think local act global*", the more interesting. Paul (2000) defines this bottom-up' approach as "*...the assumption that global expansion is best served by adaption to local insights and initiatives in different markets around the world. Diversity is looked upon as a source of opportunity, whereas strategic cohesion plays a secondary role.*" (Paul (2000) p. 189) This catchphrase seems to fit the 'second wave of internationalization' very well. Paul (2000) explains the characteristics "*think local act global*" as an approach that requires a significantly higher investment in infrastructure, but offers great possibilities for revenue generation, especially for companies who want to grow rapidly in the specific market. These factors are consistent with a specific pioneer strategy where diversity is the core; Second Home Market. If the 'second wave of internationalization' is synonymous with western companies entering the high potential BRIC markets, and those markets require some special tailored approaches to succeed, and that is exactly what Second Home Market can provide, then SHM may have a huge future potential.

4.2. Motives for Going Abroad

The wish to take business abroad in the first place is triggered by different motivations and stimuli to go abroad. (Czinkota et al. (2009) p. 217) These motivational and stimulatory factors are a vital part of the decision to go abroad, and different compositions of these factors may lead to specific entry markets as well as specific entry modes.

Before reviewing the entry modes, the steps prior to choosing an entry mode will be reviewed. This will complete the theoretical coverage of market entry decision process as seen in Figure 5 – Market Entry Decision Process. In the four-step model in Figure , the first three steps are all steps associated with the motives for going abroad, whereas the last is the choice of entry mode. In order to find out whether it is relevant to look into the more comprehensive comparison of entry modes, it is relevant to analyze whether the motives for international entry are even similar to the motives for engaging in implementing a SHM. Internationalization motives are divided in proactive motives and reactive motives according to the background of the motive. (Czinkota (2009) pp. 217-219 ; Hollensen (2011) pp. 50-56)

Proactive

Proactive motives are motivations that represent stimuli for firm initiated strategic change, and can be; profit advantage, growth opportunities, profit opportunities, technological advantage, tax benefits, economies of scale, exclusive information, and the ability to easily modify products for foreign markets, (Czinkota (2009) p. 217-219 ; Hollensen (2011) pp. 50-56 ; Doole & Lowe (2008) pp. 152-153)

Reactive

Reactive motives are motivations that represent a response to changes imposed by the outside world, i.e.; competitive pressures, overproduction, declining domestic sales, excess capacity, proximity to ports and customers. (Czinkota (2009) p. 217-219 ; Hollensen (2011) pp. 50-56 ; Doole & Lowe (2008) pp. 152-153)

All of these motivations draw the management of a firm towards some specific markets and specific entry modes once they are determined and act as the foundation for

the choices to be made. This means that the motives and the choice of country leads towards the choice of entry mode, which will be explained in the next section.

4.3. The existing Entry Modes

Hollensen (2011) defines *entry modes* as an initiative available for “companies that wish to take advantages of foreign market opportunities”, which is almost similar to the definition stated in Encyclopedia of Business in Today's World's; “An entry mode is the manner in which a company decides to enter into foreign markets.” (Gould (2009) p. 605) The latter is the definition there will be attributed to in this thesis. An entry mode is basically a way to categorize one company's appearance in foreign country. An entry mode can take form in different types, i.e.; Exporting, licencing, franchising, joint venture, wholly owned subsidiaries, etc.. (Gould (2009) pp. 605-606 ; Hollensen (2011) p. 334-385 ; Czinkota et al. (2009) pp. 215-239) Though the name might insinuate that an entry mode is strictly the way the company chooses to enter the country at the moment of entry, the choice of entry mode can be changed over time, so that a company can go from exporting to establishing an FDI, and the FDI will still be an entry mode. (Gould (2009) pp. 605-606)

In order to be able to find out whether SHM is an entry mode, the characteristics of the different entry modes needs to be identified. In this specific field inconsistencies, between different scholars perceptions of the modes, are very rare. But some scholars are categorizing the respective entry modes in various ways. (Young et al. (1990); Hollensen (2011); Czinkota et al. (2009); Doole & Lowe (2008) In order to create the best overview and for the purpose of facilitation of the analysis later on in the project, the categorization entry modes as used by Hollensen (2011) is chosen, because of its three main category model.

Hollensen (2011) uses the same entry modes as more or less every other author in the field of international business, but classifies the entry modes in three main categories. The three entry categories and their containing entry modes content can be seen below in relation to the increase of commitment as stated by Doole & Lowe ((2005) p 232-233) and Lee & Carter ((2005) p. 173).

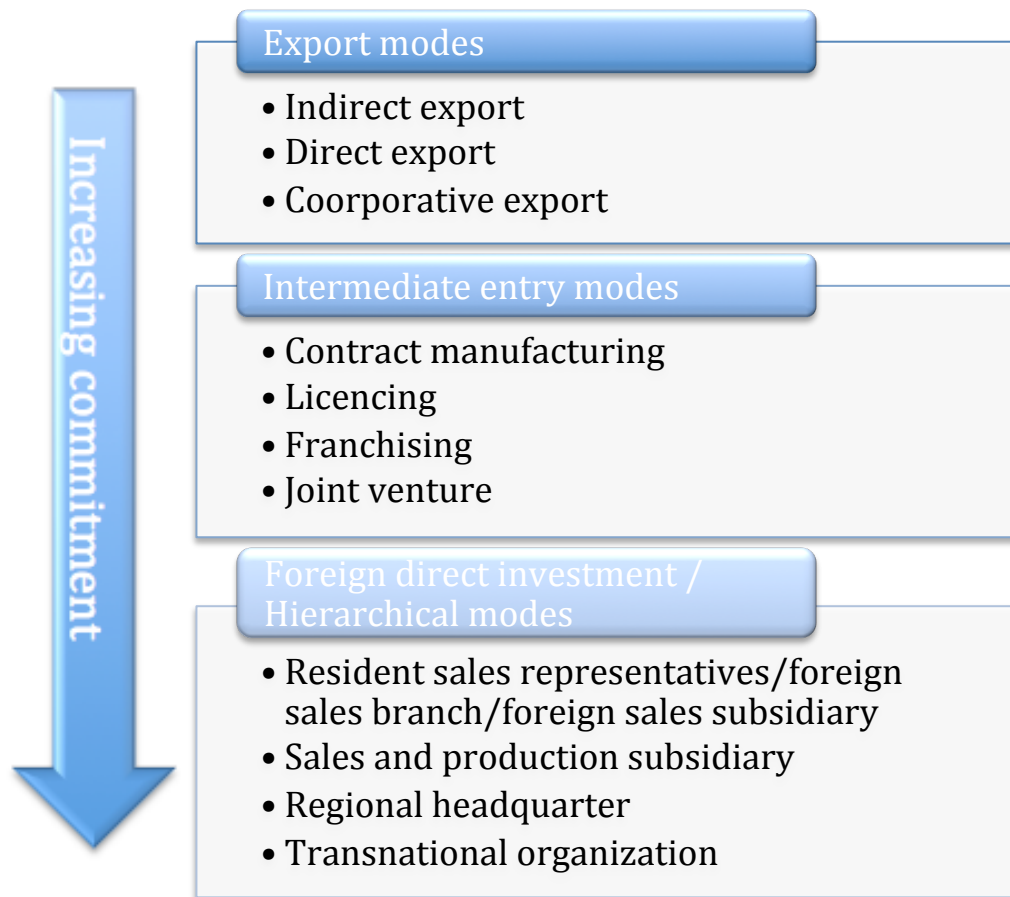


Figure 6

Source: Czinkota et al. (2009) ; Hollensen (2011) ; Doole & Lowe (2005)

Below is an overview of the each of the existing entry modes found in the three categories above. These entry modes will only be explained from the perspective of the companies who want to internationalize and not from the perspective of the companies that may be cooperating.

4.3.1 Export modes

The 'export modes' are the mode of internationalization that is associated with less risk. More or less any production company can export their product to foreign customers, but the downside of it is that it is not cost effective because of the use of 3rd party distributors, taxes, etc.

Indirect export – is the entry mode with the least international involvement. Indirect export is when the manufacturing company does not directly take part in exporting activities, but choose to outsource this activity to an independent domestic firm, such

as; an export house, broker, trading company, or piggybacking. Since the company is not involved in foreign sales of their product nor the global marketing at any level, they have very little control of their product in the foreign market, and though this entry mode is associated with low risk, this is where a potential risk can occur. When having no control of pricing, sales support, promotion, or the sales channels, the brand all-in-all becomes vulnerable to the intermediary's actions. With this situation in mind, lack of control is the only risk, which makes it a safe choice for, i.e. a SME with little or no international experience. (Hollensen (2011) pp. 335-337 ; Czinkota et al. (2009) pp. 222-225, 228)

Indirect export is characterized by; low degree of risk and control, low investment and market costs, low amount of administrative requirements, best in markets with large psychic distance, low degree of commitment, no trade barriers, low potential payback, and high speed of entry, (Hollensen (2011) p. 337 ; Czinkota et al. (2009) p. 238)

Direct export – is the export mode where a company is handling their exporting activities themselves, and is in direct contact with the importer or buyer in the foreign market. In this mode the manufacturing firm is usually involved in some of the critical elements of the *indirect export*, such as; physical delivery, pricing policies, as well as formal documentation. (Hollensen (2011) p. 341) This does lower the risk somewhat as the level of control increases, but it requires some more administrative work and research. Direct exporting is often the next choice of entry mode when the *indirect exporter* grows more confident in the foreign market.

Though the balance between the factors of direct export vary a bit from indirect export, it is not enough to change value in the factors because of the scale of reference in this review. Direct export is characterized by; low degree of risk and control, low investment and market costs, low amount of administrative requirements, best in markets with large psychic distance, low degree of commitment, no trade barriers, low potential payback and high speed of entry, (Hollensen (2011) p. 341 ; Czinkota et al. (2009) p. 238 ; Stonehouse et al. (2005) p. 200)

Cooperative export - is an entry mode that involves a collaborative agreement with a group of other firms in more or less the same position as you, a so-called 'export marketing group'. It works in the way that a number of companies with complemen-

tary product portfolios join their exporting to establish a wider product concept, which might be more appealing to a potential importer in larger retail chains. As they all develop and produce their own products, only the marketing and sales activities are joined. The control in this export mode is slightly smaller than in direct export because the group has to align strategies, but on the up scale, possibly easier market entry, higher potential payback, and limited administrative requirements.

Because of the scale of reference the factors have neither changed in this strategy. Cooperative export is characterized by; low degree of risk and control, low investment and market costs, low amount of administrative requirements, best in markets with large psychic distance, low degree of commitment, no trade barriers, low potential payback, high speed of entry, (Hollensen (2011) pp. 348-349 ; Czinkota et al. (2009) p. 238)

4.3.2. Intermediate Entry Modes

The intermediate entry modes are a group of entry modes where the company or the company's products are psychically present in the host country, while the ownership of the arrangement is not complete. In this way companies are still not running any major economic risks, but neither are they exploiting the complete potential of return nor control.

Contract manufacturing – is an entry mode where the mother company is in charge of R&D, marketing, distribution, sales & service of its products in the foreign market, while the production activities handled in the target company without any major investment since it is handed out to a firm within the target country. In this constellation the contractor usually pays a unit price and is risk free in that matter. This entry mode can be the right choice in a number of situations, i.e. low production costs in host country or if import costs are high because of high import tax. When engaging contract manufacturing it is important to control if the product quality meets company standards, on-date delivery etc. since these factors typically are handled by the contracted manufacturer and can have a large impact on the company's image. (Young et al. (1990) pp. 15-16 ; Hollensen (2011) pp. 356-358) ;

Licensing – is another entry mode in which the company can establish local production in foreign target markets without any investment. While contract manufacturing

is only contracting away the production, a licencing agreement is traditionally giving licence to production, marketing, sales & service and even in some cases R&D for the local firm. Czinkota et al. (2009) defines licencing in this way; *“Under a licencing agreement, one firm permits another to use its intellectual property for compensation designated as royalty...The property might include patents, trademarks, copyrights, technology, technical knowhow or specific business skills.”* (Czinkota et al. (2009) p. 228, 238) Licensing is typically used when a company want to avoid host company regulations, or when a company want to test the potential of a market and avoid any major involvement, investments, and time consuming administrative planning, but is also highly used in film, television, sports industries etc. for other companies to manufacture i.e. toys of specific characters. Licensing is further more a good entry mode for i.e. an entertainment company who has a very strong brand and a significant amount of fans, but where some of the merchandise is in a completely other industry that is highly expensive do develop. Licensing has the advantage of being a very low risk entry mode provided the licensing contract is conducted properly. It is a very time efficient entry mode and the investment and administrative requirements are at a minimum. The disadvantages of licensing is that control over the product is rather limited, though control can be increased in the licensing contract and the due to the fact that there are no or minor investments. (Czinkota et al. (2009) p. 228, 238 ; Hollensen (2011) p.358 ; Doole & Lowe (2008) p. 248 ; Young (1990) pp. 12-13 ; Stonehouse et al. (2005) p. 200)

Since this entry mode outsources all of the documenting and potential administrative governmental struggles to the licensee company, this mode of entry is an obvious choice for companies wishing to enter countries with significant trade barriers as well as a relatively high psychic distance. (Czinkota et al. (2009) p. 238 ; Hollensen (2011) p.358 ; Doole & Lowe (2008) p. 248 ; Stonehouse et al. (2005) p. 200)

Franchising is a particular type of licensing or technical assistance agreement. (Young et al. (1990) p. 13) But where a licensing agreement allows a fairly wide scope, a franchise is often a seen as a more complete concept. The franchisor sells the right to use the concept including i.e. pre-fabricated products, know-how, marketing, suppliers, brand, store interior & exterior designs and specific business procedures. The franchising entry mode has the advantage that it is a proven success in many oth-

er places one established, so no one can act unintended in the in a franchise since most aspects are tied closely to the concept. This increases the control and prevents the mother company from have the brand damaged in any way. The fact that the control is high due to the conceptualization has the benefit that it reduces the risk dramatically. (Czinkota et al. (2009) pp. 230-231 ; Doole & Lowe (2008) p. 243 ; Hollensen (2011) p. 361) Compared to licencing and the export entry modes it requires a fairly high amount of administrative requirements, because the franchisor company develops most of the business concept, though once the concept is fully developed it required very little work per franchisee. Some franchises have a very tight policy in terms of design of stores etc., which can create both control but also bureaucracy in terms of administration. Since the franchising company typically has no actual involvement in handling the potential trade barriers and governmental decision, it is a favourable entry mode in countries that are psychically distant to the home country of the. As soon as the franchising company finds an interested franchisee, the process of establishing an entry is relatively quick. (Czinkota et al. (2009) pp. 230-231 ; Doole & Lowe (2008) p. 243 ; Hollensen (2011) p. 361 ; Young et al. (1990) pp. 13-14 ; Stonehouse et al. (2005) p. 203)

Joint venture is characterized by shared ownership of a setup between two or more companies. Usually this constellation is chosen on the premise that the each of the joining companies shares the risk and equity, but also contribute with some sort of competitive advantage or value that the other(s) cannot. The advantage of this mode of entry is that by joining operations in a new country the companies involved will create a synergy. (Czinkota et al. (2009) pp. 234-235 ; Doole & Lowe (2008) pp. 253-254) Typically one company is present in the country of the other(s) interest, which can be very beneficial for all joining parties. The main reasons for establishing a joint venture is strict government policy or legislation, one partner's needs for another partners' skills or assets. (Czinkota et al. (2009) p. 235)

Joint venture can seem like a perfect compromise between risk and gain, but the fact is that with multiple companies working together with slightly different expectations to the outcome is a potential high risk of failure. Conflicts due to information asymmetry, managerial collaboration issues, risk of leaking competitive advantage, and creating a competitor. It requires a relatively large amount of administrative work to

plan the entry and discuss every move with the collaborating companies – this is also why it is a fairly slow start-up. If a joint venture is created successfully it will however provide a high learning potential with only half the investment of a Foreign Direct Investment. Joint ventures are highly used in countries with high import barriers and restrictions on foreign ownership, and a high psychic distance, because of the benefit of the local companies experience and customer relations. (Czinkota et al. (2009) p. 238 ; Young et al. (1990) pp. 17-18 ; Hollensen et al. (2011) p. 366)

4.3.3. Foreign Direct Investment

This section will review the entry modes associated with Foreign Direct Investment, which largely is the same as Hollensen (2011) refers to as ‘Hierarchical modes’. This type of entry mode is always wholly owned by the mother-company and involves no cooperation of any other company. Fundamentally an FDI can be created in two ways; A, an acquisition of a local company or a greenfield-investment. An acquisition obviously has the advantage that it already includes some sort of know-how, product line etc. and maybe even more importantly the benefit of eliminating a competitor. The greenfield-investment means starting from scratch, which indeed can be a time consuming affair. These two types of establishing an FDI are not entry modes as such, but should only be seen as a way to create one of the following FDI entry modes. (Hollensen (2011) pp. 393-394) As an FDI is a very wide term that includes every sort of entry in a foreign country that is wholly owned by the mother-company, it remains very open and contains a number of entry modes within its own entry mode. The four entry modes that are normally just referred to as FDI are explained below. To be able to distinguish easier between one-another, they are explained in a simplified value chain perspective. (Inspired by Hollensen (2011) p. 386) The colored and named functions are the functions locally present in the country of interest. The other functions are of course present somewhere else in the world, typically the home market.

Resident sales representatives/foreign sales branch/foreign sales subsidiary

In this type of FDI the company places only a sales function locally. This means that the only link of the value chain locally present in the market of interest is “sales & service”; while the rest of the links of the value chain is to be found in the home country or another foreign market.



The reasons for choosing this type of FDI are that it creates a greater autonomy and responsibility to these local subunits and they are closer to the customers than the alternative traveling sales representative. On the economic oriented advantages the

establishment of a subsidiary in a country creates the possibility of a tax advantage. This can be a very lucrative move for companies in high-tax countries, i.e. Denmark. Relatively low risk in comparison to the other FDI's, while control is at high level. Potential payback is at a higher level than the majority of the other export and intermediate entry modes, but not as high as the other FDI's reviewed below. The timeframe of establishment, administrative requirements, and investment are all at a medium level compared to the other entry modes but low in comparison to the other FDI's. As for any FDI's they are recommended for markets with low psychic distance.

On the negative side, if the product proves to be successful, a foreign sales subsidiary might be cheaper than an agent or traveling sales representative in the long run, and for protectionist countries it can be a timely affair if even possible to get permission to create a subsidiary. (Czinkota (2009) p. 238 ; Hollensen (2011) pp. 387-388)

Sales and production subsidiary

In this type of FDI, the company has chosen to establish both production and a sales function locally. This means that the only part of the value chain that is not present is R & D and marketing.



Where as a sales subsidiary alone, may be regarded as pulling money out of the host country, establishing also a production facility may be regarded as more of an investment and may be easier to accommodate by local government. This FDI also has the benefit if the product is predicted a long-term success, as quoted from Hollensen (2011); *“Generally, if the company believes that its products have long-term market potential in a country that is relatively stable politically, then only full ownership of sales and production will provide the level of control necessary to meet the firm’s strategic objectives fully”*. (Hollensen (2011) p. 389) The typical reasons for choosing this FDI for entry are; to avoid government import restrictions of goods, to save costs by situating production facility in a country with cheap labour, raw materials etc., to

protect existing business against restrictions by opening local production facilities, and to obtain new business by being locally present which demonstrates solid commitment in the market and makes the company seem reliable in the industry. (Hollensen (2011) p. 389)

Opening a solely a sales facility in a country can be a task that requires a significant amount of planning, commitment, and investment, but also opening a production facility multiplies these factors this dramatically. A production facility requires a large investment in terms of administrative requirement and funds. Because of the high level of administrative requirements it is also a time consuming entry mode compared to the other entry modes so far. A sales and production subsidiary is most applicable in countries with relatively low trade barriers, but can also be the solution to these barriers, if import is practically impossible dependant on the country of interest. A sales and production subsidiary is also considered a fairly risky mode of entry because the high level of commitment makes the presence vulnerable to government regulations and change in market requirements because of the significant investment. This is partly the reason for sales and production subsidiaries being recommended for market with low psychic distance (Czinkota (2009) p. 238)

Regional headquarter

In Hollensen's (2011) review of regional headquarters he differentiate between two approaches; a regional headquarter being only the down stream half of the value chain, and what he calls the "Fully Fledged Insider" which contains a complete value chain locally present. To be able to differ between the two types of regional headquarters the first will be referred to as "downstream regional headquarter" and the latter as "Fully Fledged Insider".

In the *down stream regional headquarter*, the mother company have their R&D and production elsewhere while having a local marketing and sales function to perform only for region constituted.



This FDI is a good entry mode if i.e. it is important to the value of the product that it is produced some where special, or the product cannot be made locally due to government regulations, law, labour costs, etc. Of course it is not profitable to have production in every single country, due to economies of scale and to important markets, where no production is needed. A down stream regional headquarter can be the right solution. A down stream regional headquarter does not traditionally require major investments unlike R&D and production facilities, which makes it a cheap way to be very close to the market. (Hollensen (2011) pp. 391-392)

The Fully Fledged Insider has a complete value chain present locally. This means the commitment in the markets is more or less as high as it gets in terms of possibilities in within the value chain. As Hollensen (2011) explains; “*At this stage the firm has all the necessary functions in the region to compete effectively against local and regional competitors. At the same time, the firm can respond to regional customers needs.*” (Hollensen (2011) pp. 391-392), so presence of a complete value chain provides the prerequisite for a local or regional success.



Since the regional headquarter (Fully Fledged Inside) has both up- and downstream of the value chain, it makes the company able to respond to special local demands. Products that are developed and produced locally for local needs, have a competitive advantage, and further more it can have positive side effects such as; cheap labour, good foundation for close government relations, lower taxes, etc. (Hollensen (2011) pp. 391-392) The fully fledged insider will focus only on the region or market of its presence and operate almost like a separate company. This is currently one of the absolute most expensive and risky ways to enter a market, but the potential return is also at the highest possible.

Transnational organization

Hollensen (2011) regards the transnational organization as the “final stage of internationalization”. Technically, the transnational organization has every part of the value chain present locally, but in contrast to the “Fully Fledged Insider” the transnational organization attempts to coordinate and integrate operations across borders. Functions like R&D are typically common and frequent exchange of HR cross-border in order to achieve cross border synergies.



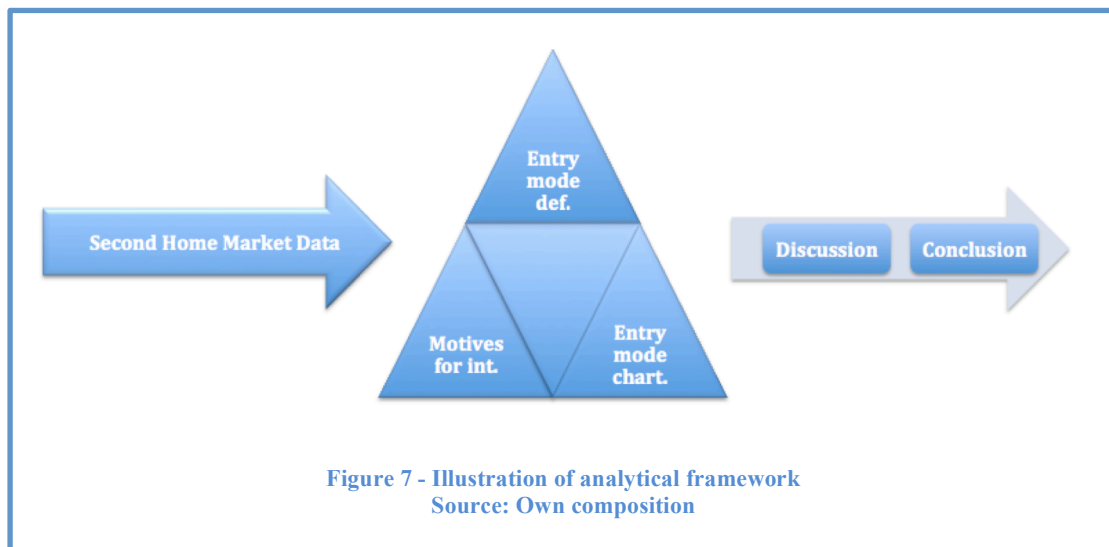
Hollensen (2011) mentions that a transnational organisation has to be able to understand when; *a global Brand makes sense or when local requirements should take precedence*” and “*when a local idea has global potential*”. This constellation allows some of the company’s products to be sold in some markets and other products to be sold in some other markets. There might be overlaps but there are not necessarily.

Very few companies worldwide have reached this level of internationalization. (Hollensen (2011) p. 393) This FDI is affiliated with almost every benefit possible, but it does also require very large investments. It is a very slow way to enter a market and it does require very much administrative work. Unlike many other FDI’s, this may work in markets where the psychic distance is high compared to the home market.

5. Analytical Framework

This chapter will define the analytical tools based on the theoretical framework of which SHM will be analyzed through in the analysis. This analytical framework is divided in three parts. Firstly assessing how an entry mode can be defined, secondly the motives for going abroad, the previous step from choice of entry mode in the internationalization decision process, and thirdly extractions from the characteristics of the existing entry modes into a set of interdependent attributes which characterizes a specific entry mode.

As the definition of an entry mode is assessed not clear enough to determine whether or not something is an entry mode or not, the motives for internationalization, as well as the entry mode characteristics, play a central role in order to create an understanding of what is an entry mode and what is not.



In the figure 7 each of the analysers are mentioned in the context they will be presented in in the analysis. The SHM data will be pushed into this ‘prism’ of entry mode relevant variables, and through that create the foundation to answer the problem formulation.

The analytical framework is build upon the fundamental understanding of triangulation¹, and will test the phenomenon three conditions. In order to find out if SHM is in

¹ Note: Not the methodological understanding.
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fact an entry mode, the data of second home market will be tested through three factors. A definitional factor, a factor based on the motives of internationalization, and a factor containing the characteristics of an entry mode. If the data of SHM fits these factors, SHM can be regarded as an entry mode, much like the old say; *“if it looks like a duck, swims like a duck and quacks like a duck, then it probably is a duck”*. This analytical framework seeks not only to provide the knowledge of whether or not SHM is an entry mode, but seeks further more to clarify if it is similar or different than existing entry mode, and further more there it is positioned in the process of internationalization if it is an entry mode.

The three analytical factors will be reviewed below.

5.1. Entry Mode Definition

Through the theory chapter of this project some author's perception of the term 'entry mode' were reviewed. The quote *“An entry mode is the manner in which a company decides to enter into foreign markets”* (Gould (2009) p. 605) is how an entry mode is perceived in this project. The definition of a SHM will be compared to this abstract definition to create the foundation for investigating the problem further on in this thesis.

5.2. Motives

The motives for internationalization are one step prior to the choice of entry mode in the internationalization of firms. One could say that if there were no motives, no one would want to internationalize and entry modes would be of no use. A certain motivation for internationalization calls for a certain entry mode.

This actually means that if set of changing actions made in or towards a foreign market generates or facilitates a competitive advantage, it contributes to the believe that it is an entry mode.

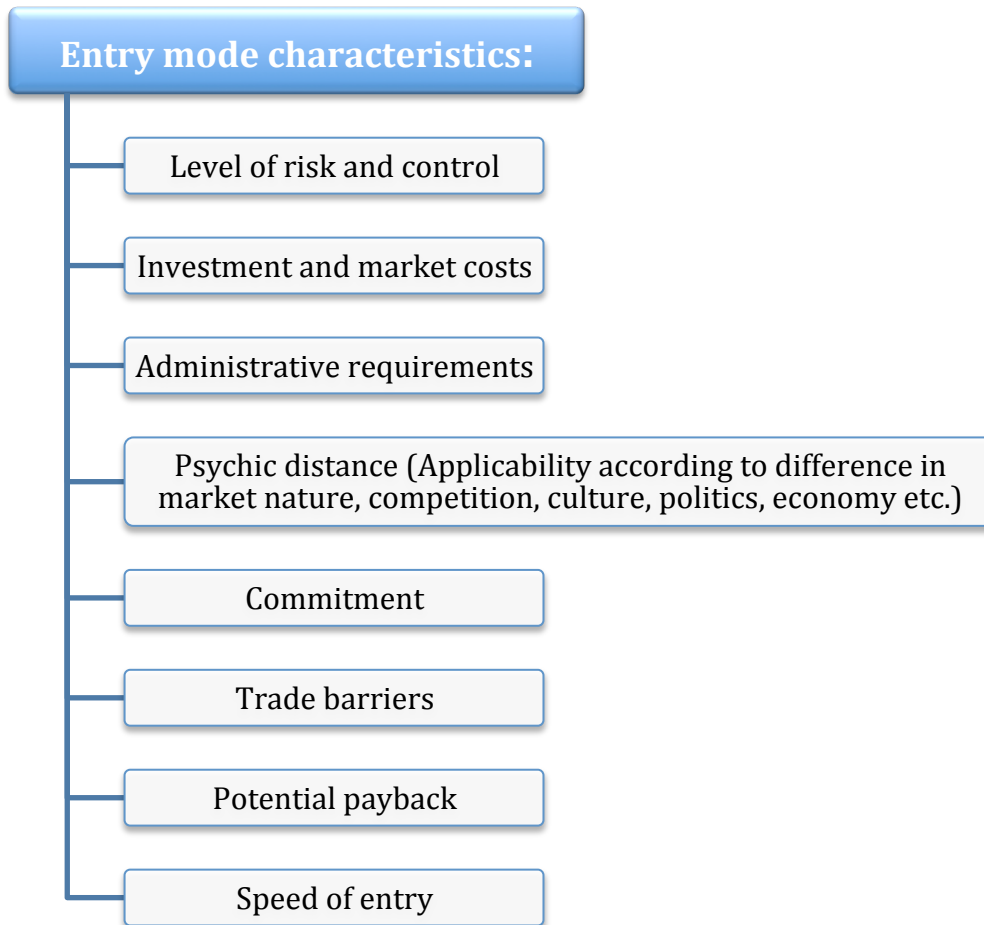
Proactive	Reactive
<ul style="list-style-type: none"> • Attractive profit potential • Attractive growth potential • Technology competences • Unique product • Foreign market opportunities • Economies of scale • Tax Benefits • Increase global marketshare • Public policy programmes for export promotion • Foreign country regulations • Low cost of labour 	<ul style="list-style-type: none"> • Competitive pressure • Domestic market is too small and saturated • Overproduction • Excess capacity • Unsolicited foreign orders • Extend sales of seasonal products • Proximity to international customers • Opportunity to reduce inventories • Favorable currency movements • Opportunity to increase number of country markets and reduce the market-related risks • Declining domestic sales

As the motives themselves are not going to answer the question of whether or not something is an entry mode alone, they will only provide the argument of its own specific field and relay on the other factors in cooperation.

The big question is, does it serve a specific relevant purpose for a company in international business by facilitating one or more of the factors above?

5.3. Characteristics of an Entry Mode

As seen in the previous chapter, there are numerous entry modes, some more narrowly defined than others, but they all have different characteristics. In order to be able to analyze whether SHM in an entry mode later on in the project, the characteristics of the existing entry modes are extracted and summarized in eight main factors. These factors are based on extractions from the factors of chapter 4.3. and will be supported by the factors found in Czinkota et al. (2009) p. 238 “*Comparison of conditions of implementation, advantages and disadvantages of various entry modes*”, the model; “*Factors influencing the choice and importance of market entry mode*” in Lee & Carter (2005) p. 174, as well as Hollensen (2011) p. 322.



The idea is that every entry mode can be explained from this set of factors, since they are all factors influencing the choice of entry mode.

Some of these factor's impact and influence on the choice of entry mode seem obvious, but for clarity reasons they are all defined briefly in the section below.

Level of risk and control

Some entry modes are riskier than others, and the level of risk seems to follow the level of control in the way, that if an entry mode is coherent with high risk, the level of control over the subsidiary increases, so it in a way creates a balance. Risk is a product of many of the other barriers; investment, trade barriers etc. A company should consider the risk they are willing to take before choosing an entry mode. For some companies control over the international adventure is very important. Some decisions can be crucial for the brand, and some cooperating companies might not understand,

and wish to turn the branding in another direction. (Czinkota et al. (2009) p. 238 ; Lee & Carter (2005) p. 172)

Investment and market costs

Investment and market costs vary between the different entry modes. A company should always consider their funds and size as well as the risk when investing in another country. In the worst case a company could risk going bankrupt if a huge international investment fails. If funds are short and relatively cheap entry mode might be the better choice. (Czinkota et al. (2009) p. 238 ; Lee & Carter (2005) p. 172)

Administrative requirements

While some entry modes require very little administrative work and planning to initiate, others require many years planning even before implementing. 'Administrative requirements' does also cover HR and lobbying for local government relations. HR for hiring the right personal and making sure their skills are sufficient with the company standard, and lobbying work for relevant government relations, as well as other actions to take in such a scenario that is directly or formally affiliated with opening a subsidiary in another country.

Psychic distance (Applicability according to difference in market nature, competition, culture, politics, economy etc.)

The term '*psychic distance*' was first introduced by Beckerman (1956), as a multi dimensional factor to explain transnational companies international trading behavior. Since the term is a gathering of many other factors, it will be explained more thorough than some of the factors which meanings are more obvious.

Through time multiple scholars have evolved and used this concept², but the concept's real breakthrough for international business came in multiple publications by Uppsala Scholars Vahlne, Johanson, Hörnell & Wiedersheim-Paul during the 1970's investigating the Swedish companies internationalization patterns, inventing the stages model as well as the Uppsala model. (Hörnell, Vahlne & Wiedersheim-Paul, 1973;

² i.e. Linneman (1966)
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Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975”) The Uppsala scholars used ‘psychic distance’ to explain the patterns of companies internationalization. In order to minimize risk, companies would enter psychically close markets first and gradually move to psychic distant markets as market familiarity increases. (Johanson & Wiedersheim-Paul, 1975)

The term psychic distance is to some researchers synonymous with the term ‘*cultural distance*’ as explained by Håkanson & Ambos (2010) “*However, in the latest two decades of IB research the distinction between ‘psychic distance’ and ‘cultural distance’ has become increasingly blurred*”

One of the most renowned ways to determine the difference between one country and another in an international business perspective; the cultural distance brought by the cultural dimensions of Hofstede (1980). But as the cultural dimensions are a product of only five factors, Håkanson & Ambos (2010) criticize the cultural distance of Hofstede’s cultural dimensions, when used alone to measure the “distance” between countries; “*used in isolation, cultural distance – as measured by differences along the cultural dimensions measured by Hofstede (1980, 2001) – is a poor predictor of distance perceptions.*” (Håkanson & Ambos (2010) p. 196.) While this is only Hofstede’s perception of cultural distance as a term, Kogut and Singh’s (1988:430) claim that “*cultural distance is, in most respects, similar to the ‘psychic distance’ used by the Uppsala school*”

Psychic distance is by Hörnell, Vahlne & Wiedersheim-Paul, 1973 defined “*factors such as differences in language, culture, political systems, etc., which disturb the flow of information between the firm and the market*” (Vahlne and Wiedersheim-Paul (1990) p. 13). During the years, the term has been developed further to contain a broader palette of factors to secure a more nuanced and accurate picture of the psychic distance between one country and another. One of the most recent investigations of the psychic distance concept is Håkanson & Ambos (2010) who largely join the Uppsala scholars’ perception of the concept and consider psychic distance as a multi-functional factor: “*influenced by a range of cultural, geographic, political and economic factors.*” (Håkanson & Ambos (2010) p. 195) Instead of having a factor for

each of these country-specific elements, this term summarizes what I need in this particular area. For specific international psychic distance scores, please see Appendix 1.

Commitment

Market commitment is how much time, money, effort, and progress the company puts in to the local market. Market commitment can also *“be indicated by the size of the investment in the market or the strength of the links with the foreign markets, i.e. the degree of vertical integration.”* (Johanson, Vahlne (1990) p. 13)

Trade barriers

Some markets are very hard to enter. Some of the reasons could be some countries protectionist approach to trade, like import taxes such as seen in China in import luxury goods on up to 50%. (Jing Daily (2011)) Another example could be trade agreements as seen inside the EU, which makes it hard for some industries from outside the EU to trade with countries inside the EU. (Lee & Carter (2005) p. 172)

Potential payback

Cooperating companies, expensive distribution, and purchase of supportive services from other companies reduce the payback because every link wants to make some profit. In some examples outsourcing is the right choice. If the ideal conditions are present, some entry modes are much more profitable than others. (Lee & Carter (2005) p. 172) A low potential pay back should not be seen as no possibility of success, but rather that the payback with set success would have been better exploited by another entry mode. Normally the more control seems to create the potential for a larger payback, which should be taken into consideration when internationalizing.

Speed of entry

Because some entry modes require more planning in terms of lobbying, finances, human resources, contracting etc. some entry modes are quicker to engage than others. Some products i.e. High Tech can be very vulnerable in terms of time, since their life



cycle is rather short. For high tech products a fast entry mode will be a favourable choice. (Czinkota et al. (2009) p. 238 ; Lee & Carter (2005) p. 172)

This concludes the literature review. All the relevant literature has no been reviewed, and prepared for the analysis. The analysis will be divided into the three research questions in order to create as focussed an answer as possible.

6. The Second Home Market Concept

This chapter will concern the central phenomenon of this thesis, Second Home Market. This will provide all available data for the purpose of answering the research questions through the analytical framework.

The exact origin of “Second Home Market” is somewhat uncertain. The first traces of the term “Second Home Market” in the context of international business is found in an interview with Danfoss CEO, Jørgen M. Clausen, made by William E. Hoover Jr. in 2006. (Hoover (2006) pp. 85-93) Here Jørgen M. Clausen states a radical change of their operations and aspirations in China in 2004, which was the start of making China their Second Home Market. Since 2004 several companies has officially initiated the process of making China their Second Home Market a part of their global strategy; Dutch IT company Irdeto Access (2007), American electronics manufacturer General Electric (2008), Danish pump manufacturer Grundfos (2009), Swedish car manufacturer Volvo (2011), American cosmetics company Estée Lauder (2011), and lastly Grundfos as the only known so far making India their Second Home Market too alongside China (2013). (Galvin et al. (2010) p. 12 ; Stublely (2008) p. 16 ; Whiteout-press.com (2011) ; Kim & Krolicki (2011) ; TREFIS (2012) ; Madhavan (2013)). The only concrete literature examining Second Home Market is made in 2010 by McKinsey’s China editorial. This article was published in McKinsey Quarterly, an international business magazine, stating their interpretation and experience with Second Home Market in China. (Galvin et al. (2010) pp. 1-18)

Since SHM is a quite new term in the world of international business, fairly small amounts of data is available. This section aims to approximate as nuanced a picture of SHM as possible with all available data to create as good a foundation for comparing SHM to the existing entry modes.

6.1. What is a Second Home Market?

Second Home Market is not directly categorized in the field of internationalization (hence the project problem statement) and since it is not an “acknowledged term” in international business, it is open to everyone’s interpretation, which means that there are minor uncertainties in the definitions. The closest formulated definition of a SHM

available is quoted from Grundfos Group President and CEO, Carsten Bjerg, as; *“We classify a particular market as our second home market if we understand the market and know what it takes to be successful there as much as in our historical home market. We make larger investments, increase our capacity, widen our dealership network, strengthen the brand and make products specific to local needs so as to increase our overall business from the country.”* (Madhavan (2013) p. 1) This definition is the clearest definition of a SHM available. In an interview in 2006 Danfoss CEO stresses the importance in a SHM by stating that; *“Everybody knows that we are of Danish origin but we would like to have a Chinese face”*(Quote: Jørgen M. Clausen in Lawrence (2006) p. 21). Exactly this point is important; to have a face or an identity that matches the nationality of the host country in a SHM.

In short SHM is a revolution of the traditional way of acting in a foreign, typically distant, market where the company is operating. The whole mantra of SHM is to treat the market of interest with as much commitment and seriousness as you would with your home market. The problem is basically that many western companies are treating high potential markets like the BRIC's as their near markets or an interesting side bet, instead of giving it the attention that is proportional to its potential and acknowledge that they are different in many ways. (Galvin et al. (2010) p. 1 ; Håkanson & Ambos (2010) p. 202) Basically, *“The key is to review the entire business model, understand where (i.e.) China's impact will be greatest, raise the relevant aspirations accordingly, and then measure them rigorously”* as Galvin et al (2010) explains.

SHM is often synonymous with local product development or adaption for the local market, but dependent on the company and the industry for some it is much more of a revolution. (Galvin et al. (2010) ; Cantor (2012) ; Hoover Jr. (2006)) In the following section the attributes of a second home market will be thoroughly explained

6.2. Attributes of a Second Home Market

The content of a SHM varies, but according to Galvin et al. (2010) there are five parameters where a company should step up its facilities if the wish is to create a SHM; Technology and product strategy, Marketing, Operations, Human resources, and Government relations. These five parameters is presented in their own model, but the arti-

cle's company examples states that a the role of the management is as important a parameter as the five others, which is why it is brought into this model.



These six parameters should be looked upon as suggested potential action-areas; areas where a company who wishes to establish a SHM should review their current global strategy. The following section will contain a thorough review of each action area.

Technology and product strategy

The first potential action area is “technology and product strategy” and this factor is apparently one of the most important in the making of a SHM, according to the articles written of companies’ press releases and actions. Many articles are focusing on the product development for the particular local market in the host country, and in many cases these new products will solely be introduced in local markets, which calls for a local R&D facility that understand the local requirements. (Galvin et al. (2010) pp. 4-5 & 14-15 ; Cantor (2012) ; Scandinavian Companies & Market (2013) ; Hoover (2006) pp. 89-91 ; Kim & Krolicki (2011))

The current product line may be suitable for markets close to the home market but this is far from a necessity on the Chinese market. The research and experience of Galvin et al. (2010) shows that Chinese consumers in some segments are willing to pay a premium for products of a higher quality-level, but any customers are more focused on acquisition costs instead of quality and total costs of ownership. In order for high-

end companies to respond to this product conception, they will have to run a parallel cheaper version. In this way the company is able to compete with local equivalents, and furthermore use the technology available from their High-end manufacturing, which may create a competitive advantage. (Galvin et al. (2010) pp. 14-15 ; Hoover (2006) pp. 90-92 ; Kim & Krolicki (2011))

Marketing

Marketing as practiced in the west is an emerging concept in a country like China. (Galvin et al. (2010) p. 15) The brand value is in many cases not as strong in the BRIC's as it is in the western world, and companies have to be careful not to overestimate it. Many multinational companies, including leading ones, erroneously segment the Chinese market as if it was a developed market, and they are amazed of how far their assumptions are when they make a deeper customer research. China truly is a market of its own and as well as the products may need adaption, the segments may be different than in the home market, and therefore the consumers need to be approached differently. This is why local marketing departments are necessary employed by local marketing personal with knowledge and experience in branding in this specific part of the world. (China Daily (2013) ; Trefis (2013) ; Cantor (2013) ; Galvin et al. (2010) pp. 15-16)

Operations

The *operations* include distribution, sales & service, manufacturing & supply chain management. Due to geographical size of the BRIC's, *distribution* is often sourced out to a third party distributor to keep costs down and ease the process all in all. (Galvin et al. (2010) p. 16) But this may well be a disservice since it is common practice for Chinese companies to underinvest in service and quality, which in the end makes a bad impression for the customer. Third party distributors and service providers in general may not be the wrong answer, but quality needs to be monitored. In terms of sales & service it is important that the aftersales service is at the level or higher than your customers would expect. The aim is to make the SHM customer service centers as close to the customers as you customer service centers are in the home market.

Along with R&D facilities, production companies also need to have local production facilities due to protectionism, import taxes, etc. In order to sustain as well balanced supply chain management in China as elsewhere in the world. In order to make this possible the same practices need to be undertaken in the SHM as would to maintain a good flow in production in the home market. This could mean investment in more advanced IT systems and moving experienced executives from this field to the SHM.

Human resources

The latter point leads us to the importance of *human resources*. If one expects the same performance from the i.e. Chinese staff in terms of both quantity and quality, one should give the Chinese staff the same prerequisites to be perform equally good. This can be done by i.e. offering professional training programs or/and hiring as qualified staff as one would in a home market. A local HR department is in many cases the best way to solve these problems, and make sure that the right people and the right amount of people are at the right spots in the organization, just as HR should be in the home market. It is important to take the HR as serious as in the home market in order to expect the same output. (Hoover (2006) pp. 90-91 ; Galvin et al. (2010) p. 17)

Government relations

The Importance of government relations is not spelled out in Galvin et al. (2010) as the other parameters, but is mentioned in sporadically as well as seen in various articles concerning SHM. (Galvin et al. (2010) ; Scandinavian Companies & Market (2013) ; Madhavan (2013))

Larger commitment over a long period of time is necessary to send the government a signal of sustainable interest in the country in many ways, and a payback to the host country. This factor is very specific on China, and this exact dynamic is called 'guan-xi'³. If you perform good 'guanxi' towards government persons over long period this will mean good and close governmental connections, which makes it easier to over-

³ A Chinese relationship phenomenon build on respect, retaliation of favors and gifts
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come governmental issues that is often seen in a normal FDI. Though this factor is very China specific, similar actions will have to be made in similar emerging markets.

Management

The company's top managements perception and actions regarding SHM is another part of crucial significance, after all they are the ones taking the big decisions and the company's public face.

If i.e. India is so important to the company's future that the management has decided to make it a SHM, it is important that this importance also is reflected on the a number of areas; The time management spend in India, their visibility into the company's operations in India, the number of Indian representatives in the company board, and Indian top executives. All of these areas have to be at level of the importance of ones SHM. One solution to a part of this issue can be to hire a SHM CEO. Dutch IT Company, Irdeto Access, has established a Chinese headquarter and hired local CEO to be in charge of all of the China operations and be the public face of the SHM. In this way he can manage the governmental relations mentioned in the previous factor in a respectful manner and report directly to the CEO and board. (Scandinavian Companies & Market (2013) ; Galvin et al. (2010) p. 9-10, 12-13)

Another crucial task for the top management and probably one of the most important actions in establishing a SHM in general, is setting up goals both quantitative and qualitative. To often a laissez-faire attitude to how much the company will grow in a specific time is not build on market research because the market is growing by i.e. 15% pr. year. But an annual domestic growth of 15% could mean the loss of market share, if the specific industry is growing with 40%. Therefore a well-founded set of goals need to be set up in order to maximize the operations, just as most large companies would in a home market. (Hoover (2006); Galvin et al. (2010) ; Kim & Krolicki (2013) ; China daily (2013))

6.3. Second Home Market in a Value Chain Perspective

As experienced in the previous chapter, establishing a SHM does require some functions to be present locally. This section is based on the attributes of SHM as well as a simplified version of the value chain. (as seen in Hollensen (2011) p. 386)

In the section; ‘technology and product strategy’ in the description of SHM, it is stated that a SHM should have its own R&D department locally to develop products for the home market, and a production facility as well to produce locally to gain benefit of potential tax benefits, import taxes, as well as other trade barriers. This concludes the presence of local *upstream* functions of the value chain, but looking at the *downstream* is not much different.



Having both local marketing departments as well as local sales, they to complete the down stream part of the value chain as well. This means that A SHM requires a complete local set of the primary activities of the value chain to operate.

Establishing such a setup does take time and require a lot of administrative work in order to happen. Second Home Market is a process that is initiated and this process may take several years as in stated by Grundfos, who expect it to take more than 10 years before China is fully their SHM. (Danish-Chinese Business Forum (2012) p. 2)

6.4. Motives for establishing a Second Home Market

Eat or be eaten; China as the first mover and presumably the rest of the BRIC countries, are becoming the competitive battlefield of the world, and companies that are able to succeed can create a competitive advantage that can be exploited many other markets around the world. Companies who on the other hand fail to so, may risk their appearance in the country, and on a longer term even their existence on their home market can be threatened by attacks by MNC's who does succeed. In short if companies in the BRIC's does not step up their commitment, it can in the worst case cost them their entire business. (Galvin et al. (2010) p. 2) This is relevant to SHM since exactly increasing commitment and expectations is the core factor in that strategy.

Danfoss CEO, Jørgen M. Clausen, is stating a situation where a European manufacturer in China were quite happy with their 40% growth, until they found out that this product category in China were actually growing by 80%, which means that they were actually loosing market share, despite the high “growth”. (Hoover (2006) p. 88)

Better government relations; In China it can be hard to even get a license for a production subsidiary, since western MNC’s have “exploited” the cheap labor of assembly line workers for production only. From the perspective of the Chinese government such a constellation does seem very uninteresting compared to the assets brought to the country in a SHM, which needs engineers for R&D, production line workers, HR personal, sales representatives, marketing personal, and all the departments normally associated with a home market head quarter. This means that it can be much easier to get a foot in the door and maintain a healthy relationship with the rather protectionist countries as China, Brazil etc. (Roberts (2011); The Economist (2011) p. 48 ; Galvin et al. (2010) p. 17)

Increase of market share; Even companies that have success in China believe they can benefit from walking the extra mile and establish a Second Home Market. The Cosmetics giant Estée Lauder who in 2012 already had 12 of their 28 brands and a solid annual growth of 40% (2011) in the Chinese market, decided to establish a SHM and make a product line specifically for the Chinese, developed and made by the Chinese in China. (Singer (2012) p. 1) This product line called “Osiao” is unlike any other of their 24 brands customized to their SHM; *“After women in focus groups...the company decided to market Osiao as a brand that could “help renew skin’s youthful radiance.” In a nod to consumers who said they believed in the power of medicinal plants, the company developed formulas with ingredients like the Asiatic Pennywort herb and ganoderma, a type of mushroom...”* and elaborates on the choice of brand name, which has a certain amount good luck in Chinese culture; *“Company executives said they deliberately chose “Osiao,” as the brand name because it begins and ends with the letter “O”, a symmetry intended to convey a sense of harmony and balanced skin... The cosmetics executives also liked that the word Osiao contained five letters — a lucky number in China.”* (Singer (2012) p. 2) The idea is that these adaptations should make Chinese identify with the products specially developed for their requests and skin types and in that way increase sales even further (TREFIS (2012) ; Singer

(2012) p.2 ; Cantor (2012)) This view is furthermore supported by The CEO of Danfoss, Jørgen M. Clausen, who even claims SHM to be a strategy for market leadership in high potential markets, in the long run, (Hoover Jr. (2006) p. 90) as well as Li Shufu, the Chairman of Geely Automobile owned Volvo, who claims that Volvo *“must innovate for the Chinese market to properly penetrate the market. A Company that lives on its Scandinavian design, Volvo must get a better understanding of Chinese consumers if it is to increase its presence there”*, while being interviewed about the central things in Volvo’s making of a SHM in China. (Scandinavian Companies & Market (2013)) These sources indicates that there is little doubt that product adaptations and/or development for local needs is a vital part establishing a SHM and increasing market share.

7. Analysis

The aim of the analysis is to lead to the answers of the research questions in the problem statement on the foundation of the theory presented in the literature review. The research questions are as follows;

- ❖ *Can Second Home Market be regarded as a distinct new entry mode?*
- ❖ *If yes, how is Second Home Market different or similar to the existing entry modes of internationalization literature?*
- ❖ *Where does second home market position itself in the internationalization process of firms?*

The analysis will be divided in three, with a section for each of the three parts of the analytical framework. The output of the analysis will later be processed in a discussion that will lead to the definitive answers of the research questions in the conclusion.

There are three research questions and three analyzers found in the analytical framework. The first research question will be answered by all of the three analyzers, since SHM cannot be concluded to be an entry mode before it is proven to fit all of the requirements, while research question 2 & 3 will solely be answered by the characteristics of an entry mode in the third analyzer.

As the border between analysis and discussions in projects like this tend to merge somewhat to get a better flow, and this will be the case of this analysis as well. All the findings of this chapter in terms of both analysis and discussion will be gathered and answer the three research questions in the conclusion.

7.1. Definition

This project attribute to Gould's (2005) perception of an entry mode defined as "*the manner in which a company decides to enter into foreign markets.*" (Gould (2005) p. 605) As every other definition this is the common denominator at the highest level of abstraction, but even so, if the concept of SHM cannot be seen in the light of the definition of a SHM, it might be hard to argue that it is in fact an entry mode, so as the first step on the way, the resemblance between the definition of an entry mode and the concept of SHM will be analysed.

Is SHM in fact a manner in which a company can decide to enter a foreign market?

For this purpose the reference point of SHM will be Carsten Bjerg's definition of a SHM; "*We classify a particular market as our second home market if we understand the market and know what it takes to be successful there as much as in our historical home market...*" as his definition is the only stated definition from a high informant.

When comparing Carsten Bjerg's definition with the definition of an entry mode, two reference points are measurable:

- SHM is without a doubt a decision that has to be made, and the only ones to take that decision is the company itself, as argued in the beginning of chapter 2.1. And if not the company were to take the decision themselves, then who would?
- SHM does also represent a manner in which it gets possible for a company to enter new markets in a foreign country, more specifically the BRIC's. This is the whole idea of SHM: to establish a presence in another new market, which is just as strong as one's home market (domestic market).

This means that SHM does fit the abstract definition of an entry mode, but as presented in the analytical framework, this is far from proving enough that SHM is in fact an entry mode.

7.2. Motives

Here in the second analyser, the attributes and motives of SHM will be run through a selection of most commonly used motives for internationalization. In this way it becomes visible if SHM can fulfil some of the same desires that entry modes can.

Proactive	Reactive
<ul style="list-style-type: none"> • Attractive profit potential • Attractive growth potential • Technology competences • Unique product • Foreign market opportunities • Economies of scale • Tax Benefits • Increase global marketshare • Public policy programmes for export promotion • Foreign country regulations • Low cost of labour 	<ul style="list-style-type: none"> • Competitive preassure • Domestic market is too small and saturated • Overproduction • Excess capacity • Unsolicited foreign orders • Extend sales of seasonal products • Proximity to international customers • Opportunity to reduce inventories • Favorable currency movements • Opportunity to increase number of country markets and reduce the market-related risks • Declining domestic sales

When crosschecking SHM motives and traditional internationalization motives, it is important to acknowledge that some of the motives of a SHM, is caused by the countries where a SHM is applicable (BRIC's), some are caused by the SHM constellation itself and some both. In the following there will not be distinguished between the different reasons for the applicability, but focus will be on the fact that SHM is actually able to facilitate the desires of the motive.

Through the crosscheck of these two types of motives four direct repeats; Attractive growth potential, Attractive profit potential, Low cost of labour (emerging markets), Increase of global market share. The argumentation for these four common motives will be spelled out in this section.

Attractive growth potential

The attractive growth potential is one of the main reasons for establishing a SHM. First of all the markets of which a SHM is a possibility (BRIC's) have a high growth rate, many of them much higher than some western countries can perform. The SHM

strategy itself does also facilitate the foundation for growth in a number of areas. As stated by Singer (2012), Estee Lauder is establishing a complete new product for the Chinese market in their making of a SHM in order to increase their growth. The whole idea of this product is for it to appeal to Chinese customers by using local ingredients as well as naming the product according to Chinese superstition.

Increase of global market share

SHM is also an option for companies that are already present in a market, but wishes to increase their appearance, which is another way of saying that they wish to increase their global market share. One of the reasons that SHM has even emerged is because of the increasing growth of the BRIC countries, and because of this rapid growth is important for companies to increase their appearance in order to not be taken over by competitors who succeed in the BRIC's and eat market share from the others.

Low cost of labor

The fact that SHM does require a local R&D and production facility as well as departments in marketing, HR and sales, lets western companies exploit the low cost of labour in emerging markets. The cost of labour does of course vary between emerging markets, but compared to a situation where a company is manufacturing all of its products in i.e. Denmark, there is a significant labour cost advantage in the SHM strategy. This particular motives does indirectly affect the following common motive.

Attractive profit potential

The low cost of labour in many emerging markets, where SHM is applicable, is part of the reason that SHM can cause an increased profit compared to producing and developing in a home market such as Denmark. There are also other elements of SHM that can cause an increased profit such as tax benefits, which a local presence with production etc. causes in many protectionist emerging markets. Economies of scale are also possible when a SHM is established, but factors like this is very dependent on the demand from the market of that specific product and the capacity of the production facility.

All of the motives that fit the possible effects of establishing a SHM are proactive, which supports the fact that, SHM is an initiative companies take because they wish to, and not because they are forced to.

7.3. The Characteristics of an Entry Mode

This analysis will take the discovered characteristics of an entry mode and cross-check, if SHM can be explained through each of these characteristics, like an entry mode can.

In terms of the *level of risk and control*, SHM does require local R&D, production, marketing and sales, which in itself requires an investment of a significant size. This investment is as every investment associated with a risk, and the fact that it is such a large investment makes the risk high. Since a SHM includes all of these facilities it does imply a very high level of control over the foreign arrangement.

As stated in the level of risk and control, establishing a SHM is associated with significant investments, which affect the *investment and market costs*. Compared to existing entry modes, the investment and markets costs will in SHM be higher than even the most expensive of them, because of all the adaptations, facilities, and administrative work that go into making it happen, which leads us to the next factor, *administrative requirements*. SHM requires a very large amount of administrative work in order to make good connections with local government, make local market research (for special product development), and the immense amount of work normally associated with starting of all of these facilities in a very distant market. SHM is a strategy made specifically for markets with a very high *psychic distance* between the SHM and the Home market. To a Northern European country like Denmark, companies with high psychic distance are companies like the BRIC countries. (see 'Appendix 1'). *Commitment* is what SHM is all about. SHM



is about raising the company's commitment in the country to the highest possible level and to be able to service this country in the best and most efficient possible manner.

SHM has its forces in terms of *trade barriers*. Because of the large local appearance of facilities, companies with this intended commitment will be a welcomed guest in most markets, because they increase the number of jobs, pay tax, and contribute to society in many ways. As SHM has almost all possible facility available in a country with (at this time) relatively low cost of labour, there are in deed a *high potential pay-back*, especially when comparing to exporting and production in a home market. Creating a presence as large as a SHM in a foreign country is naturally a very slow process. It takes time to gain the establish all of these facilities and gain the acceptance of the consumers. A concrete example of this timeliness is that Grundfos expect it to take over 10 years to establish their SHM in China completely.

How SHM then performs in comparison to the existing entry modes, will now be rated in exact same eight parameters. Below are three tables, each containing the performance in the eight characteristics, one entry mode category by one, as seen in the theory chapter; Export modes, Intermediary modes and FDI/Hierarchical modes. In each of these tables the performance of SHM is added in the right side to be able to relate the existing entry modes to SHM. In the following section each of the entry modes categories will be set in compared to the performance of SHM in order to approach an answer to the second research question; *how is Second Home Market different or similar to the existing entry modes of internationalization literature?*

Export modes vs. SHM

	Indirect Export	Direct Export	Cooperative Export	Second Home Market
Level of Risk and Control	Very low	Low	Low	Very high
Investment and market costs	Low	Low	Low	Very High
Administrative requirements	Low	Low	Low	Very high
Favorable in markets where psychic distance is ...	High	High	High	Very High
Commitment	Low	Low	Low	Very high
Favorable in markets where trade barriers are ...	Low	Low	Low	Very High
Potential Pay-back	Low	Low	Low	Very high
Speed of entry	Very high	Very high	Very high	Very low

Source: Own composition

Intermediates vs. SHM

	Contract manufacturing	Licensing	Franchising	Joint venture	Second Home Market
Level of Risk and Control	Low	Low	Medium	Medium	Very high
Investment and market costs	Low	Low	Medium	Medium	Very High
Administrative requirements	Low	Medium	Medium	High	Very high
Favorable in markets where psychic distance is ...	High	High	High	High	Very High
Commitment	Low	Medium	Medium	Medium	Very high
Favorable in markets where trade barriers are ...	High	High	High	High	Very High
Potential Pay- back	Medium	Medium	Medium	Medium	Very high
Speed of entry	High	Medium	Medium	Medium	Very low

Source: Own composition

FDI's vs. SHM

	Sales Sub- sidiary	Sales & production subsidiary	Regional HQ (DS)	Regional HQ (FFI)	Transnational Organization	Second Home Market
Level of Risk and Control	High	High	High	Very High	Very high	Very high
Investment and market costs	Medium	High	High	Very High	Very High	Very High
Administrative requirements	High	High	Very high	Very high	Very high	Very high
Favorable in markets where psychic distance is ...	Low	Low	Low	Low	Low	Very high
Commitment	High	High	High	High	High	Very high
Favorable in markets where trade barriers are ...	High	High	High	Very high	Very high	Very High
Potential Pay- back	High	Very high	High	Very high	Very high	Very high
Speed of entry	Low	Low	Low	Very low	Very low	Very low

Source: Own composition

When comparing the attributes of a SHM with the characteristics of the existing entry modes, we see that the entry mode category most similar to a SHM is the hierarchical/FDI entry modes. A number of factors are influencing this. Firstly, the fact that a SHM can hardly be established in any other setup than a wholly owned subsidiary, because of the comprehensive need of functions available locally, such as R&D, production, HR, etc. Secondly, when comparing SHM to the eight entry mode attributes as seen above, the FDI's are the entry modes with the most common choosing. When looking deeper into the nature of the five different types of FDI's; *Foreign sales subsidiary*, *sales & production subsidiary*, *regional headquarter (Down stream)*, *regional headquarter (Fully Fledged Insider)*, *transnational organization*, a number of these have similarities with what we consider as a SHM. A deeper comparison of each FDI and SHM will be reviewed below;

Foreign Sales Subsidiary vs. Second Home Market

Like all FDI's a *foreign sales subsidiary* is a wholly owned subsidiary like a SHM, but though this type of FDI and SHM scores much alike in the eight entry mode attributes, there are factors where they are unlike. As the name indicates a foreign sales subsidiary does only contain a local sales function, while R&D, production, Marketing, HR and top management is still in home market and/or elsewhere.

Sales & Production Subsidiary vs. Second Home Market

Like the *foreign sales subsidiary* the *sales & production subsidiary* does have many similarities with SHM among the eight entry mode attributes. Also in this comparison the differences between the entry modes are to be found in inter alia the value chain. Where SHM traditionally requires a complete value chain locally, the sales and production subsidiary only has a production and sales function locally, which makes it practically impossible to meet the requirements of a second home market.

Regional Headquarter (Down stream) vs. Second Home Market

Though the attributes of a regional headquarter (down stream) is getting very close to the attributes of a SHM, there are still some functions of the value chain that are missing. The regional headquarter (downstream) does only have down stream functions locally in the host country, and as seen in chapter 6. The Second Home Market Con-

cept SHM requires a complete value chain locally present to meet the requirements set in chapter

Regional Headquarter (Fully Fledged Insider) vs. Second Home Market

The Regional Headquarter (Fully Fledged Insider) and SHM does seem a lot alike. First of all The Regional Headquarter (FFI) does have a complete set of the primary activities of the value chain, like the SHM has, so in that way they are similar. In terms of the entry mode characteristics, they score very much alike, and only on two parameters do they differ; commitment and psychic distance. Two parameters differing is not much, but when observing the nature of how these entry modes evolve through the tables, it is very unlikely to see a factor where almost all the factors are alike but one factor differs in that scale. The regional headquarter (FFI) is favourable in markets where psychic distance is low, whereas Second Home Market cannot perform where psychic distance is low, and is only applicable where psychic distance is very high, since that is the reason making the adaptations in the first place. In terms of commitment, the difference in this matter is because of the special requirements SHM has compared to the regional headquarter (FFI), which states no requirements, apart from the local R&D, production, marketing and sales.

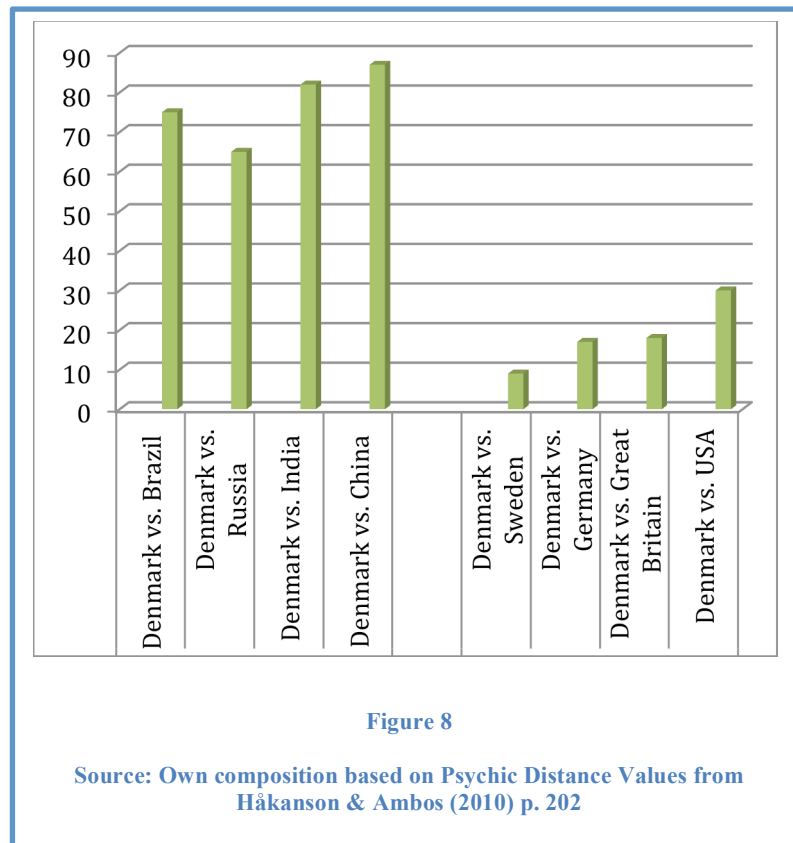
Transnational Organization vs. Second Home Market

Moving on to the Transnational Organization, the picture is more or less the same as the regional headquarter (FFI). All of the primary activities of the value chain are present locally and the performance in the eight characteristics leaves also here the only one mismatch; psychic distance. However one criticism towards the Transnational Organization is that Hollensen (2011) regards it as an exclusive entry mode. He claims that a transnational organization is its own type of entry mode, when he at the same time claims it to be an organization dependant on appearances and products across multiple countries, which from my point of view looks like a series of regional headquarters (FFI). Unlike the SHM, you cannot simply choose to move from only domestic sales to a transnational organization, since it requires you to access at a lot of markets. The transnational organization is also the only of the four FDI entry modes that is not mentioned in other literature as an entry mode. This all means that the transnational organization will be excluded from further analysis.

This leaves the question of how big the psychic distance is between Denmark and countries most likely to have a Danish FDI, (represented by the countries we trade the most with) and the countries that are most likely to become SHM's to Danish companies (BRIC's), at if this reason really can contribute push SHM away from the existing entry modes. The comparison is made on the foundation of the psychic distance comparison index included in Håkanson & Ambos (2010), as used in chapter 4.3. & 5.3. This index is built on a comprehensive analysis of 25 countries' perception of each other in eight areas built on independent main variables (*Cultural distance, geographical distance, commonness of language, political rivalry, differences in economic development, economic development, relative governance quality as lastly economic, political, and cultural influence*). (Håkanson & Ambos (2010) pp. 201-203). The product of Håkanson & Ambos' (2010) research is an indexed table based on the aggregated values of the 25 countries' alleged psychic distance towards each other. The table is shown below in Appendix 1.

Since the values are also based on subjective perceptions, the psychic distance from A -> B may not necessarily be the same as from B -> A. So to understand the table, it is important to read it in the correct order.

In this experiment Denmark is used as the center of attention when measuring the *psychic distance* to the countries of relevance. Basically it could have been any country, but since the research is taking place in Denmark, as well as some of the companies that perform the SHM strategy have their home market in Denmark, it seems like the most reasonable choice.

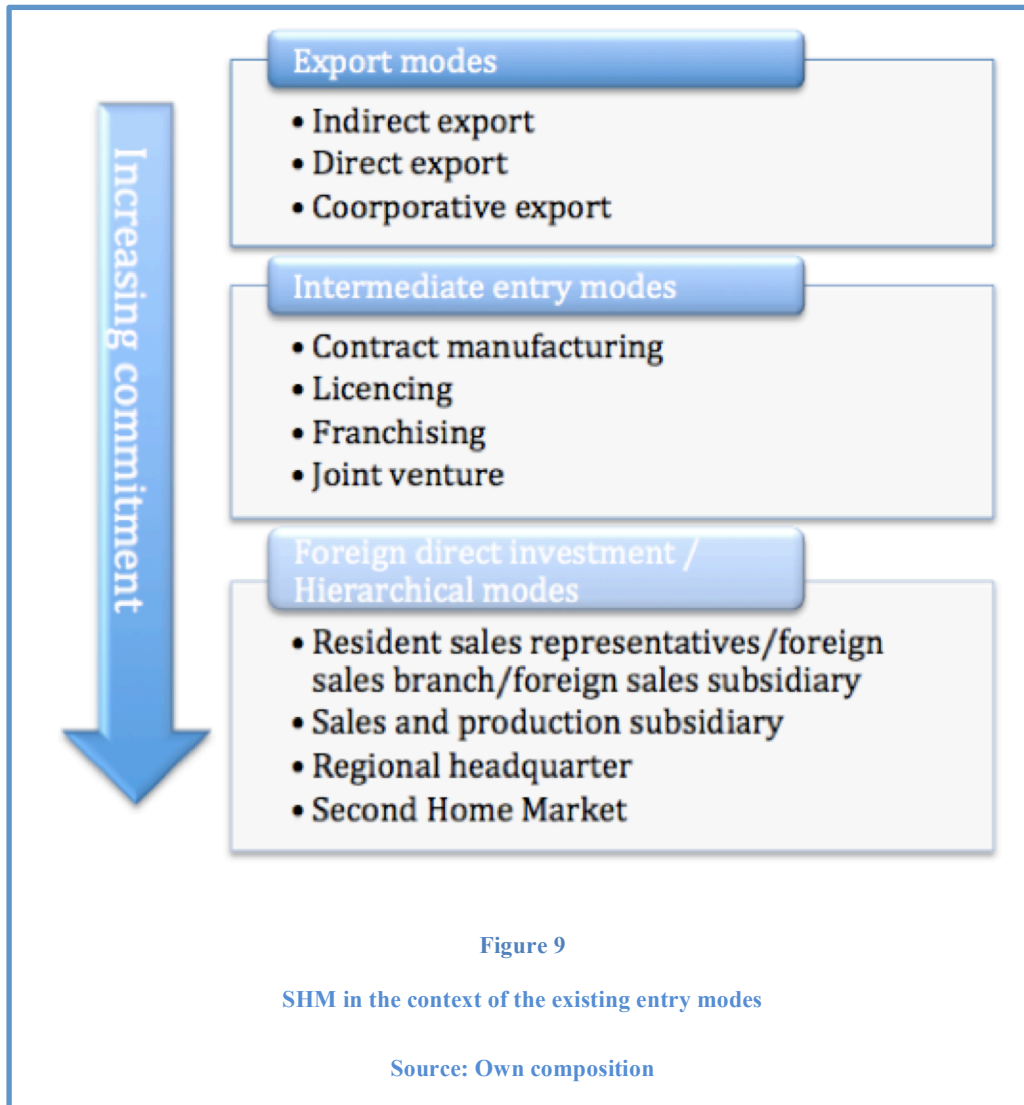


This chart confirms the assumption that the psychic distance between FDI's and SHM is in fact very high. This means that this only factor that differentiates the attributes of a FDI and SHM is in fact so high that it cannot be ignored, there are significant differences in the way they are defined.

When taking a look at the fundamentals of an FDI regional headquarter (FFI), it does have the exact primary activities of the value chain present locally as the SHM, but whereas the SHM has a lot of additional requirements to what can be considered as an SHM, the regional headquarter (FFI) is open to everything. This also points to the fact that these two entry modes are in fact not as much alike as they seem in some parameters.

As it seems, SHM is in fact a distinct new entry mode, but how does it compare to the rest of the entry modes? It has already been stated that the entry mode that SHM looks the most like is the regional headquarter (FFI). So to summarize how it differs from that entry mode, it differs in terms of commitment and applicability to markets with high psychic distance. So in the context of the existing entry modes, SHM is positioned on the "last step of internationalization". Setting SHM in the perspective of the

model made in chapter 4.3., SHM will act as one step further internationalized than the regional headquarter (FFI), because of its superior commitment and handling of complex markets with high psychic distance, as illustrated in figure 9.



8. Conclusion

In order to summarize, the purpose of this thesis was for me to get to “*to understand the phenomenon Second Home Market as well as the field of existing entry modes to be able to determine whether Second Home Market can be regarded as a new entry mode?*” Practically this was done by posing three research questions, which were as follows;

- ❖ *Can Second Home Market be regarded as a distinct new entry mode?*
 - ❖ *If yes, how is Second Home Market different or similar to the existing entry modes of internationalization literature?*
 - ❖ *Where does second home market position itself in the internationalization process of firms?*

The first research question indirectly includes two sub questions; 1. Can SHM be regarded as a new entry mode? 2. Is it new or does completely similar entry modes already exist?

Through the three dimensions of the analytical frameworks SHM was tested in three different ways to see if it could be regarded as an entry mode. Before the SHM could be regarded as an entry mode it had to act like an entry mode in three different dimensions, as inspired by the say; If it looks like a duck, swims like a duck and quacks like a duck, then it probably is a duck. SHM did in this matter ‘look’, ‘swim’ and ‘quack’ like an entry mode, which is proof enough that SHM can be regarded as an entry mode. But is it new then? On the surface, SHM looks like one of the existing entry modes - an FDI. After all a Second Home Market does require a Foreign Direct Investment, since it is one of the fundamental requirements for it to work, but in international business an FDI is a lot of things. Where the other entry modes are categorized in much smaller groups, an FDI is generally looked upon as all foreign initiatives that are wholly owned by the company, even though there are a lot of ways to make an FDI. This wide categorization was sought eliminated by dividing an FDI into the different constellations of FDI’s. After clarifying that SHM did not resemble any of the export and intermediary entry modes, the SHM was hold up against the FDI and its

requirements, and its score in the 'entry mode characteristics table' showed much resemblance with a 'regional headquarter (fully fledged insider)'. However, the characteristics did show a major deflection in terms of SHM applicability on markets with a high psychic distance compared to the home market, and an increase in commitment. Whereas FDI's is more of an open frame of actions you, SHM shows a very distinct way of doing things as well as many and high demands for commitment in the market, in order to succeed.

So is SHM a new entry mode? Yes, SHM does bring significant new methods into the entry modes of internationalization, and it does if in a scale that is at least as significant as the differences between i.e. contract manufacturing vs. licensing.

So as to the last research question; "*Where does second home market position itself in the internationalization process of firms?*" Since the last existing stage of commitment in foreign market in existing entry modes theory is an FDI, and SHM differs from the conventional FDI's by requiring even more actions and commitment, a SHM is at the highest achievable stage of internationalization.

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