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INTERNATIONALIZATION PROCESS AND ENTRY STRATEGIES ACCORDING TO SUN TZU'S THE ART OF WAR

A CASE STUDY ANALYSIS ON ZARA

Bachelor's Thesis

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1. Introduction

Due to globalization and liberalization of markets, more and more organizations are deciding to enter new foreign markets to cover broader potential customer segments and increase their seals. (Asagari et al. 2010)

Although it sounds nice, many companies do not achieve their desired goals and fail. It is not easy and takes a long process to open a new foreign market. Nowadays, a company must know how to grow out of their comfort zone, their national borders, to new foreign markets. Because of that, we will focus on and analyze the importance of internationalization theory and the process with which a company prepares itself for this task.

However, it is not enough to know how the internationalization process works. An organization needs to design an appropriate strategy with which it will answer how, when, where, and how to approach the new market. Some of these strategies are co-called entry strategies. To design an appropriate strategy based on the organization’s situation and position in the market, we will focus on the book The Art of War, which consists of military strategy. It was written more than 2500 years ago by Sun Tzu, and still today, these strategies are applied not only in the military but also in business and diplomatic areas.

To conclude our final project, we have a general objective. In addition, we have specific objectives and goals, which will guide the research and help us prepare the base for completing our general purpose.

The general objective is to research and answer the following problem, or better said question:

Can the military strategies written by the chines author Sun Tzu in the book The Art of War be applied to the field of internationalization nowadays?

Further, our specific objectives within this are the following:

- presenting the internationalization process and the theory behind it and explaining the important parts that it consists of,

- explain the necessary factors which an organization needs to be aware of,
- introduce the book The Art of War,
- defining entry strategies and,
- finding parallelisms between Sun Tzu's strategies and the theoretical part as well as the practical part.

Firstly, we will look at the book's background and introduce the meaning of strategy and tactics. Moreover, we will present the theoretical side of internationalization theory and process in an organization with the help of the traditional approaches, showing us a different aspect of the internationalization model such as Incremental Internationalization Theory (Johanson and Wiedersheim-Paul 1975), Vernon's (1966) International Product Cycle Theory (Cuervo-Cazurra 2011), etc.

We will see how an organization has to apply the process and, with the help of other theories, what are the most critical considerations it needs to consider for a successful implementation of the internationalization process. Furthermore, we will present and discuss entry strategies and see in what situations they are applicable and their advantages and disadvantages.

Secondly, for our practical part, we will research the company Zara's international process and their applied entry strategies. On top of all, we will analyze which strategy from the book The Art of War matches Zara's basic techniques and which with the internationalization theory.

1.1. Research assumption

Our research is based on four critical assumptions, which are the following:

A1: The Sun Tzu's strategies can be applied in the field of internationalization nowadays

A2: Zara uses the internationalization process

A3: Successful Zara's entry strategies match with the Sun Tzu's strategies

A4: Zara's strategies, which are applied in disregard of Sun Tzu's theories, are ineffective and, in the best of cases, inefficient

1.2. Research method

The method for our research subject is based on an excellent compilation, which means we assembled numerous articles, giving us a rich theoretical base for the further description of the field. Afterward, we will compare the theoretical part of internalization, The Art of War strategies, and the strategic approach to Zara’s international practice.

2. The Art of War

2.1. History, background, and culture

Sun Tzu (544-496 BC) was born in ancient China's late Spring and Autumn periods. “He was a famous general, philosopher and military strategist” (Sha 2018, 196). While leading successful military campaigns, he gained many experiences, based on which he developed and published a collection of concise and beneficial concepts, strategies, and tactics for governing the art of warfare (Krause 1995).

The book military strategies are one of the greatest works in China's literature. Many influential, successful Chinese military leaders gained victory due to Sun Tzu's principles. One of them was the great Chinese warlord Cao Cao who later united China (Krause 1995).

The Art of War "has been the blueprint for waging war and doing business in China and the Far East ever since" (Krause 1995, 1). It did influence not only their culture but also other cultures in Eastern and later Western countries.

For instance, it strongly affected Japan's military and business activities. As the author Sik-Fun Lee (1998) noted, "it seems that the Japanese approaches to the world market are well planned. Everything happened at the right time and fitted their national ability and needs, as well as the world's demands. […] Sun Tzu's The Art of War was known to them since the 8th century, and they mastered it at least 1,000 years earlier than the Western world. […] The Art of War significantly influences how the Japanese conduct their businesses, resulting in their successes today."

However, Sun Tzu lived in an era when China was unstable and divided. It was not always like that. Five hundred years earlier, China was unified under King Zhou. It was when the rulers governed with harmony and prevailed throughout the country (Gardner 2014). After China "had splintered into small, independent, and often warring states, ruled over by feudal lords whose authority was maintained not through moral behavior and genuine concern for the welfare of the people but laws, punishments, and force" (Gardner 2014, 1).

The “hundred schools of thought” arose during this bellicose period. These consist of general concerns that many thinkers had about this conflicted era. They started to address the problems present at those times. One of the thinkers was Confucius, a philosopher and teacher who believed in human-centered virtues such as ethics, good behavior, and moral character for living a peaceful life. He mainly was addressing “the golden era”of King Zhou. His philosophy was later known as Confucianism, which was also fundamental for other Chinese cultures and expanded to many other Easter countries (Gardner 2014).

“The main idea of Confucianism is the importance of having a good moral character, which can then affect the world around that person through the idea of cosmic harmony”, meaning “if the emperor has moral perfection, his rule will be peaceful and benevolent” (National Geographic Society 2022).

Besides Confucius, there were many other thinkers such as Daoists, Maoists, Legalists, Yin-Yang cosmologists, Military Strategists, Agriculturalists, and others. The main general concerns asked were:

“What makes for an effective ruler? What makes for an effective government? What is the ideal relationship between the government and the people? How can China achieve the unity, stability, and prosperity it once knew? What are the responsibilities of the individual to his family, community, and state? What is man's place in the cosmos?” (Grander 2014, 4).

When comparing the Eastern and Western cultures with the emphasis on a military strategy, we can compare Sun Tzu's The Art of War and Carl von Clausewitz's[1] On War, we can see the difference in culture. For instance, in the case of Sun Tzu, the “strategy aims to avoid an engagement at all costs. If it occurs, the engagement must be quick. Sun Tzu was sensitive to the human cost of battle. He saw a protracted battle as catastrophic and unwinnable, while Clausewitz took it to be a normal if regrettable occurrence in war” furthermore, in the art of war, “strategy is a subtle and complex technique that is conceived over a certain amount of time. This is in direct contrast with Clausewitz, where strategy is developed in a blink of an eye” (Paquette 1991, 46).

[1] Carl von Clausewitz was a Prussian general who wrote the book On War in the nineteen century, which consisted of military strategies.

It is clear that Sun Tu, which was one of the thinkers of his time, was influenced by the philosophers around him. He treasures every human life and wants to avoid human costs as much as possible. Half of his chapter he spends warning the readers against fighting long-lasting wars (Sik-Fun Lee 1998).

If we apply the findings from Paquette in the business area, we can see the difference in business practice. It is known that Eastern businesses are conscientious and cautious about every step they make. Planning and decision-making take a long time due to all considerations made. Contrary, Western businesses are more caseless, faster, and aggressive. If they see an opportunity, they act quickly and therefore planning, and decision making is way shorter than in Eastern countries, where they rather wait for a better opportunity.

Therefore, it may occur that some of Sun Tzu's strategies, due to cultural differences, cannot be applied in Western countries.

2.2. Introducing the book

The book Art of War is a concise book with powerful content. It contains Sun Tzu's military principles or thoughts on strategies. The book has thirteen chapters covering all aspects of warfare, advising commanders on how to prepare, plan, mobilize, attack, and defend (Cartwright 2017), avoid or consider situations, and describe what a leader should be.

I. Laying plans

II. Waging War

III. Attack by stratagem

IV. Tactical dispositions

V. Energy

VI. Weak points and strong

VII. Maneuvering

VIII. Variation in tactics

IX. The army on the march

X. Terrain

XI. The nine situations

XII. The attack by fire

XIII. The use of spies

2.3. The connection between the book and internationalization

In general terms, with entry and military strategies, internationalization aims to establish a presence in foreign lands. Military strategies seek to take over a particular terrain and population, whereas internationalization tries to do so over markets by gaining market shares.

One of the valuable indicators of the connection between the book and business overall is Japan. Before the second world war, Japan was known for its cheap and low-quality products. “Made in Japan” did not have a good reputation. After the war, Japan was seriously ruined. Factories had been destroyed. People were starving, lacked significant natural resources (coal, iron, and oil), lack of knowledge about Western markets and their culture, and businesspeople, mainly their language, and had terrible product reputations, etc., even though, in thirty-five years, 1980, Japan became the second most economically developed nation in the world (Kotler et al. 1985). In their book *The New Competition*, Kotler et al. call this event The Japanese Miracle.

Japanese products such as Sony, Canon, Nikon, and Toyota penetrated the world's market and gained recognition and respect. From there on, 'made in Japan' stands for “quality” and “value” (Kotler et al. 1985).

The Art of War is known to influence significantly Japanese military and business strategic thinking and practice. Japan announced that it would never attack Pearl Harbor during the Second World War. Meanwhile, they were preparing for their attack. They applied one of Sun Tzu's principles of deception (Wee et al. 1996).

In the 1970s and 1980s, one of the books chief executive officers (CEOs) were strongly advised to read was Sun Tzu's *The Art of War* and *the Book of Five Rings*, written around 1645 A.D. by a Japanese author, Miyamoto Musashi and contains many resemblances from Sun Tzu's book (Wee et al. 1996).

The military strategies are well seen in the Japanese way of concurring the world markets in many different industries. Wee et al. noted, "The Japanese conquest of world markets is much like a well-orchestrated military campaign. […] Many Japanese strategies in entering and conquering the various markets in the world are not only militaristic but resemble Sun Tzu's war strategies. It may well be that Sun Tzu's Art of War is the inspiration for much of Japan's economic success worldwide."

Therefore, we can see that Sun Tzu's military strategies can be very successfully applied in business areas. Notably, in the field of internationalization, as we saw in the case of Japan, when they aggressively internationalized and successfully 'conquered' the world market in many different industries.

Moreover, we can apply military strategies in the world of business. We could say that business is a battlefield. Therefore, organizations need to prepare a plan cautiously. Otherwise, they will have to face loss of capital and employment (Wee et al. 1996) like on a real battlefield. Without good strategies, the War or the business is lost.

However, another useful indicator of the connection will be discussed and presented in Chapter 7. We will focus on Zara's internationalization process, which will be compared with Sun Tzu's strategies.

3. Internationalization theory

Firstly, it is essential to distinguish between the theory and the process. When speaking about internationalization theory, we refer to a hypothetical academic view explaining the researched field, while when speaking about the internationalization process, we are referring to a practical application of the theoretical aspect.

In business, internationalization means that an organization is expanding internationally, which means that it operates in the domestic and foreign markets. When an organization is active, it controls and owns operations in two or more foreign markets. It is called a multinational enterprise (Buckley and Casson 2009).

In addition, the internationalization process describes expanding to other international markets and, as a result, increasing their international involvement and commitment. It provides a logical sequence of steps that an organization follows when entering a foreign market (Cuervo-Cazurra 2011).

An organization decides to internationalize because organizations mostly adapt to the changing conditions in their environment (Aharoni 1966) to fulfill the demands and increase their long-term profit. The overall adjustment is a consequence of an organization's gradual decisions, such as starting to export and organizing sales subsidiaries.[2]. Production, etc. Together they form the internalization process (Johanson and Vahlne 1977; Aharoni 1966). In other words, the process results from all the decisions made in the organization, leading toward expansion.

However, the internationalization theory, as mentioned, gives a theoretical base for the process and explanation of other obstacles which may occur in this field. Due to the dynamic and complexity of this area with multiple dimensions (Cuervo-Cazurra 2011), numerous theories have been developed in this field during the last six decades, such as the Monopolistic Advantage Theory (Hymer 1960), International Product Life Cycle Theory (Vernon 1966), Internalization Theory (Buckley and Casson 1976), Transaction Cost Theory (Anderson and Gatignon 1986), Resource-Based View (Wernerfelt 1984),

[2] A ‘sales subsidiary’ is a company that belongs to another company (usually referred to as the parent or holding company) with more than 50 % ownership or even 100 % (Chen 2020) and sells goods or services for that company.

Contingency Theory (Okoroafo 1990), Internationalization Theory (Johanson and Wiedersheim-Paul 1975), Network Theory (Håkansson 1987).

For this study/thesis, we will focus on the critical theoretical theory and model developed by one of the first pioneers of this field and explains the organization's internationalization process (Cuervo-Cazurra 2011).

3.1. Incremental internationalization theory

Authors Johanson and Wiedersheim-Paul developed and published 1975 the theory based on research of Swedish manufacturing organizations which were internationally active and operating in foreign markets. Based on the observation and many interviews, they conclude that the internationalization process, how an organization enters a foreign market, is gradual. It consists of four simple stages called "the establishment chain."

Stage I	No regular export activities
Stage II	Export via independent representatives (agent)
Stage III	Sales subsidiary
Stage IV	Production/manufacturing

To begin with, we must first understand the importance and difficulty of obtaining knowledge about foreign markets, which the model assumes. Knowledge about a particular foreign market gives an organization certainty and self-confidence for further decisions. Consequently, the risks are lower. In contrast, lack of knowledge comes with the uncertainty of markets and risk increase, like in the case of a domestic organization.[3]. It is an essential obstacle to expanding abroad. However, it can be reduced through an incremental decision-making approach, which means going step by step, and gathering knowledge about foreign markets (Johanson and Wiedersheim-Paul 1975).

According to the authors, we must first have personal experience from the operations and activities in specific markets to obtain market knowledge. It is a learning process. Therefore, organizations have started to take a gradual and cautious approach toward involvement in foreign markets. As a result, they first enter adjacent geographically

[3] A domestic organization is an organization that operates exclusively in the domestic market and has no activities abroad.

nearby markets to reduce the uncertainty. After the organization gains more knowledge and experience, they start to open in other markets. They increase their geographic diversification, expanding and penetrating other psychic distant markets.[4].

The theory considers two aspects of the degree of involvement. One is the resource commitment which means the degree that an organization is committing its resources to the market, such as financial, human, material, and other resources, and the market experience and information's (knowledge) aspect (Johanson and Wiedersheim-Paul 1975). Both aspects increase through every stage. The authors described the stages as follows.

The first stage is so-called no regular export activities. It refers to a purely domestic organization with no international business activities, not export or import, which means it does not sell or buy materials, goods, or services from abroad. Instead, it first establishes and develops its operations in the domestic market. In this stage, the organization lacks knowledge because it does not yet have any established information channel to and from the market and has no resource commitment to the market.

In the second stage, export via independent representatives (agent), the domestic organization decides to interact with the foreign market. The reason why to interact can be different for each organization. One might be that the organization started getting demands from a foreign market. The export in this stage is performed through an independent representative.[5]. This means that the organization has a smaller resource commitment and established information channel to the market from which it gets regular information about the sales.

In the third stage, when the organization gets enough demands and knowledge about the market, they substitute the independent representative with its own organized sales subsidiary, which means starting foreign direct investment, more significant resource

[4] Psychic distance is the distance not only between the organization's domestic country and foreign country but is also referred to as the differences in culture, language, business practice, education, industrial development, and the difficulty of acquiring knowledge and information about the foreign markets (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 1977)

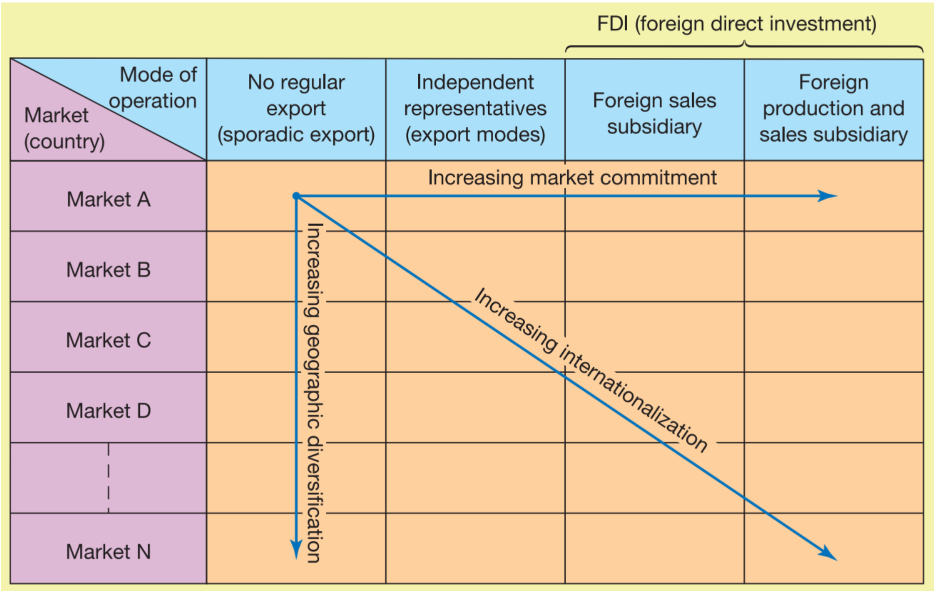
[5] An independent representative is a salesperson who is not a part of an organization but works independently, selling or marketing a product as a representative.

commitment, and consequently direct experience from the market and controlled information channel to the market.

In the last stage, when an organization decides to increase its investment and commitment based on the demands and benefits, they establish a production unit, which means more significant resource commitment, information channel, and market knowledge.

The incremental internationalization theory of an organization or “the establishment chain” is with the market growth and the two aspects illustrated in Figure 1 below.

Figure 1: Incremental Internationalization process



Source: Forsgren and Johanson, 1975

It nicely shows the increase in market commitment while the organization progresses through the establishment chain. It also illustrates how internationalization increases when an organization increases its geographic diversification.[6].

3.2. The Uppsala Internationalization model

After the incremental internationalization theory was developed, authors Jan Johanson and Jan-Eric Vahlne (1977) improved in this field. They developed and introduced a model which illustrates the primary mechanism of the internationalization process, focusing on knowledge development and foreign market commitment. The model is not

[6] Diversification is a process of investing or including various things, like industries and areas (markets).

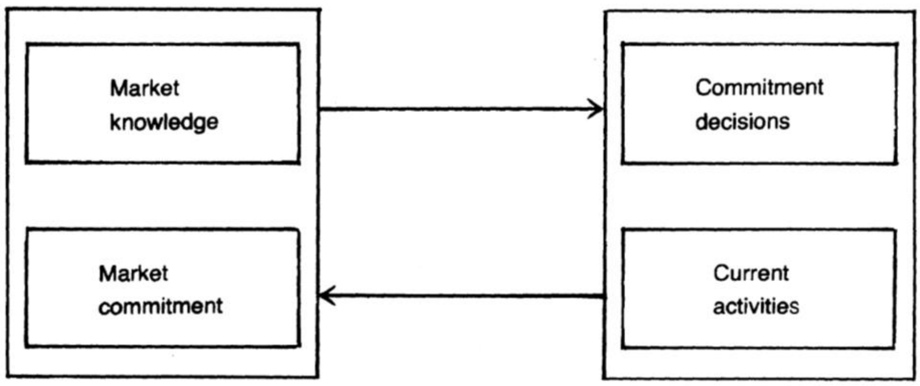
only based on the incremental internationalization theory (Johanson and Wiedersheim-Paul 1975) but also on the behavior theory of the firm (Cyert and March 1963; Aharoni 1966), the theory of the growth of the firm (Penrose 1959) and their empirical study and observation of different Swedish companies. Later, the model was called The Uppsala Internationalization Model.

This model "is seen as a process in which the enterprise evolves in an interplay between the development of knowledge about foreign markets and operations on the one hand and an increasing commitment of resources to foreign markets on the other" (Johanson and Vahlne 1990, 11).

In other words, it shows how an organization evolves through interaction between two sides—improving knowledge about foreign markets and the degree of resource commitment to foreign markets. In addition, the model focuses on the development of an organization. It considers organizational integration, resource commitment, operation approach, and the use of knowledge about foreign markets.

Figure 2 illustrates the model. It is developed on four concepts within two aspects. The first is the state aspect, which includes market knowledge and market commitment (refers to the number of resources an organization has committed to the market) at a given time. The second aspect is the change aspect which includes the commitment decision, meaning the decisions an organization makes regarding resources commitment, and current activities, which means the performance of current business activities (Johanson and Vahlne 1977, 1990).

Figure 2: The primary mechanism of internationalization



Source: Johanson and Vahlne, 1977

The state, market knowledge, and market commitment affect the change aspect. As well as the change aspect, commitment decisions, and current activities affect the stage aspect. This process is seen as a cycle. The more knowledge about a foreign market we have, the more and better decisions about the resources we can make based on the current activities in an organization. And therefore, more significant commitment to the market.

An organization that decides to internationalize must also consider many other factors in its environment. As Sun Tzu said:

"Now the general who wins a battle makes many calculations in his temple ere the battle is fought. A General who loses a battle makes but few calculations beforehand. Thus many calculations lead to victory and few calculations to defeat: how much more no calculation at all! I can foresee who is likely to win or lose by attention to this point." (Sun Tzu, 33-34)

In business, it means that if an organization does too few "calculations" (it takes into account few considerations), it will not be successful. In contrast, when they consider all the factors and prepare a proper plan for their decision, then they will be successful. Therefore, we distinguished between internal and external internationalization, which explains the factors which should be considered while preparing a plan for the process.

Moreover, one of the obstacles Sun Tzu continuously mentions in his book is to identify whether the decision (in our case, is it to internationalize) is a long-term objective or not. It is better to change if it takes a long time to achieve the goal. For instance, if an organization wants to open in a foreign market and it seems that it will take them a very long time to achieve that goal, it is better to change the market for a more suitable one. Because instead of spending many valuable resources and maybe meanwhile losing motivation, it is better to spend fewer resources on another market, which would also be profitable.

"When you engage in actual fighting, if a victory is long in coming, then men's weapons will grow dull, and their ardor will be damped. If you lay siege to a town, you will exhaust your strength." (Sun Tzu, 34)

To identify whether a market is favorable or not, we should consider the factors in external internationalization.

4. Internal Internationalization

For an organization to be capable of internationalizing, it is necessary to have a great foundation based on an internal factor that plays a vital role as a support for further expansion. An organization needs to prepare and organize itself in the right way for the adjustments for the future change in the company. It needs to consider the proper organizational structure, cultural changes, the right human force to carry out a difficult task, the right amount of other resources, enough and reasonable distribution of resources for further commitment, etc. The most crucial factor that determines all other factors mentioned above is knowledge.

Many studies dedicated their research to the field of knowledge and learning in the internationalization process. As we briefly mentioned in the incremental internationalization theory, an organization, to internationalize, must accumulate knowledge and experience, which it collects through its operation in the domestic and foreign markets; with the internationalization process – the establishment chain.

As the authors said, "internationalization of firm is seen as a journey into the unknown, a future in which firms learn and uncover opportunities and problems […] The current stock of knowledge, thus, driving the future course of internationalization decisions in firms" (Eriksson et al. 2004, 239, 241).

As the incremental internationalization theory noted, with a lack of knowledge, market uncertainty and risk increase and vice versa. With accumulated knowledge through experiences and learning, the degree of uncertainty decreases and, therefore, the level of risk. An organization must continuously strive for knowledge development/improvement and the outcome of the learning process.

4.1. Knowledge-based view

Studies provided additional depth in the field of knowledge by using a behavior approach in the internationalization process. They identified three critical knowledge elements: internationalization, foreign institutional, and foreign business.

- Internationalization knowledge

“It is a knowledge about managing the increase in complexity and diversity associated with the overall foreign expansion” (Cuervo-Cazurra 2011, 435) and how to direct and engage the capabilities and resources in international operations for those needed for specific foreign markets. This type of knowledge is “firm-specific” with which an organization can integrate and coordinate all international activities (Eriksson et al. 1997).

- Foreign institutional knowledge

It is the knowledge about the government and institutional structure in a foreign market where the organization operates (Eriksson et al. 1997). In general, what is the situation from the political point of view on the economy in the foreign markets? Are there particular regulations, laws, licenses, norms, standards, prohibitions the government prescribes, etc.

- Foreign business knowledge

Business knowledge refers to clients, customers, competitors, business practices, and market conditions in a particular foreign market (Eriksson et al. 1997).

According to Eriksson et al. (1997), all three pieces of knowledge are interrelated, meaning that if there is a lack of international knowledge present, it will influence the lack of institutional and business knowledge about foreign markets.

However, it is not enough for an organization to accumulate knowledge. It needs resources that can transmit the obtained knowledge in the practical field.

4.2. Resource-based view

“By a resource is anything which could be thought of as a strength or weakness of a given firm. […] resources at a given time could be defined as those, tangible and intangible, assets which are tied semi-permanently to the firm” (Wernerfelt 1984, 172), such as brand name, technology knowledge, human capital (skilled personnel), trade contacts, organizational processes, machinery, capabilities, information and knowledge, capital, efficient procedures, etc. (Wernerfelt 1984; Barney 1991).

All resources of an organization can be classified into three categories (Barney 1991):

- Physical capital resources – includes organizations factory, equipment, physical technology, and geographic location, as well as access to raw material.

- Human capital resources – are the organization's employees, including “the training, experience, judgment, intelligence, relationships, and insights.”

- Organizational capital resources – includes the organization's “formal reporting structure, it is formal and informal planning, controlling and coordinating system, as well as informal relations among groups” within and between the organization and its environment.

One of the crucial vital resources, not only in internationalization but in business overall, is the human capital resource. It is the only resource that can use and is capable of transforming the knowledge into creating value and based on which builds the multinational enterprises' structural capital (Sveiby 1997; Dabic et al. 2014). Moreover, human capital is a scarce resource and valuable to have. Therefore we must invest in them. For instance, managers in an organization are the ones who design and implement the strategy of an organization and “those who determine the central strategic action the multinational enterprises must implement how to internalize human capital as to transform it into structural capital” (Dabic et al. 2014, 142).

5. External Internationalization

This chapter focuses on the factors which are in the external environment. In external internationalization, the organization determines the foreign market location (where), entry timing (when), and entering mode (how).

5.1. Market location

Organizations choose the location for different reasons such as their objectives, needs, upcoming opportunities, growing demand, low labor costs, transaction costs, etc.

However, in Chapter 3, the Incremental internationalization theory, in the case of a domestic organization suggests, to select, at the start, a market that is close to the domestic market (neighboring markets) and later entry to “psychic distance” markets. Not to mention, the domestic organization lacks knowledge, which increases foreign market uncertainty and risks.

Similarly, Vernon's International Product Life Cycle Theory (1966) suggests where and when to internationalize based on the product life cycle.

5.1.1. The International Product Life Cycle Theory

In 1966, Raymond Vernon developed the product life cycle by explaining international investment and trade patterns. He describes four general stages a product goes through in its life (it is illustrated in Figure 3).

Stage I	Introduction
Stage II	Growth
Stage III	Maturity
Stage IV	Decline

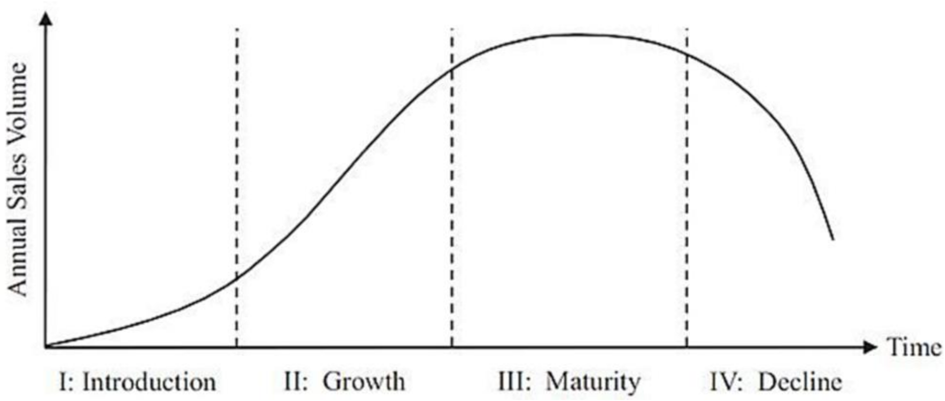
In the introduction stage, a product is developed and later introduced to the market. The theory proposes that product development begins in a developed country and then gradually expands to developing countries (Cuervo-Cazurra 2011). Because in developed countries, innovations are better accepted, and consumers have higher incomes, enabling them to buy new products. It also suggests that if an organization is located in a developed country, then the introduction of an innovative product should first occur in the domestic market due to the known demand, and the communication between the domestic market and the organization is quick and easy, reduces uncertainty and risks.

During the Growth stage, a change occurs in demand. Domestic and foreign demand increase, an excellent indicator for the organization to start with the export. When foreign demand even increases, organization exports increase. Consequently, it increases their commitment to the foreign market, and the organization has the opportunity to achieve through mass production or export economy of scale, which encourages further long-term commitments in the form of establishing foreign production facilities in a developed country. Parallelly, concern for production costs or cost efficiency arises due to the appearance of domestic and foreign competitors, which means that the organization started to be cost-oriented.

In the Maturity stage, “the developed-country markets saturate, the product becomes standardized” (Cuervo-Cazurra 2011, 436). Therefore, organizations are even more cost-oriented, moving production from developed to developing countries due to low labor costs.

In the last stage, the Decline stage, demand is declining. Therefore, the production in the home country stops, and the product is imported from the developing countries.

Figure 3: Product life cycle



Source: Marketing91, 2019

Overall, with stages of the international product life cycle, we can see how it goes hand in hand with the internationalization process and location. The product is introduced and developed in the home country in the first stage. In the early second stage, the product is exported. During the transition from the Growth to Maturity stage, the organization starts with foreign direct investments (FDI). In the late Maturity stage, production in the home country or developed country switches to production in the developing countries. Cost orientation is essential in the late Maturity and the Decline stage (Buckley and Casson 1998).

However, to identify whether a market is favorable, the organization needs to evaluate each market and choose the best one.

5.2. Market evaluation

Market evaluation means comparing different markets and, based on the results, marking which market is more suitable for the organization. First, we must do business environmental scanning, where we analyze the crucial factors determining whether the market is favorable.

5.2.1. Business environmental scanning

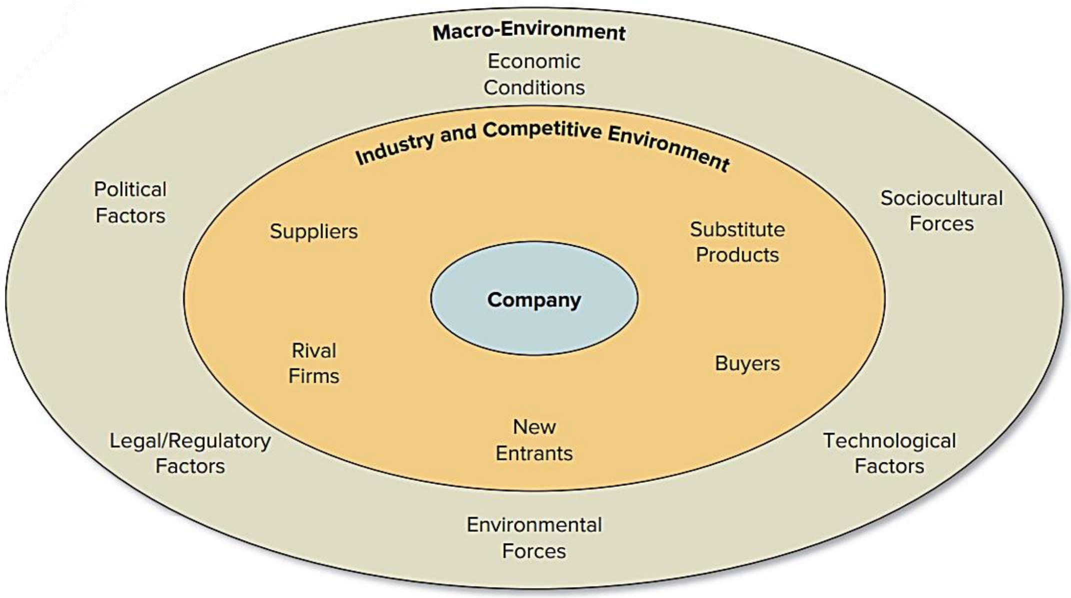
In general, we must conduct market research to collect needed data and information for business environmental scanning, providing a rich fundamental insight for further decisions and improving the organization's knowledge. We could say that it is interrelated with a knowledge-based view and consequently influences the resource-based view (resource commitment) due to the decisions made based on the collected information.

Nowadays, there are many tools for understanding business and its environment. These tools are working as a frame that we need to fill with information for obtaining insights. We collect required information through market research which we conduct with desk research, telephone interviews, face-to-face interviews, questionnaires, observation, etc. (Hague et al. 2016).

Firstly, we divide the external environment into two further divisions micro-environment and macro-environment. Micro-environment consists of factors that are close to the organization. These are competitors, suppliers, customers, substitute products, and new entrants. Macro-environment comprises factors that form the broader environment and consists of six principal components political factors, economic conditions, sociocultural forces, technological factors, environmental factors, and legal/regulator conditions (Gamble et al. 2019).

Secondly, for successful scanning and evaluation of the external environment, in our case, the foreign markets, we can use Porter's Five Forces analysis for micro-environment and the PEST analysis for macro-environment.

Figure 3: The components of the external environment

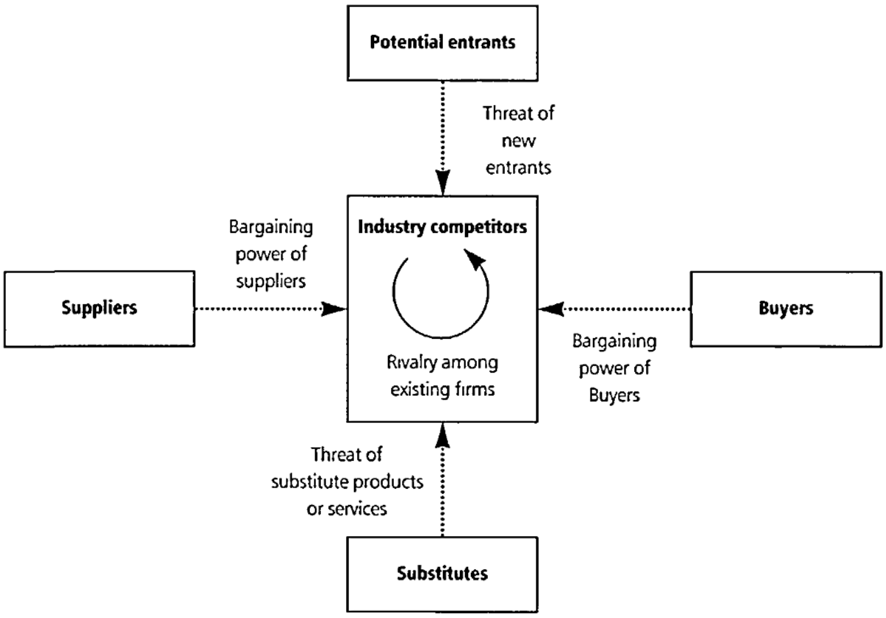


Source: Gamble, Thompson, and Peteraf, 2019

- Porter's Five Forces Model

With the model, we identify the degree of competition or rivalry in an industry with the observation and analysis through the "five forces": potential entrants, buyers, suppliers, substitutes, and industry competitors. "The generic industry structure results from a balance of five basic competitive forces" (Porter 1997, 13).

Figure 4: Forces driving industry competition



Source: Porter, 1997

- Potential entrants

We analyze the level of threat of new potential entrants (new upcoming organizations) with the entry barriers “that must be overcome to gain a foothold in the industry” (Porter 1997, 13). Within the entry barrier, we observe the economy of scale, product differentiation, capital requirements, switching costs, access to distribution channels, existing organization's cost advantages, and government restrictions.

- Buyers

In the area of buyers, we analyze their relative bargaining power, which determines the price of a product and consequently the profit that can be gained from a product. In this area, we consider the number of buyers, how much the costs of a product proportionally represent in the consumers' whole costs, the importance of quality and added value to the buyer, switching costs, and the threat of “backward integration”.[7].

- Suppliers

[7] Backward integration is one part of vertical integration, a corporate strategy. It means that an organization circumvents another in the supply chain if it has the capability. For example, a supplier can start to produce the demanded product themselves, or a manufacturer can buy his supplier of raw materials.

By suppliers, we analyze their bargaining power with which they "can maintain an inflated price structure and limit industry profitability" (Porter 1997, 15). We analyze the following: numbers of suppliers (level of the concentrated group), substitutes for suppliers' products, the importance of the industry for the suppliers, the importance of the supplier's product for the buyer's operation, and the "forward integration".[8].

- Substitutes

Substitutes are products from other industries that can substitute products and may compete directly on price and performance (Porter 1997). They are an alternative solution that fulfills the same or similar needs as the other product. As a result, they can determine the "cup" prices and drive down profitability. By substitutes, we are looking at the substitutes' price attractiveness (switching costs, costs of alternative solution), whether they are easily obtained, and the view of the buyer ("whether the buyer views the substitutes comparable or better in terms of quality, performance, and other relevant attributes" (Gamble et al. 2019)).

- Industry competitors

In the force of industry competitors, the intensity of the rivalry between an existing organization in an industry is analyzed. It focuses on the number of present competitors, industry growth, fixed costs, product differentiation, the rate of rapid expansion of products, exit barriers, and the diversity of competitors.

- PESTEL analysis

Francis Aguilar (1967) introduced a framework for scanning the macro-environmental factors. Every letter in the name stands for one factor within which we observe relevant elements.

- Political factors – government policy, tax policies, political stability, trade restriction, tariffs, labor law, etc.

[8] Forward integration is the second part of the strategy mentioned above. In this case, instead of going 'backward,' we go forwards the supply chain. For example, a manufacturer buys his distributor or establishes his distributor channels.

- Economic conditions – interest rates, economic growth, inflation rates, unemployment rate, exchange rate, disposable income, etc.

- Sociocultural forces – population growth rate, age distribution, cultural trends and barriers, lifestyle, career attitudes, education level, etc.

- Technological factors – technology incentives, technological development, automation, R&D activity, level of innovation, etc.

- Environmental forces – environmental policies, climate change, weather, waste emission, etc.
- Legal and regulatory factors include consumer protection, employment, discrimination, health and safety laws, etc.

5.2.2. Market entry barriers

Some of the aspects of entry barriers were shown in Porter's Five Forces, yet it does not include the international side. Other more critical factors appear with internationalization. Hermann (1986) researched entry barriers in Japan. Due to his and other research, Japan is considered one of the most challenging markets to enter. Based on numerous interviews with German and Japanese managers, they conclude the following essential entry barriers:

- Intensity of competition
- Recruitment of management personnel
- Language
- Distribution system
- Business practice
- Consumer behavior
- The behavior of public authorities/officials
- Non-tariff institutional barriers
- Internal management problems
- Tariffs, quotas, etc.
- Legal problems

The barriers are ordered in the rank of importance. Form the first and most important to the last and less critical. It is interesting to see how the institutional barriers are, in this case, less significant than the marketing barriers related to competition behavior, businesspeople, and consumers (Hermann 1986). Many Western organizations were unsuccessful in Japan. Hermann said, “to develop and implement an adequate marketing strategy, the specifics of a market must be profoundly studied and understood” even more when a market is different from the domestic market, which also increases the risk of applying a strategy that can turn out to be insufficient.

The importance of entry barriers and foreign business environmental scanning also emphasizes The Art of War.

“We are not fit to lead an army on the march unless we are familiar with the face of the country – its mountains and forests, its pitfalls and precipices, its marshes and swamps. We cannot enter into alliances until we are acquainted with the designs of our neighbors.” (Sun Tzu, 56)

5.3. Market entry time

The market entry time is a decision or a tactic an organization makes about when to enter a market or when to implement their strategy. It “focuses exclusively on how quickly a firm enters a market compared to the market entry timing of the firm’s rivals” (Dykes and Kolev 2018, 405). In general, we distinguish between two-timing of entry:

- “First-mover”- is an organization that enters first to the market and is first to offer and sell a particular product or service. It is also considered a pioneer in the market.

- “Late-mover” is an organization that enters after the first movers.

Both entry times come with certain advantages and disadvantages. Advantages enjoyed by the first-movers are disadvantages and vice versa. Late-mover advantages are first-mover disadvantages.

Lieberman and Montgomery (1988) presented in their research the advantages and disadvantages the first movers might have if they act correctly. For example, because they are the first, they have an early head-start for investing in the research and development department with which they can innovate and build better product and process technology and therefore gain the technology leadership advantage. They are also acquiring knowledge from experience. Moreover, with the process technology and economy of scale, cost per unit falls, and, as a result, they gain the cost efficiency advantage. Furthermore, they have the opportunity to build a reputation as the leader in the industry and gain customer loyalty with high brand awareness through marketing strategies.

In addition, late-movers can benefit from advantages such as imitation of first-movers (imitating their infrastructure development, technology improvement, cost efficiency, etc.), lower market uncertainty and risks, focus on other uncovered consumer segments, etc.

In his tenth chapter, Terrain, Sun Tzu also addresses the time of entry. He proposes that an enemy, in our case, the organization, should be the first mover and take advantage of the “free sunny spaces”. This means they have the chance to choose their geographical location in the foreign market before the other competitors do, which gives them a great advantage. This gives them the advantage of taking such a location where the customers will quickly recognize them. The location depends as well on the type of industry. For instance, a logistic organization would instead take a location in the suburbs of a city and close to the highway. In contrast, depending on the goods it sells, a retailer would instead open a store in the city center where many people are daily walking by (high density of potential customers).

"Concerning ground [...] which can be freely traversed by both sides […], be before the enemy in occupying the raised and sunny spots, and carefully guard your line of supplies. Then you will be able to fight with advantage.” (Sun Tzu, 73)

In addition, another advantage of being the first, as Sun Tzu noted, is to “guard the line of suppliers”. Suppliers can not only be understood as suppliers, in business terms, but also as the distribution challenge, reputation, customer loyalty, etc. The organization has a chance to make alliances with various suppliers and distributors. Some of them would be unavailable when entering after the competition. After partnering, the organization needs to take care of and improve the new partnership to avoid losing it to its later competitors. Furthermore, meanwhile, other competitors are following, they can build a good reputation, improve brand awareness and gain loyal customers.

For the late-movers, Sun Tzu suggests the following:

"From a position of this sort, if the enemy is unprepared, you may sally forth and defeat him. However, if the enemy is prepared for your coming, and you fail to defeat him, then return being impossible, disaster will ensue. […] Should the army forestall you in occupying a pass, do not go after him if the pass is fully garrisoned, but only if it is weakly garrisoned" (Sun Tzu, 74)

Even though the first-movers occupied favorable locations, the competitor (late-mover) can still gain an advantage if the first-mover does not foresee this move and is not prepared. The competitor can “attack” with aggressive penetration, marketing, and promotion to gain the first-movers customers' attention. If the first-mover does not 'guard its partnerships with the suppliers and distribution channel, the competitor might overtake it.

A deeper understanding gives the empirical study of entry time based on the U.S. Fortune 500 firms in China (Gaba et al. 2002). The study analyzed the organization in the period between 1979 and 1996. Until 1979, China was a closed country, and, in that year, it re-opened its market, which offered an excellent opportunity to observe the timing of foreign organizations' entry together. They identified that the timing of entry is related to three key factors: an organization's strategic goals, resources, and capabilities. According to the conclusion of this study, organizations that enter earlier are:

- organizations with a higher level of international experience (as the incremented internationalization theory explained, knowledge-based capabilities are essential for foreign decisions, in this case, for foreign market entry decisions),
- large organizations (with the advantage of size, organizations can easier access and collect needed resources),
- organizations with broader product scope (due to the product scope, the organization can offer more suitable products),
- organizations whose competitors have already entered the foreign market,
- an organization that forecasted a high market growth potential,

- organizations that have more favorable risk conditions such as political and business risks, and
- An organization with the option to choose a non-equity mode of entry ("managers are more willing to enter markets earlier when the resource commitment is lower as in the case of non-equity entry modes" (Gaba et al. 2002, 51)).

6. Entry strategies

When an organization decides its target market and time of entry it can focus on designing appropriate entry mode, how to enter. An international market entry mode is an institutional arrangement that enables organization to enter a foreign market with its product, technology, management, and other resources (Root 1994). For entry modes organization uses different entry strategies whit which an organization designs an approach into the new market.

There are many different forms of market entry strategies to choose form. One of the classifications of entry strategies, which is often used in the literature, is according to the degree of ownership. We distinguish between equity-based and non-equity-based entry strategies (Pan and Tse 2000). Equity-based means that an organization has full ownership over its activities and operations. It includes fully owned joint operation (ownership-based strategies) and equity joint ventures. In case of non-equity-based, an organization has non or some degree of ownership. This includes exporting, contractual-based and strategic alliances strategies.

There are many factors besides the organization objectives, circumstances, needs, which an organization must carefully consider, and which determines the final choice of entry form.

- Control

Control enables organization to manage, adjust, coordinate its market activities and operations. As the authors, Anderson and Gatignon (1986) said “control is the ability to influence systems, methods, and decisions”, it has an important impact on the future of foreign activities and operation. More control an organization has more authority over decision and performance they have. Higher the degree of ownership more control an organization has. Due to higher control, an organization has more responsibilities, requires more resource, less flexibility for future institutional arrangement changes and more risks, and vice versa. Additionally, it gets more return because with control an organization is charge of increasing its market share and in return has more profit.

- Risk

As it was mentioned in the incremental internationalization theory, risk is present in every foreign markets due to the market uncertainty. The higher the uncertainty the higher the risk. Moreover, the greater the differentiation (physic distance) between the home and target market, the market uncertainty increases due to lack of knowledge and therefore also risks increases.

As the theory proposes, to reduce risks, as much as possible, it is better to export and later, when having enough experiences, start with FDI (acquisition, greenfield). In general, export includes minimum risks, while FDIs includes higher risks. Therefore, we could also say more that organization is directly involved and committed or higher the degree of ownership in a foreign market, higher is the risks.

- Resources and capabilities

As we discussed in the Chapter 4, by resource-based view, an organization has different types of resources which are crucial for the entire operation of an organization. Every organization has limited resources, which hinder them of choosing any entry strategy they want. Less resources they have, lower the degree of resource commitment they can have. Similarly, if an organization does not have enough capabilities with which an organization can perform a task, then it also limited by designing a strategy.

However, we distinguished between exporting, contractual-based, owned-based and strategic alliances entry strategies.

6.1. Exporting strategies

Exporting means that an organization is selling its product directly or indirectly to a target country while the product is manufactured outside the target country, either in home country or any other country (Root 1994; Tallman and Shenkar 1994). It is an excellent strategy for organization who have limited resources, capabilities, and foreign market knowledge or want to reduce risks. Exporting is a very common and popular strategy for many businesses. An organization can choose from different export strategies with various types of intermediaries.

- Indirect export

Means that the organization is not in charge of exporting operation and activities. Instead, it has a ‘middleman’ or intermediary who export their products on behalf of them (Root 1994). It is a trading relationship between the trading partners, the organization and export intermediary located in the domestic market (Bello and Williamson 1985). The intermediary often takes responsibility over these operation and activities such as foreign sale of the product without the organization’s involvement.

  - Export merchant

Export merchant is an independent trading organization which buys goods from other organizations and therefore has the ownership over the goods and later it resells them to foreign market. Usually, it is specialized in a certain geographic region or in a particular product. They are completely independent in a sense that the organization does not know and has no control to whom is the export merchant selling and under what price.

  - Export agent

It is an independent trading organization or sales representative located in the home country. They represent the organization in the foreign market and earn commission for their service. They do not buy the organization goods and do not have ownership over it. They are mostly responsible for marketing presence and generating orders from foreign customers.

  - Export management companies

Export management company is an independent organization which is specialized in export and has many clients (organizations) which are noncompetitive (Root 1994). We could say they are a substitute for the organizations export department. Export management company is working under the organizations name, and it may take some responsibilities for product promotion, physical handling, market research, etc. (Cateora et al. 2009).

- Direct exporting

In the case of direct exporting the organization is in charge of export activities and operation and is directly connected with its foreign customers such (importer, buyer).

Therefore, it establishes its own export department and has more responsibility such as promotion, pricing policies, organizing transport (physical delivery), administration control etc. Although, it can include a foreign middleman (Root 1994), and sells its product through them. For example, it can sell through foreign agent or distributor importer.

- Cooperative export

Cooperative export is a collaborative agreement between different organizations forming export marketing groups, concerning the performance of exporting function (Hollensen 2012). Usually, organization who are unwilling to commit too many resources to set up its own distribution channels and still want to have a certain degree of control over the activities in foreign market can together with other organization with the same motive establish a cooperative export.

  - Piggyback

Piggybacking is a term for one of the forms of corporative exports. It means that a "rider", who is an inexperienced-export organization, collaborates with a 'currier', who is a larger organization which is willing to "help out" the rider to export (Hollensen 2012). The rider takes advantage of the curriers foreign market experience and distribution channel and in return the currier gets paid. It is a very popular form to export.

Overall, export strategy offers low resource commitment, low degree of control, and less return. In contrast with direct exporting indirect exporting has lower startup costs, and knowledge requirements and risks.

6.2. Contractual entry strategy

Contractual entry mode is a long-term nonequity association between an organization and a party from the target country (Root 1994). It is based on the contract arrangement. Based on the form of arrangement the organization transfers different types of resources to the foreign party. Because export does not involve this kind of transfer it is excluded from the contractual entry strategy group. We distinguish between several contractual entry strategies.

6.2.1. Contractual manufacturing

An organization that lacks resources and capabilities or is unwilling to invest in whole foreign production can decide to make a contract arrangement with a foreign organization who is willing to manufacture their product. It is also called outsourcing due to the foreign source of production. Meanwhile the foreign organization takes over the product production, the organization can focus on marketing, distribution, promotion, sales, etc. in the foreign market (Hollensen 2012)

6.2.2. Licensing

Is an agreement between the organization (licensor) and foreign organization (license). The agreement is a contractual transaction based on which the licensor gives the licensee certain rights in exchange for license fees or other compensations. The rights differ from tangible assets to property rights such as patent, company name, trademarks, human skills, technology etc. (Root 1994).

For instance, an organization who is the copyright holder (owner) of technology-based property, for example, computer software, can through a licensing agreement allow the other licensor, to use it for their daily business activities.

One of the additional strategic forms is cross-licensing. Two organization can have a technology property which would benefit the other. With cross licensing they license each other, in that way they are able to exchange, for example, technology for further innovations under very low fees or without fees if the technologies are equivalent.

License agreement is not only beneficial for licensor but also for licensee. For licensor, is very valuable, because with this entry strategy they can easily penetrate a foreign market and build reputation as well as gaining return (license fees). Particularly, for small medium-sized businesses which does not have enough resources for investment in a foreign market, it is a favorable strategy which is not very demanding. More, with the licensing an organization can avoid import barriers or it can get access to markets that are otherwise completely closed to foreign organization and FDI.

Licensing agreement is not only beneficial for licensor but also for licensees. It benefits from the access to certain crucial technology (strategic asset) for its further operation which otherwise would not be able to acquire due to its limited capacity for developing this kind of technology. Further, with this strategy it avoids the developing part which would require a lot of resources (financial, managerial, and technical) as well as time. Nonetheless, some risks occur.

An empirical study on US organizations has shown that the largest number of licensing agreements are with Japan (Gleason, et al. 2000). As we concluded in Chapter 2, Japan is one of the hardest markets to penetrate. However, they found out that organizations with licensing as entry strategy gained high profits generated by licensing agreements. Therefore, they could successfully enter new markets, gain reputation, with cross licensing reduce costs of R&D and improve their competitive position.

6.2.3. Franchising

Is an agreement between the organization (franchisor) and an independent organization or person (franchisee). It is a similar to licensing, with the exception that the franchisor transfer or licenses its whole business system with property rights. Meaning, that franchisee uses and follows franchisors business model, trade name, policies, standards and procedures in such a way that costumers do not recognize the difference between the franchisor and franchisee. In return the franchisor gets franchise fees and other compensations.

Franchising strategy is very popular and common in the restaurant (fast-food), fashion retail, hotel business and other services where the business model can be easily transferred.

The franchisor can gain many advantages such as rapid expansion in foreign markets, highly motivated franchisees, brand awareness, minimal investment, low (political) risks, gather knowledge about the culture and business practice in foreign markets and gain higher return. Main disadvantage is not having full control over the franchisee’s activities.

6.2.4. Joint Venture

Joint venture is an independent legal organization established by two or more organization that shares the ownership. In the case of joint venture entry strategy, the founders are an international organization who wants to entry a foreign market and a foreign party (local) forming a partnership.

In general, in many literatures joint venture is defined as a vehicle for transferring knowledge, technology and other resources. “This is a co-operative strategy in which the manufacturing facilities and know-how of the local company are combined with the expertise of the foreign firm in the market, especially in large, competitive markets where it is difficult to acquire property to set up retail outlets or where there are other kinds of obstacle that require co-operation with a local company” (Lopez and Fan 2009, 286)

Depending on the equity share of the international organization we have three types of joint venture relationship majority, 50-50 and minority ventures (Root 1994). In majority ventures the international organization has more than 50 % ownership, in minority ventures the international organization has less than 50 % ownership and in 50-50 ventures both parties have 50 % of ownership (half-half).

An important distinction is between cooperate and equity join ventures.

- Cooperative joint venture

It is a cooperative or contractual arrangement between two or more parties with no financial or legal connection (Marxt and Link 2002). It is a form of collaboration in a sense that each party contributes certain assets to the new established venture. It does not include any financial investment. For instance, one partner can contribute his distribution channels or important contacts, other can give its technology, and the third can add know-how. Together they merge all assets or business process and as a result improve their overall performance.

- Equity joint venture

In contrast with cooperative venture, by this type of joint venture partners pool financial resources in the ratio to the agreed capital share to create an independent business.

Joint venture is the most convenient strategy in cases when the target market is very closed, has high restrictions for FDI, has a great physical distance (cultural, language and business differences) and organization has lack of knowledge. In some countries the government discourages or even prohibits outsiders to fully own organization in their country (Root 1994). Other reasons for choosing this entry strategy are risks reduction and combining advantages and improve performance, gaining access to knowledge, resources and capabilities.

The international organization positively benefits from the foreign partners contribution such as foreign market knowledge, business practice experience, better exploiting the target market, distribution channels and other personal contacts, for example with customers, suppliers, banks etc.

The Art of War already understood how essential a foreign partner can be when entering an unknown country. It suggests, to use a local guide who provides deep understanding of the target market which contributes to gaining knowledge that can turn into a great advantage for organization. It clearly, shows the aim of joint venture entry strategy.

"We shall be unable to turn natural advantage to account unless we make use of local guides"

(Sun Tzu, 56)

Although, it sound nice, unfortunately many joint ventures are no successful. A study found out that only 45 % of 880 joint ventures and cooperative arrangement were successful. Further, it showed that three out of five lasted more than 4 years and only 14 % lasted more than 10 years (Marxt and Link 2002).

Biggest occurring problem in joint ventures is the conflict of interest. For example, a one partner wants to share dividends while the other rather wants to invest to gain bigger market share. A conflict can as well arise from managing the new entity, choosing a strategy, new objectives, policies, procedures etc. Therefore, when selecting a partner, it is crucial to be aware and transparent with objectives, long-term plans, etc. as well as keeping in mind that two entities with different cultural and business background are "merging together".

6.3. Ownership-based strategies

Many multinational enterprises rather enter a foreign market with ownership-based strategies due to the available resources. Ownership-based means that an organization can acquire a business or establish new subsidiary in the target market. With these strategies the organization (parent organization) has full control and ownership over the entity and gaining all the profit. Though, one big drawback arises through future uncertainty, the increased risk. The organization needs to invest and commit a lot of its financial and other resources. It the future it can happen something such as a change in the environmental factors (government restriction) and endanger the development.

6.3.1. Acquisition

An organization can decide to take-over an existing organization in the target market, instead of establishing a new facility from the scratch. This move is called acquisition.

With acquisition the organization not only becomes full ownership and control, but also the assets from acquired entity such as technology, distribution channel, workers, other important contacts, production capacity etc. which gives a great start in the target market.

6.3.2. Greenfield

Greenfield is another name for a wholly owned subsidiary which means that an organization establish a completely new plant in the target market. The organization or parent organization can choose this strategy because it has enough resources or cannot find a suitable candidate available for acquisition.

This strategy requires even more investment and resources than in the case of acquisition. It needs to set up the whole organization, finding workers, setting up technology, defining policies, overall, building a system.

"In practical art of war, the best thing of all is to take the enemy's country whole and intact; to shatter and destroy it is not good." (Sun Tzu, 37)

Sometimes, in business when an organization enters in a highly competitive foreign market, it is better to choose the acquisition entry strategy over greenfield. Instead of establishing a new facility, searching for suppliers, distribution channels, human resources, etc. and fighting for market share, reputation and loyal customers with already existing competitors, it would be wiser to acquire an organization which produce similar product or has a good technology. Additionally, it saves, time, energy and resources which would be lost during "the fighting" with competitors. Furthermore, if it aims to destroy its competitor, it will do no good. While the competitor will go bankrupt or change its business model or industry, a new potential competitor will arise and quickly take the place of the previous competitor.

Overall, entering with acquisition strategy means that an organization is already half-way integrated in the foreign market culture. While organization with greenfield entry strategy will have to adapt and adjust its-self to the foreign market, which will take longer to integrate.

6.4. Strategic alliances

Strategic alliances are a form of collaboration between two or more organizations. Which work together in the pursue of common objectives and creating a synergy with their combined efforts.

A known example of such an alliance is the arrangement between Red Bull and GoPro in 2016. Both parties have great benefits such us using each other distribution channels, access to important contacts, promoting each other to achieve the common goal of increasing market share and customers.

The same could be done to enter a market and consequently reducing risks when the alliances is made with a foreign partner of the target market. Traditionally the entering part offers economic and material resources in exchange for contacts and knowledge of the market being entered.

The differences between this and joint venture entry strategy is that strategic alliances are more simple and less binding than a joint venture, because in the contrary to what we saw, in joint ventures an entity with a different legal personality and internal regulations is created. Strategic alliances in generally a common work towards a same set of goals.

7. Zara

Zara is one of eight subsidiaries belonging to the parent organization Inditex, Industria de Diseño Textil. Together they form Inditex Group, which belongs to the founder and former CEO, Amancio Ortega, who is currently the third-wealthiest person in Europe and one of the wealthiest in the world. All subsidiaries are stock organizations wholly-owned and controlled by the parent organization. Each is a fashion retailer operating under its brand name and personality. These are Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterqüe.

Zara owns its shops across the world. Usually, they own either 100 % or the majority, as long as the ownership share and voting rights are more than 51 %, except for a few rare cases. The same policy goes for Inditex and other subsidiaries. In that way, they keep control over management and decisions. Sometimes, an exception occurs in a specific country where they need to have franchises or establish a joint venture, which will be discussed later.

Zara is the most profitable among all brands, and it is one of the world's most successful fashion retailers. At the end of 2021, Zara had 1,939 stores operating in 95 countries with 14,129 Mio € net sales.

According to Amancio Ortega, Zara's overall objective and strategy are to offer and make available the latest fashionable appeal with medium quality to everybody at an affordable price. The key to successfully implementing this strategy is vertical integration. In the late 1990s, Zara began majorly investing in the supply chain by developing the right management system (just-in-time) technology and telecommunication system (Ghemawat and Nueno 2003), with which they gained a piece of better information and communication flow from the stores to the headquarters and adapt to the changes immediately. They established new manufacturing facilities, logistics and distribution centers, warehousing, IT etc. The control over these functions permits them to be much more flexible and efficiently execute Zara's strategies.

7.1. Zara’s internationalization approach

In 1975, Zara's was established and opened its first store in La Coruña, Galicia, Northwest Spain. After two successful years, they established their first manufacturing facility in the outskirts of La Coruña. Until 1988, they started expanding within the domestic market across Spain. Every city that had more than 100 000 inhabitants had a Zara store. In 1988, Zara entered a foreign market and opened its first store abroad for the first time. They opened in the neighboring market in the city of Porto, Portugal.

The main reason for going abroad was the limited market growth opportunity (Lopez and Fan 2009). The former CEO, Jose Maria Castellano, said that after expanding throughout the domestic market, they noticed that the Spanish fashion and design market was on the verge of saturation (Martinez 1997). Furthermore, they noticed not only the market's maturity but also a change in consumer behavior. Spanish consumers increased their spending on education and traveling in this period rather than apparel (Lopez and Fan 2009).

A crucial event that accelerated the internationalization process was the entry of Spain into the European Union (EU) in 1986. With the EU, the export barriers and duties disappeared, which meant an excellent opportunity for economies of scale and the development of information technology (Lopez and Fan 2009).

However, after one year, they opened a store in Portugal and decided to open a store in New York in 1989. The reason for such an extreme move was to be connected with one of the fashion capitals through which they observe and gather information about new trends and other competitors. For the same reason, they opened a store in Paris in 1990 and two years after in Milan. In 1992, it opened its first store in Mexico a year later in Greece. The following year they went to the North of Europe (Belgium and Sweden).

After gathering enough experience of the international process in distant markets, they started with rapid expansion. First, they opened a store in Izrael. From then on, they started aggressively pursuing their international expansion strategy. One year later, at the end of 1998, they were already present in 16 countries with a network of more than 300 shops: 290 owned and ten franchises (Inditex 1998). That year they entered eight foreign markets: Great Britain, Japan, Argentina, Venezuela, Kuwait, Lebanon, Turkey, and Dubai. The total turnover of international business was 46 % and 54 % domestic, which remained the most profitable. In the following year, 1999, they entered nine new foreign markets: Germany, Poland, The Netherlands, Canada, Chile, Brazil, Saudi Arabia, Uruguay, and Bahrain.

Between 2000 and 2003, Zara slowed down with its aggressive internationalization. Instead of gaining new markets, it took that time to integrate better and consolidate its position in the European markets and open new stores—meanwhile, the Inditex group they built-in 2002 a new distribution center in Zaragoza, Spain. After the consolidation, they continued with the global internationalization strategy and, until 2006, entered Monaco, the Philippines, Costa Rica, Indonesia etc.

7.2. Zara's entry strategies

While pursuing an internationalization strategy, they chose three entry strategies: ownership-based (greenfield or own subsidiary), franchising, and joint venture, depending on the market obstacles.

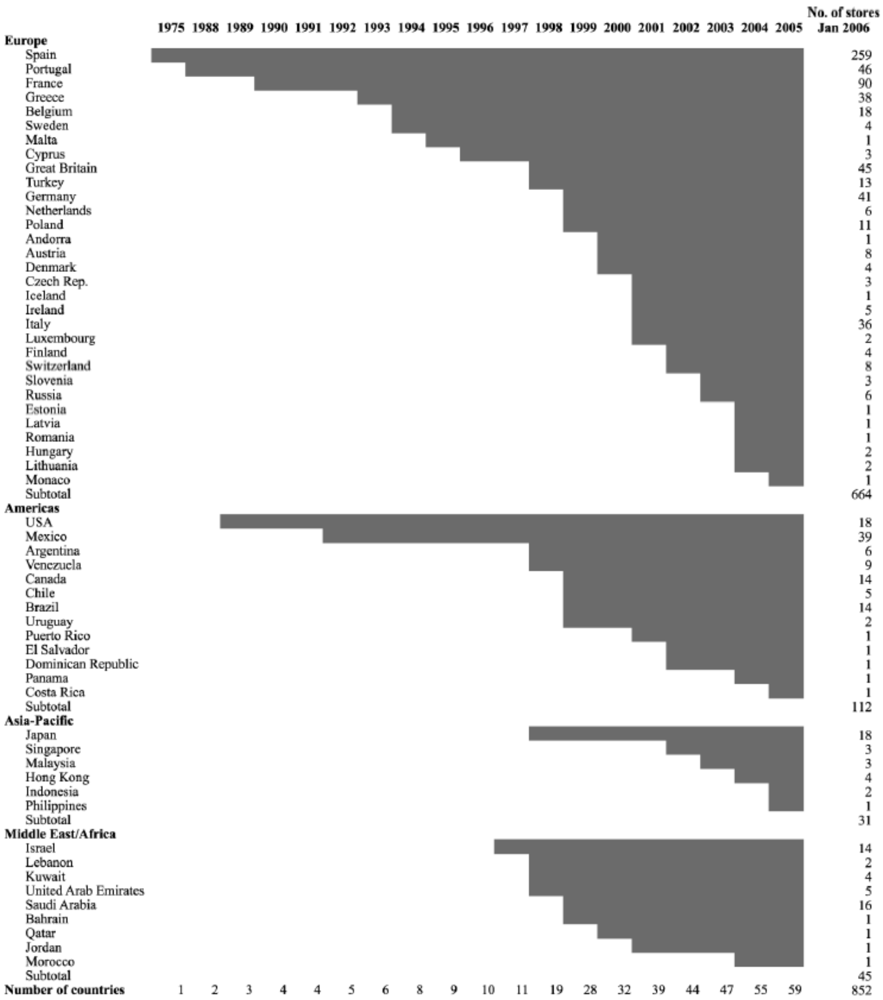
Zara chose to establish its own subsidiary for most European and South American countries due to the low business risks and high growth potential considerations (Flavian and Polo 2000). This is logical because European markets are nearby physic markets, and the export barriers are gone with the EU. In the case of Sout America, even though it is a physical distance market, it is culturally and linguistically very similar, which makes entry much more accessible.

For physic and culturally distant markets and due to entry barriers, Zara had decided to choose the joint venture entry market strategy. For example, by partnering up with the Japanese organization Bigi Group and their knowledge, they established a 50-50 joint venture and were able to penetrate 1998 the Japanese market (Castro 2003). The first store was in Tokyo. By 2001 they had opened five stores. Similarly, Germany established a 50-50 joint venture with the Otto Versand organization and gained experience in the distribution sector and knowledge (Lopez and Fan 2009). In Italy, they faced an administrative barrier problem. In Italy, the local traders were in charge of deciding if an international brand was allowed to operate in a specific area. With the help of Italian organization Gruppo Percassi's operation in the property sector, they set up a joint venture where Inditex had the majority of ownership (51 %) and successfully entered the market. After a while, Zara bought off some of the shares to increase its ownership. In the German joint venture, they had 78 %; in the Italian joint venture, 80 %; in Japan, they gained full ownership (Lopez and Fan 2009).

In cases of small, high risk, and inadequate provision of profitability and physical and culturally distant markets, Zara uses the franchising entry strategy. Examples are Saudi Arabia, Kuwait, Andorra, and Malaysia (Flavian and Polo 2000). All the franchising agreements include the option of purchasing after a certain period. This means that if a franchise turns out to be very profitable, Zara acquires them or buys off some of the shares. In 2018, Zara had 250 franchises.

Table 1 shows a chronological order of Zara's entry into foreign countries worldwide from the beginning to 2001.

Table 1; Zara’s internationalization



Source: Lopez and Fin, 2009

8. Evaluation of the case related to the international business theory and the art of war

Zara is an excellent example of the internationalization process. As we established the incremental internationalization theory, we can see parallels between Zara's approach to internationalizing and the theory.

Firstly, the cautious, gradual approach in the first stage of internationalization. After Zara established its presence in the domestic market, it first entered Portugal, the neighboring country geographically nearby and culturally similar.

Secondly, gathering experiences. Zara understood the importance of knowledge and experiences, which the theory continuously emphasizes and is the reason for the gradual approach. They invested many resources to establish a successful communication channel between different entities which efficiently permits the flow of information from every store. That enabled them to follow changes in the markets and customers' preferences.

Even though Zara was 1998 already present in 19 markets (Table 1) and gained a lot of experience and knowledge, Amancio Ortega, the CEO at that time, mentioned, in his 1998 annual report, "International expansion, […], is the objective that cannot be delayed and will allow us, through diversity, to enrich our culture and vision of the market". It shows the understanding of knowledge, the learning process in internationalization, and the continuous integration and improvement.

Thirdly, opportunities in cultural, psychological close and physic distance market. Between 1989 and 1996, Zara entered one or two foreign markets per year. Markets that were geographically nearby or cultural or psychological close: France, Greece, Malta, Mexico, Belgium etc.

Exception: quickly after Portugal, it entered New York, an exception that can easily be justified. Zara's objective is to offer fashionable appeal to everybody. To do so, it needed to be linked to one of the leading fashion cities and learn from the best. It was a strategic decision to be next to fashion trends.

Fourthly, diversification and aggressive expansion are due to knowledge and experiences and consequently low uncertainty. In the late 1990s, Zara started with aggressive international expansion. It reflects in Figure 1.

Furthermore, the reason to internationalize is in line with the international product life cycle. Spanish fashion and design market was “on the verge of saturation”, or in other words, in its Maturity stage. As noted, the resolution is an orientation to foreign markets.

However, Zara's intensive internationalization, as well as the incremental internationalization theory, clearly resembles one of Sun Tzu's military strategies:

"When he has penetrated hostile territory, but to no great distance, it is facile ground. […] On facile ground, halt not." (Sun Tzu, 80)

In business, an organization can make its first presence in a foreign market with shallow penetration. For example, it introduces a product in a new market through export. This resembles the second internationalization stage; export. Furthermore, as the strategy suggests not to stop and “keep going”, it is not enough after entering to gain a small market share. At this point, it is essential to strengthen your position, improve your presence, and integrate further into the market.

Zara is an excellent example of this strategy. After Zara first opened in Portugal, there was no stopping. Despite Zara's continual and rapid internationalization, it kept in mind not to stop penetrating its current market. Due to all the markets Zara entered, it kept opening new stores in the domestic and existing markets, which proves its view of strengthening its position.

As mentioned, by having 'local guides', an organization can gain a “natural advantage” such as local knowledge and benefit from it. By Zara, we can see the application of this approach in three areas.

Firstly, when Zara opened a new store in a foreign market, it recruited local people to understand market preferences better. On the other hand, entries to foreign markets in which Zara sent Spanish managers to impose their management system proved to be a failure, as problems quickly arose. Examples of this would be their problematic entry in their early stage of internationalization into the French and Mexican markets (Bonache and Cerviño 1996).

Secondly, it used the joint venture entry strategy to enter foreign markets with a high degree of entry barriers or a problematic market to open. In every such foreign market, it found a local partner willing to establish a new entity and therefore had a successful entry.

Thirdly, it used the franchising entry strategy for more complex and uncertain foreign markets where the local partner was in charge of opening the new store and responsible for the business activities.

Moreover, the cautious choice of entry strategies for mentioned reasons shows the understanding of foreign business environmental scanning and, therefore, The Art of War.

"If you know the enemy and yourself, you need not fear the result of a hundred battles.
If you know yourself but not the enemy, you will also suffer a defeat for every victory.
You will succumb in every battle if you know neither the enemy nor yourself."

(Sun Tzu, 41)

9. Conclusion

To sum up, we found parallelisms between The Art of War and internationalization theory. Sun Tzu's military strategies greatly emphasize the importance of knowledge about the foreign enemy, terrain (markets), entry time and its advantages, overall strategies, etc., which perfectly resembles/reflects many vital factors in the internationalization process we addressed.

Fewer connections were found between The Art of War and foreign entry strategies. The reason is that the military strategies describe the entry generally, while the entry strategies are particular to business practices or commerce.

Nevertheless, we can say that The Art of War can be applied to the field of internationalization nowadays. Therefore, we agree with our first assumption. Sun Tzu's strategies can be applied in the field of internationalization nowadays and partly to foreign entry strategies.

Furthermore, for deeper understanding, we used Zara for the practical case. As we established and discussed in the previous chapter, Zara is an excellent example of the internationalization process. It follows the establishment chain with one exception, its entry into New York. Moreover, it fully understands and embraces the knowledge about foreign markets and the importance of the learning process. This proves the second assumption that Zara uses the internationalization process. Not only uses, but it successfully executes it.

This brings us to the third assumption. Due to the connection and applicability of The Art of War in the internationalization field and Zara's successful usage and execution of internationalization, we can say that Zara's successful entry strategies match Sun Tzu's strategies. Again, aside from New York.

Before Zara included 'local guides' in opening a new store, as Sun Tzu suggests, in the early stage of Zara's internationalization, it sent Spanish managers to integrate their management system in the new stores in foreign markets. Soon after the entry into France and Mexico, problems arose due to cultural differences. Afterward, Zara started to adapt and use local guides, which proved successful. This example indicates that when Zara applied a strategy that did not follow Sun Tzu's theory, it was ineffective and inefficient, again proving our last assumption.

For present and future organizations planning to expand, we strongly suggest considering Zara's internationalization practice and the overall theory as well as The Art of War which will give many great insights.

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ABSTRACT

Internationalization process and entry strategies according to Sun Tzu's The Art of War; a case study analysis on Zara

In this thesis, we explore the Internationalization theory as an overall process and its parallelisms with the military strategy book The Art of War by Sun Tzu. For the practical part, we chose to examine the organization Inditex, mainly its subsidiary Zara. We analyze whether the Zara’s internationalization approach applies the Internationalization theory and whether it resembles Sun Tzu’s principles.

Keywords: internationalization, military strategies, entry strategies, Sun Tzu, Zara, foreign markets

POVZETEK

Internacionalizacijski proces in vstopne strategije na temelju Sun Tzujeve Umetnosti vojne; Analiza primera Zara

V diplomski nalogi raziskujemo teorijo in proces internacionalizacije. Paralelno iščemo vzporednice med teorijo in vojaškimi strategijami iz knjige Umetnost vojne, ki jo je napisal Sun Tzu. Za praktični del smo izbrali organizacijo Inditex, natančneje hčerinsko družbo Zara in analiziral ali njen pristop internacionalizacije uporablja teorijo internacionalizacije in ali je podobno načelom Sun Tzuja.

Ključne besede: internacionalizacija, vojaške strategije, vstopne strategije, Sun Tzu, Umetnost vojne, Zara, tuji trgi