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THE UNIVERSITY OF NOTTINGHAM

**A QUALITATIVE INVESTIGATION INTO
MAJOR DETERMINANTS OF
MARKET SELECTION BY
A MULTINATIONAL INSURANCE COMPANY**

BY

KYUNG HO, LEE

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MSc in International Business

A Dissertation presented in part consideration for the degree of

MSc in International Business

Abstract

By using a case study approach, this study reviews the internationalisation process of an American multinational insurance company and explores the major determinants of market selection for the entry into the German insurance market. Findings from the in-depth interviews suggest that American insurance companies take a simplistic approach towards internationalisation and base their market selection upon only a limited number of economic factors. Managers should use these results to reflect upon their market selection approach and critically question themselves about to what extent their decision is actually warranted by solid economic factors. In addition, the exploratory approach allowed the emergence of new factors that have not been explored before in relation to the insurance sector. The cultural receptivity to insurance products seems to be a major determinant of market selection. Finally, the results shed light upon the applicability of the existing internationalisation theory to the insurance sector.

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1. Introduction

Decreasing barriers to trade and advancements in technology have given service companies the opportunity to market their services around the globe (Patterson & Cicic, 1994). In the developed world, the service sector already makes up 60% of the GNP of industrialised nations and between 25 and 30% of world trade (Fletcher & Brown, 2003). The extension of GATT (General Agreement on Tariffs and Trade) rules to cover services and intellectual property rights is likely to increase the total share of world trade accounted for by services (Hill, 2002). Concerning this phenomenal trade growth of services, insurances belong to a category of services that has risen sharply from 6.3% of world exports in 1985 to 9.4% in 2002 (United Nations Investment Report, 2003).

As financial markets are becoming more global and integrated, multinational insurance companies are facing new pressures in terms of internationalising their business. This poses a major challenge: potential target markets have to be assessed and selected more rapidly and more effectively than ever before. As evidence shows, companies make no use of a variety of sophisticated and complex quantitative and qualitative market selection techniques (Papadopoulos & Denis, 1988). Therefore, it is very important to identify major determinants of market selection for multinational insurance companies and detect major factors for the entry mode decision. This has implications for practitioners as it could offer them a framework for optimising the assessment and final selection of the target market and therefore accelerate the market entry.

In the light of the growing importance of financial services and the exceptional growth of service multinationals in the past decade, literature is unanimous about the fact that this

development is not mirrored in the number of existing academic studies (Buckley et al., 1992; Dunning, 1989; Patterson & Cicic, 1995; Erramilli, 1992; Katrishen & Scordis, 1998; Javalgi, Griffith & White, 2003). Whereas a growing number of researchers have investigated the financial services sector and banks in particular, there is little research on the internationalisation of insurance companies (Contractor, Kundu & Hsu, 2003). Only a few studies have investigated issues relating to the internationalisation process of insurance companies. Two previous empirical studies have examined factors that attract FDI in the American insurance sector (Moshirian, 2004; Moshirian, 1997). These studies suggest that economic fundamentals in the host countries are the main factors that attract FDI in insurance services. However, those studies focused merely on economic factors and were based on sophisticated statistical models. To date, not much is known about the major determinants of market selection in the insurance industry and how these factors interact to explain an insurer's choice to enter a specific country. By using a qualitative case study of a multinational insurance company, this paper seeks to help close this gap in the literature and investigate the general analytical approach multinational insurance companies take when entering foreign markets. Additionally, in spite of the growing importance of financial services and insurances in particular, the applicability of internationalisation theory to the insurance industry remains unexplored. Various authors argue that the analysis of the internationalisation process of service firms requires no special theory and that existing theory can be readily adapted through relatively simple adjustments and modifications (Buckley et al., 1992; Boddewyn et al., 1986). In the light of this argument, it will be interesting to find out to what extent existing theory explains internationalisation in the insurance industry. In doing so, this paper will contribute to a broader understanding of the inherent nature of the insurance business.

The principle aim of this paper is threefold:

1. to investigate the major determinants of market selection of a multinational insurance company and the interaction of those determinants.
2. to research main factors that determine the choice of entry mode.
3. to investigate the internationalisation process of a multinational insurance company from a theoretical standpoint.

The study being exploratory, it hopes to allow the emergence of new determinants of market selection that have not yet been explored in relation to the insurance industry. Drawn from the primary aim of this paper, this study tends to answer the following research questions:

1. How has the researched company determined the attractiveness of Germany as a target country?
2. How is the general analytical approach for assessing potential target markets?
3. Why are some factors considered as being more important than others for the decision to enter the German insurance market?
4. How was the approach decisive for the choice of entry method?

By answering the above questions, this paper hopes to bring available theories on internationalisation and practice together and extend existing literature in the insurance sector. The research questions are investigated through a thorough examination of qualitative data stemming from an in-depth case study of a multinational insurance firm.

This paper will proceed with a thorough literature review in the second chapter. A variety of theories that are considered as being relevant for the purpose of this study are presented. Then, in the third chapter, the underlying research design and methodology will be presented. This will

include a rationale for the qualitative case study approach. Following this, an analysis of qualitative data gained through semi-directive qualitative interviews is reported in the fourth chapter and findings from this analysis are discussed. The results are interpreted and related back to theoretical prescriptions from the literature review. An account of the appropriateness of data collection techniques and methodology is briefly outlined. The conclusion in chapter five will encompass the implications involved by reflecting on the study, as a practitioner and a researcher, and highlight key findings of the case study and key concepts in literature.

2. Literature Review

The objective of this chapter is to provide a theoretical overview of some basic issues and give the relevant background concerning the internationalisation of insurance companies. It includes three major sections:

The first part will cover theoretical prescriptions on the applicability of existing manufacturing theories to the internationalisation of companies in the service sector. As insurances belong to the service category, a review of the main concepts of internationalisation of service companies is clearly warranted. Owing to its universal acceptance in literature, the Eclectic Paradigm (Dunning, 1980) will be employed as a guiding framework.

The second part will cover relevant literature on a service firm's entry mode. After a thorough literature review, no prevalent and universally accepted theory which could have been applied to the research as a guiding framework was found out. Hence, this second part will mainly focus upon a variety of theoretical prescriptions which are relevant to the issues about the entry mode of service companies.

The third part will deal with factors that determine the attractiveness of a host country within the insurance industry. The major focus will be placed upon economic factors that literature deems major determinants for FDI in a host country.

Generally, the existing studies upon service internationalisation use a fairly broad theoretical base (Hellmann, 1994). The current author will explain this trend and critically draw upon a broad theoretical perspective in the literature review so that an integrated insight into the internationalisation process of service companies can be gained.

2.1 The Applicability of Existing Manufacturing Theory to the Service Sector

Literature is ambiguous concerning the applicability of internationalisation theories to the service sector. According to Johansson & Vahlne (1990), owing to the particular attributes of services, a context-specific approach works best so as to understand the internationalisation process of service companies. Doh & Pearce (2003) argue that the inherent characteristics of a service, such as intangibility, simultaneity, heterogeneity and perishability as well as the limitations associated with these characteristics, call for adaptations concerning existing theories. After a thorough and critical literature review, one theoretical framework seems to be universally accepted and considered applicable to the service sector: Dunning's Eclectic Paradigm. Literature is virtually unanimous about the fact that only few theories can be deemed as effective as Dunning's (1980) Eclectic Theory to explain the internationalisation of service companies (Boddeyn, Halbrich & Perry, 1986). A study on 228 business-to-business service companies by Javalgi, Griffith & White (2003) supports these findings, namely that Dunning's Eclectic Theory can be successfully applied to the service industry even though it was originally aimed at explaining FDI in the manufacturing sector. This is consistent with Boddeyn's et al. (1986) contention, arguing that the manufacturing theory offers a strong foundation for understanding the service industry. This statement is confirmed by O'Farrell et al. (1998), yet in a less enthusiastic manner. The above researchers argue that some insights of the manufacturing theory may provide a greater understanding for a service company's internationalisation.

2.1.1 The Eclectic Paradigm and its Applicability to the Service Sector

The eclectic paradigm, developed by John Dunning in 1976, suggests that there are three conditions which determine the international production. According to it, firms that satisfied these three conditions could engage in international productions.

-The Firm-Specific Ownership Advantage-

According to Dunning (1980), in order to account for the reason why a firm engages in FDI, the firm has to have three kinds of advantages. Dunning (1980) asserts that local companies have more advantages in comparison with multinational companies for some reasons. These advantages are as follows: the local companies know the market very well, are accustomed to existing market conditions and face less problems than multinationals because they do not have to operate from a distance. Therefore, in order to be competitive, especially in a foreign market, a multinational company must have some kind of firm-specific ownership advantage that its local competitor does not have, which offsets those disadvantages. The firm-specific advantage could be anything, yet most obviously some kind of superior technology or knowledge, i.e. superior management skills.

Javalgi, Griffith & White (2003) hold that firm-specific factors are major determinants for the internationalisation of companies in the service industry. Especially, they emphasise the impact of a firm's size upon the management's attitude towards internationalisation among organisational factors (firm-related variables) that can influence the internationalisation of

service companies. According to them, it is because larger multinational companies are more likely to be situated in mature home markets which make them seek growth opportunity in new geographical areas. Moreover, larger companies with more resources, in the form of both financial and human capital, are more likely to deal with risks associated with internationalisation effectively, which therefore makes the firms' foreign expansion less risky and more attractive. O'Farrell (1996) confirms that the existence of a causal relationship between a service company's ownership advantage and its internationalisation. He argues that owing to its specialisation and perceived competitiveness, a service company will consider foreign expansion. Hence, the more specialised and/or competitive a firm is, the more it will perceive having a competitive advantage which it can exploit in foreign markets. Miller & Parkhe (1996) noticed the same trend while they analysed the internationalisation patterns of north-American banks. According to them (1996), if the management of a service company finds the opportunity of transferring their competitive advantage abroad, it will be more positive towards internationalisation. Javalgi, Griffith & White (2003) support these findings by saying that a firm's perceived competitive advantage will lead to the management's propensity to internationalise. White et al. (1999) expand upon this idea by defining the management's attitude as the most important factor for internationalisation. Owing to relatively low capital requirements in the service industry in comparison with the manufacturing sector, the management's perspective upon internationalisation plays an even more decisive role. Andersson (2000) supports this finding, arguing that a manager's international attitude and orientation is vital to a firm's international development. In actuality, the importance of this firm-related factor upon internationalisation has been widely discussed in strategy research. According to Zahra et al. (2002), strategy researchers have long asserted that the characteristics of the firm's top management team, foreign work experience, foreign education, background

and vision, can spell the difference between its success and failure. These characteristics significantly affect firms' strategic choices (Finkelstein and Hambrick, 1996), such as internationalisation (Carpenter and Frederickson, 2001; Calof and Beamish, 1994).

-The Location-Specific Advantage-

According to Dunning (1980), location factors are extremely important as they affect the where of value added activities. Javalgi, Griffith & White (2003) also maintain that concerning service companies, location-specific factors greatly influence the management's attitude towards internationalisation and are major determinants for internationalisation in the service industry. Location-specific factors include host government regulations relative to foreign entry mode, restrictions in terms of ownership, local content requirements as well as fiscal and financial legislation (Robock & Simmonds, 1989). Especially, the existence of host government restrictions, such as non-tariff barriers, local content requirement, restrictions concerning currency and capital flow and ownership, is affirmed by Lovelock & Yip (1996) who argue that these restrictions aim at limiting foreign investment in the service sector. This government's impact upon internationalisation is also confirmed by Li & Guisinger (1992). They (1992) say that the degree to which a host country is open towards FDI is positively correlated to a service company's propensity to internationalise. This finding is consistent with Dunning's (1990) findings upon the influence of the government as an exogenous variable, which has a significant impact upon international production. Indeed, Dunning (1990) acknowledges an obvious trend towards "less government intervention, more deregulation and liberalisation of markets and more privatisation" (p. 32). Yet, examining the factors that have a major impact upon a

multinational's decision to locate their service activities in a particular foreign country, among those mostly cited are factors that are either government-related or at least are influenced by the government of a host country (Dunning, 1989).

Guisinger (1985) expands upon the idea that location-specific factors, especially in the form of host government actions, affect a company's decision to enter a specific country or market. According to his findings, the existence of structural market distortions, which are created by some form of government intervention, make an impact upon a company's revenues or costs from operating in a foreign country, therefore either encouraging or discouraging a firm to expand into a certain geographic area. These structural market distortions can be either natural (e.g. transport costs) or artificial (e.g. quotas upon imports and export subsidies) (Dunning, 1989). Dunning (1990) addresses Guisinger's (1985) idea of the host government's impact upon a firm's revenues and costs. In his opinion, the following variables are critical:

“The costs and availability of engineered factor endowments, including all kinds of information, and the capacity to assimilate, interpret and use this information, innovatory capacity, scientific, technical and professional personnel, a first rate transport and telecommunications system, a favourable tax environment, an ethos of entrepreneurship, a cooperative and well motivated labour force, a sophisticated domestic market, a commitment to excellence in product quality and production standards, a sound macro-economic policy, and a constructive and symbolic working partnership between the main wealth creating institutions and Government” (p.33).

Dunning asserts that these variables are extremely important owing to their impact upon a company's revenues, but even more so as these variables enormously influence a firm's transaction costs while expanding internationally.

Empirical research often considers the similarity between home and a host country as a major determinant for the choice of a specific location (Papadopoulos & Denis, 1988). Li & Guisinger's (1992) findings support this statement, namely a north-American firm's foreign investment is negatively correlated to the cultural differences between home and the host country. Hence, the greater the difference between cultures, the less likely it is that a service company will engage in foreign investment. This trend was also discovered by Erramilli (1992), however, he added a time element in his argument. In his opinion, the choice of a country is greatly dependent upon a firm's experience in internationalisation. He argues that a company at its early stage of internationalisation will favour countries that are both culturally and geographically close to its home country. Yet, as the firm grows internationally and gets more diversified, it will seek opportunities in markets that are more distant from its home country in the same respect. Axinn & Matthyssens (2002) somewhat agree to his argument although not without questioning this approach. Indeed, they acknowledge the fact that companies start their internationalisation path by entering markets that are culturally similar to their home country. However, considering the trend towards the homogenisation of cultures in the world, they maintain that this theoretical approach must be questioned.

-The Internalisation Incentive-

Dunning (1980) asserts that under some circumstances companies want to internalise their firm-specific ownership advantage. Hence, if a company is to engage in FDI, it has to have a justification to internalise that knowledge and not to use it in the marketplace. The Dunning's eclectic theory tries to deliver an explanation for a company's motivation to internalise its knowledge rather than sell or license it to the marketplace. The reason why the internalisation incentive comes about is because of the market of knowledge being imperfect, and this imperfection generates high transaction costs and pushes a firm towards internalising their knowledge (Dunning, 1980).

Concerning the service industry, certain conditions encourage a service company to use its knowledge internally (Schroath & Korth, 1989). Schroath & Korth (1989) suggest that the internalisation incentive is high when there is no price discrimination, where property rights are costly to enforce, and when a company requires a high degree of control over its service offerings. Furthermore, they argue that a firm without fully exploited resources in the form of human assets and managerial certainly has an incentive to internalise and deploy these capabilities in foreign markets at a low marginal cost.

2.1.2 A limitation of the Eclectic Paradigm

Literature not only discusses the applicability of Dunning's (1980) eclectic theory to the service sector (cf. 2.1), but also the drawbacks of his theoretical approach as a whole. Critics argue that no consideration is given to the influence of a company's home market as well as to an

industry's structure. According to Li & Guisinger (1992), an industry's structure has to be taken into consideration when examining a company's internationalisation. According to their findings, FDI is positively related to global oligopolistic reaction, namely large multinational companies show patterns of a defensive strategy by just following their competitor abroad. Considering an oligopolistic structure in the home market, one company's FDI will provoke a reaction of other domestic companies which are likely to follow. This behaviour can be accounted for by a desire for competitive equilibrium (Roots, 1998). Hence, by simply following their competitors abroad, domestic companies try to re-establish the competitive equilibrium (Watson, 1982). Anderson (2004) expands upon the idea that a company's internationalisation can be accounted for by industry structure and particularly by oligopolistic behaviour in mature markets. In the mature phase of a market, the movements of the players are typically oligopolistic reactions (Knickerbocker, 1973). Even if Andersson (2004) emphasises the impact of industry structure upon a company's internationalisation process, he also suggests that a company does not go from its early stage of internationalisation to later stages without proactive individuals who implement an international growth strategy.

This statement reveals another major drawback of existing internationalisation theories. Literature criticises the fact that many theories including Dunning's (1980) eclectic theory underestimate the decisive role of managers in internationalisation. Nowadays, given less hierarchical organisations and decentralised structures such as business units, managerial impact upon internationalisation decisions is becoming very influential (Axinn & Matthyssens, 2002). This finding is even more relevant for high growth industries where changes in the environment are rapid (Eisenhardt & Schoonhoven, 1990). Owing to this complex environment, it is easier to understand service companies' international strategies by focusing upon their internal resources

(Barney, 1991). The individuals in the firms are important resources and their interpretation of the environment is important in terms of the choice of market (Maignan & Lukas, 1997).

2.2 The Entry Mode of Service Firms – A Critical Insight

For the purpose of investigating determinants for entry mode and clarifying the understanding, this paper will use Erramilli's (1990) distinction between low and high involvement entry modes. Thus, a high involvement entry mode is associated with the market entry via wholly owned subsidiaries. The main features of these two types are summarised in Exhibit 1 (Erramilli, 1990, p.140).

Figure 1. The Level of Foreign Market Involvement Scale

Foreign Market Entry Mode	Resource reqd. For Commitment	Market Specificity Of Commitment	Level of Involvement
1. Wholly Owned Subsidiary/ Branch Started from Scratch	Very High	High	9 (Highest)
2. Wholly Owned Subsidiary Acquired	High	High	8
3. Majority Joint Venture	Moderate to High	High	7
4. 50-50 Joint Venture	Moderate	High	6
5. Minority Joint Venture	Moderate	High	5
6. Export Subsidiary	Moderate	Moderate	4
7. Direct to Customer Exports	Low to Moderate	Low	3
8. Agent/Distributor Exports	Low	Low	2
9. Licensing/Franchising	Very Low	Very Low	1 (Lowest)

Source: Erramilli (1990)

The entry mode choice is amongst the most important decisions a company has to make when internationalising because not only it gives an impact upon performance, but it also affects the longevity of a company's operation in a particular country (Terpstra & Sarathy, 1994). According to Schroath & Korth (1989), a service company has several choices when facing

international markets. It can decide between selling only particular services abroad, it can engage in licensing agreements by the means of an agent, or fulfil a direct entry path provided that it has an internalisation incentive. This variety of entry mode choices is also found out by Roberts (1998) who argues that business service companies use various forms of serving foreign customers including exports, FDI, joint ventures, franchise agreements and reciprocal arrangements among other means. Vandermerwe & Chadwick (1989) provide an even more differentiated perspective. According to them, a service company can choose from three main entry modes such as exporting, contractual arrangements (e.g. joint venture, licensing/franchising and management contract) and sole ownership.

The process of internationalisation, namely the move from one phase to another, seems to be a more controversial issue in literature. According to Roberts (1998), like manufacturing firms, service companies pass through a number of stages while engaging in international operations. Roberts bases her argument upon the findings of Johansson & Vahlne (1977) who argue that a company's internationalisation is the product of a series of incremental steps which require the firm to increase its resource commitments gradually. Hence, the process of internationalisation can be described as evolutionary, "with firms increasing their overseas involvement gradually, passing through various stages in the course of entering and establishing a production facility in a foreign market (Roberts, 1998, p. 68). However, she also suggests that not all service companies go through the same stages; yet the internationalisation of service companies clearly happens in an incremental pattern. Concerning this finding, Axinn & Matthyssens (2002) critically state that a company's internationalisation strategy cannot be considered as linear and static as pointed out in the stages theory as this would disregard the speed of internationalisation of firms. For this reason, they question the relevance of existing theories explaining

internationalisation for these theories have been developed within a particular environmental context to account for certain specific behaviours of companies. Thus, in today's fast changing environment, these theories seem outdated and lose their explanatory power (Axinn & Matthyssens, 2002).

This criticism can be considered as a trend in literature as authors often question the validity of existing entry mode theories (cf. Axinn & Matthyssens, 2002). However, even more controversial is the question as to whether existing entry mode theory of the manufacturing sector is applicable to the service sector. According to Li (1994), services are different from tangible products not only in a physical sense, but also relative to the production and delivery process. Therefore, manufacturing and service companies may face unique challenges in their foreign market entry and expansion processes (Erramilli & Rao, 1993). This finding is supported by Ekeledo & Sivakumar's (1998) argument that, owing to the inherent characteristics of services, it is hard to make a valid generalisation about determinants of entry mode from the manufacturing to the service sector. Roberts (1999) agrees with this idea by arguing that the inherent characteristics of services make an impact upon the entry mode in a foreign country. Such characteristics as the need for client-contact based upon a long-term relationship, information-intensiveness, the significance of a quality standard guaranteeing a certain reputation, and cultural sensitivity are the factors that have to be taken into consideration, and can even be considered as a limitation to the internationalisation of services. This statement is supported by Patterson (2004) who argues that the inherent characteristics of services are particularly important in an international environment for they have an impact upon the firm's entry mode. In his view, because services cannot be directly exported as physical goods (Carman & Langeard, 1980), service companies see themselves confronted with a limited choice of entry modes and cannot increase their international experience progressively as in the

case of exporting manufacturers.

This brief, but critical insight into entry mode issues has been useful in the sense that an obvious trend in literature could possibly be identified. As mentioned above, because of the inherent characteristics of services as mentioned above, literature is sceptical about the applicability of existing entry mode theories to the service sector. Therefore, there has been no entry mode theory that has been unanimously accepted as being applicable to the service sector. The current author will allow this trend in literature. Rather than highlighting any major entry mode theory as being of paramount importance, it is more useful to identify a variety of factors that literature considers as most relevant and influential relative to a service company's mode of entry. These factors will be described in turn.

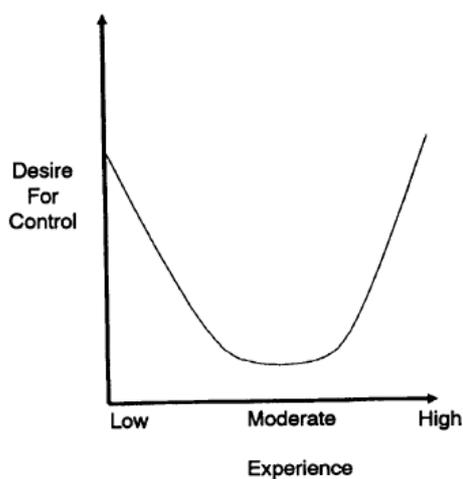
2.2.1 Factors Favouring a High Involvement Entry Mode

According to Bouquet, Hébert & Delios (2004), in human capital intensive service industry and industries with high customer interaction, high involvement entry modes, such as wholly owned subsidiaries, are deemed being the most effective. They maintain that service companies are often forced to transfer their skills, competencies and social assets abroad, which have been built up over a long period through investments in training of human capital and direct client exposure. An integrated entry mode facilitates the transfer of these skills into a foreign country and lowers the risk of appropriation and dissemination. Evidence shows that companies that pursue an integrated entry mode show a high propensity to make use of expatriate managers so as to facilitate the transfer of skills. This trend is particularly common in the financial services sector and the number of expatriate managers represents almost a third of total employees

(Bouquet, Hébert & Delios, 2004). This finding is supported by Patterson who states that the high level of service provider-receiver interaction and the existence of cultural differences require a multinational service company to have local presence and transfer key personnel although this causes a rise in costs (Riddle, 1986).

Various authors expanded on the idea of the impact of human capital intensity upon a company's entry mode. For example, according to Fryer (1991) and Reardon et al. (1996), a high human capital intensity makes it difficult for service companies to effectively control and coordinate their international operations. In this case, companies are inclined to prefer high involvement entry modes like wholly owned subsidiaries as a remedy for this problem. It is because, by this means, service quality can be controlled more effectively and quality standard can be kept at a high level (Bouquet, Hébert & Delios, 2004). Douglas and Craig (1995) confirm this statement by maintaining that a firm's need for control strongly influences its entry

Figure 2. U-Form Relationship between a Company's Experience in Internationalisation and its Need for Control



Source: Erramilli (1991)

mode. Hence, service companies that desire a high level of control will choose sole ownership in a foreign market (Ekeledo & Sivakumar, 1998). Erramilli (1992) elaborates this idea of “control”. He asserts that the need for control changes over time by contending that the relationship between a service firm's experience in internationalisation and the need for control is U-formed (cf. Figure 2., Erramilli, 1991, p. 486).

Hence, companies both in their very early and very last stage of internationalisation tend to opt for

high involvement entry modes, which will give them a high degree of control over their foreign operations. As a company gets experience in its early stage of foreign expansion, it will be more attractive to possible partners and is more likely to engage in control sharing in the middle phase. However, in the later stages, the company will be inclined to use a more integrated form of international operation again owing to a higher level of confidence gained through its international operations; hence, a U-formed relationship (Erramilli, 1991).

Nicolaud (1989) offers a factor that plays in favour of a high involvement entry mode. According to him, service companies require a much more rapid market entry in comparison to manufacturing companies. So, in order to ensure a fast market entry, companies are inclined to opt for an integrated entry mode. Roberts (1999) offers a remedy for this need of rapidity. In her opinion, the use of mergers & acquisitions is the most effective way for exploring international markets for service companies. Therefore, it is her belief that the main advantage is the rapidity in which a network can be built. Furthermore, a company gains faster access to an existing client base and benefits of the partner's knowledge about local market conditions. In addition, the financial risk will be minimised as the company does not have to establish itself in the market, which can be challenging especially in western countries where the service sector is highly competitive. This entry mode is especially useful for latecomers to an international market where a rapid market entry is even more decisive (Roberts, 1998).

Literature offers economic factors that call for the use of integrated entry modes. Das & Teng (1996) maintain that service multinationals can benefit from taking into consideration international economic risk factors. According to Brouthers, Brouthers & Werner (2002), international service offerings are often locally produced in order to meet the requirement of

client proximity. So, they argue that service companies are likely to be more sensitive to macro-economic risks in comparison to manufacturing companies. As they are less capable of responding to macro-economic fluctuations, they face a much higher environmental uncertainty. Because of that reason, service companies tend to prefer integrated entry modes which give them more control to effectively adapt to macro-economic fluctuations.

According to literature, product market uncertainty such as unexpected changes in demand or in client preferences, and changes in the availability of substitute or complementary products strongly influence a company's entry mode (Brouthers, Brouthers & Werner, 2000). It is because owing to the intangibility of services, consumers find it hard to detect emerging differences in quality (Campbell & Verbeke, 1994). Therefore, they face a higher risk of uncertainty relative to a service offering, which, in turn, increases a company's transaction costs. Under these conditions, a company will choose an integrated entry mode in order to maximise local market knowledge and keep transaction costs at a minimum level (Boddewyn et al., 1986).

The industry structure in the host market is likely to push a service company towards an integrated foreign entry mode. According to Roots (1998), in both monopolistic and oligopolistic markets, a foreign company has no choice other than choosing sole ownership if it wants to be capable of competing effectively with the established companies. Li & Guisinger (1992) confirm this statement by arguing that a multinational company in an integrated world economy has no choice other than adopting a global strategy to stay competitive.

According to Erramilli (1996), it is more likely that companies with a high demand in their domestic market are more competitive internationally. Based upon this finding, Ekeledo & Savikumar (1998) assert that the home market size has an impact upon a service company's

entry mode. Hence, it can be said that service companies originating from a large home market benefits in terms of higher financial resources, more advanced technology and management skills. Consequently, these resources and capabilities explain a company's propensity to choose an integrated entry path into a foreign country.

2.2.2 Factors Favouring a Low Involvement Entry Mode

Various factors explain the use of low involvement entry modes such as licensing agreements, franchising, management contract and exporting. According to Ekeledo & Sivakumar (1998), external factors have a high impact upon a company's entry mode into a foreign country. According to Harrigan (1983), host country market factors such as uncertainty of demand or low market potential in a particular location force companies use low involvement entry modes (Kim & Hwang, 1992). Particularly, companies that offer hard services such as insurances (cf. Erramilli, 1996) are likely to choose exporting as an entry mode if they see a high uncertainty of demand.

According to literature, market structure in a host country has a major impact upon a company's entry mode, depending on a competitive, oligopolistic or monopolistic market structure (Ekeledo & Sivakumar, 1998). A company entering a competitive market wants to choose an entry mode with rather low resource commitment (Anderson & Gatignon, 1986). Therefore, it can be said that a highly competitive market explains a company's propensity to choose a low involvement entry mode such as licensing or exporting, namely a shared-control mode (Anderson & Gatignon, 1986).

According to Ekeledo & Sivakumar (1998), a country's political risk has a major impact upon a company's entry mode decision. Here, the political risk has been defined as the likelihood that political forces will cause drastic changes in a country's business environment, making a negative impact upon the profit and other goals of a particular company (Robock & Simmonds, 1998). So, it can be said that the higher the political risk of a particular country, the more a service company will choose a low involvement entry mode.

After reviewing the relevant literature on entry mode theory in relation to service companies, a clear trend has emerged: apparently, literature offers more factors favouring a high involvement entry mode which allows companies to have more control. However, there would seem to be several points on which this argument can be challenged. In fact, a study examining the influence of service intangibility upon internationalisation suggests the opposite (Cloninger, 2004). Therefore, it can be said that there is no correlation between service intangibility and a higher control entry mode, that is service companies are not more likely to choose high control, integrated entry modes. According to Cloninger (2004), an interpretation of this finding suggests that service companies may be able to maintain control over their service products without using high control entry modes.

2.3 The Attractiveness of a Host Country for FDI

Hill (2005) offers an excellent summary with regard to the attractiveness of a target country. According to him, it is the interaction between political, economic and legal factors that determine the benefits, costs and risks a company faces when it enters a particular foreign country. Thus, a company has to balance the prospect of long-term benefits against possible costs and environmental threats. Furthermore, financial benefits of internationalisation are dependent upon market size, the current wealth or purchasing power of the individuals and the anticipated future wealth (Hill, 2005). However, for the purpose of this study, rather than giving a broad overview of general factors, the critical literature review will focus particularly upon those economic factors that literature determines as decisive for the insurance sector.

2.3.1 An Insight into Economic Factors

Literature suggests that disposable income is an important determinant of FDI in the financial service sector (Truett & Truett, 1990; Outreville, 1996). According to Moshirian (2004) who analysed the major determinants of FDI in the U.S insurance industry, a higher disposable income makes insurance products more affordable and increases an individual's need to protect future potential losses. So, as a higher income generates a higher demand for insurance services, multinational insurance companies are likely to look closely at the national or disposable income of individuals living in the possible target country or market. According to Moshirian (1999), empirical studies suggest that industrialised countries spend between 5 and 10% of their Gross Domestic Product (GDP) on insurance services while the proportion of GDP spent on

insurance in developing countries is relatively low. So, it can be said in that sense that industrialised countries are more likely to attract more FDI in the insurance sector. These results are similar to the early findings of Dunning (1971). However, there he puts more emphasis upon the effect of government policy on an individual's demand:

“...domestic macro-economic policy in host countries is important in influencing both the amount people save and their willingness to undertake general life insurance or to increase their coverage...” (p.35).

Buckley, Pass & Prescott (1992) confirm this result by arguing that the growth of the insurance industry depends heavily upon an individual's “propensity to save (which, in turn, is related to local economic conditions like interest rates and taxation) and the level of state pension provision” (p. 299).

Moshirian (1999) argues that market size is a major factor that explains FDI in the insurance sector. For that reason, the actual or potential market size can be said to have explanatory power of a multinational insurance company's propensity to enter foreign markets. In addition, taking the insurance premium as a proxy for market size, there is a positive relationship between the level of insurance premium and the amount of FDI. Therefore, it can be right to say that the larger the insurance premiums of a given location, the more likely a multinational will opt for this specific place for offering its insurance services. Dunning (1971) expands upon these results. According to his findings, a strong growth in insurance premiums is partly a result of a strong economic growth in a country.

Moshirian (2004) suggests that home market characteristics are a major determinant of FDI. Therefore, it can be said that as one characteristic of a home market, the home country's market

size is positively related to a company's propensity to engage in FDI, namely the larger the domestic insurance industries are, the more companies are inclined to invest abroad.

According to literature, relative economic growth can be considered as an important determinant of foreign investment (Culem, 1988). This finding is supported by Moshirian (2004) who finds the same relationship in the insurance sector where the relative economic growth is a major determinant of the level of foreign investment. Therefore, an increase in relative economic growth generates a greater increase in FDI in insurance than domestic investment in insurance.

Literature also suggests that the cost of capital is a major factor that has an impact upon a company's decision to internationalise (Moshirian, 1997). This statement is confirmed by Moshirian (1999) who says that insurance companies clearly consider the cost of capital differential while expanding internationally. However, this finding is inconsistent with Grubel (1982) who questions the fact that those capital market imperfections "which lead to different costs of capital favouring the foreign entrepreneur can provide an explanation of foreign direct investment in principle (p. 13).

Moshirian (1999) emphasises the impact of labour costs upon multinational insurers' propensity to engage in FDI. It is because he has found out that there is a negative relationship between the wage differential and FDI. Hence, he argues that insurance companies are sensitive to labour costs in the host countries for low labour costs encourage the insurance companies to enter a particular target country. This finding is supported by a UN report in 1993, which considers wage differentials as an important factor in many internationalisation decisions. Hence, companies consider a higher wage rate in the host country in comparison to in their domestic

market as an obstacle to FDI in the insurance sector. These findings suggest that multinational insurance companies seek lower labour costs when they make investment decisions.

According to Dunning (1989), the search for economies of scale is an important factor of determining FDI in the service sector. It is because large multinational service companies can benefit from economies of scale in personnel specialisation, financial management and common governance. This finding is supported by Lovelock & Yip (1996) who state that information-based service companies such as insurers can achieve global economies of scale by standardising their insurance products and by centralising upstream value chain activities. However, according to Buckley & Casson (2002), this positive effect may be neutralised as costs may be higher for companies in foreign markets than in home markets owing to government regulations in the insurance sector. Thus, any advantages that insurers receive as the outcome of economies of scale may be offset by the higher costs of foreign operations. Buckley & Casson (2002) further argue that these higher costs are likely to occur as government regulation in the insurance industry substantially increases the costs of international activities.

According to Moshirian (1999), exchange rate fluctuations are an important factor for multinational insurance companies entering foreign markets. It is because, according to the research, exchange rates can make both positive and negative effects upon FDI in the insurance sector. So, increased uncertainty about exchange rates will lower a company's propensity to engage in FDI especially if multinational insurance companies base their FDI decision on the initial costs for the establishment of foreign branches. However, if companies base their investment decision upon their long-term anticipated gains from income generating branches, exchange rate uncertainty will have a positive impact upon FDI. Grubel (1982), on the other

hand, claims not to overestimate the importance of exchange rate fluctuations for multinationals. He acknowledges that exchange rate instabilities represent a risk, however, multinationals are in a position where they can “manage the position of their balance sheets in such a way that these risks become irrelevant.” (p. 16).

Dunning (1971) adds the influence of inflation. He maintains that “inflation has various effects upon the profitability of non-life insurance, but two are particularly important; it increases claim costs (relative to premium income) simply because of the time-lag between the time a claim is incurred and its settlement” (p. 43). Secondly, it tends to reduce the real value of insurance in so far as there is a tendency to under-insure (p. 43).

2.4 Insurance Industry – A Gap in Literature

The critical literature review has not only allowed a critical insight into the topic under investigation, but also set this study in the context of existing knowledge.

After critically reviewing the existing body of literature, the following trend becomes obvious: there is only a limited amount of research done on the insurance industry particularly in an international context. Especially, two studies analyse the international investment in insurance services (Moshirian, 2004; Moshirian, 1997). However, both studies focused

- 1) upon economic factors as determinants for FDI, risking to underestimate the importance of other market selection determinants.
- 2) upon the determinants of inward FDI into the U.S market, risking to neglect cultural particularities. It can be suggested that the determinants of inward FDI might not be culturally robust.

3) upon quantitative models.

There is no qualitative research upon the internationalisation process of multinational insurance companies, more specifically, the investigation into the major market selection determinants. Furthermore, the applicability of existing internationalisation theory to the insurance sector still remains unexplored. This gap in literature has implications both for the research design and the methodological approach employed in this study, which will be discussed in turn.

3. Methodology

The previous chapter on literature review has provided the theoretical background for the present research. This chapter will deal with some practical issues concerning the strategy and methodology of the research. Hence, this chapter will be broadly divided into two sections which are the research strategy and research methodology respectively. The first section will introduce and evaluate the decided research strategy in the light of the present research topic, methods in the literature, and research objectives. The second section will then describe the chosen research methodology for this study in more detail and discuss its validity.

3.1 Research Strategy

In this section, we will discuss methodological issues and deal with the broader questions about the research approach. So the questions as to why a particular research method was considered more appropriate to this research work and why a certain research approach was taken for the study will be answered in this section.

3.1.1 Methodological Selection

Methodological selection is in a strong connection to the evaluation of possible research methodologies. Hence, it has to be explored what type of methodology is most appropriate to

the current research and under which conditions. According to Punch (1998), the choice of a research methodology depends upon six factors: the research topic, the research question, methods found in literature, practical considerations, which approach will be more instructional, and the personal preference for the approach. What will follow next is a brief discussion on the relevant considerations.

-The Research Topic and Methodology-

The prime purpose of this dissertation is to carry out an investigation into the major determinants of market selection of an American multinational insurance company. So it will be very intriguing to discover how a large American insurance company determines the attractiveness of a target country or market, and why the company uses a certain entry mode into that particular market. Therefore, it can be said in other words that the goal of the paper is to gain a clearer understanding of an approach a multinational insurance firm takes when it expands internationally. Since the emphasis is particularly placed upon understanding, qualitative methods appear most appropriate for this research (Yin, 1989). It is because qualitative research pursues an interpretive understanding of human experience through a naturalistic perspective. In addition, the naturalistic approach enables researchers to gain a rich, deep and holistic comprehension of their subjects (Patton, 2002). So it can be suggested that qualitative methods, more specifically semi-structured interviews, will provide the necessary flexibility to uncover trends and themes otherwise hidden (Leary, 2000).

-Methods in Literature-

The reasoning behind the appropriateness of qualitative research methods to this study is also derived from the fact that little research in the field of FDI in the insurance sector has been conducted, which could guide qualitative methods. In addition, there is not enough qualitative information available regarding the internationalisation process of insurance companies in order to form the basis for a questionnaire approach to this topic. As one consequence, no comprehensive list of factors that determines the entry into a target country or market exists, which necessitates the employment of a qualitative approach (Symon & Cassell, 1998). What is more, a few extant research papers in this area still largely remain quantitative. For example, as Moshirian pointed out (2004), researchers on investment in insurance services heavily rely upon questionnaires and sophisticated statistical analysis.

-The Research Objective and the Data Collection Method-

Saunders et al. (2003) hold that depending upon what the researcher tries to prove, there exist different types of research strategies. Yin (2003) also maintains in a similar vein that the nature of the research questions should determine the research strategy. He also argues that the use of a case study strategy is the most appropriate for “how” and “why” questions. Here, for the purpose of this study, the current author uses Yin’s definition of case study research: “an empirical inquiry which investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident” (1994, p. 13).

For this dissertation, a case study strategy is considered as the most suitable way to conduct the research. It is because, as said earlier, the use of a case study strategy is the most appropriate for “how” and “why” questions. In addition, considering that this study is on how a large American insurance company determines the attractiveness of a target country or market, and why the company uses a certain entry mode into that particular market, the case study approach seems the most suitable for the study. Another reason is that the case study has the advantage of offering a holistic view of a process, i.e. in this case the process of choosing a target market. According to the holistic view, the sum of the whole is superior to the sum of its parts. Accordingly, the case study will give a better picture of the research subject. Furthermore, the detailed information required in the case study method will enable the current author to study a variety of aspects, examine them in relation to each other, and identify new factors. Leedy (1997) says that a qualitative approach is typically employed to answer questions about the nature of a phenomenon in order to describe and understand the phenomenon from the participants’ point of view. Additionally, according to Hartley (2004), the main characteristic of the case study approach is not method or data but the importance of understanding processes as they happen in their context. So, in this case, the use of the qualitative approach can be believed to facilitate the understanding of management decisions to enter a specific country in their organisational setting (Dhanani & Groves, 2001), which is invaluable for this dissertation. This aims to provide better insights into how economic factors of a target country and a management’s interpretation of them can interact to affect a firm’s internationalisation process. Moreover, the case study approach will allow probing beyond the common economic market selection determinants which are usually listed in literature. Therefore, an exploratory approach will allow the researcher to uncover issues not previously accounted for in literature (Yin, 2003). It is quite implausible that insurance firms consider exactly the same factors as firms from other

industries do when entering foreign markets. Hence, the researcher cannot ask the interviewees if they consider these factors decisive in the insurance industry, as it may act to influence participants' responses, adding unnecessary bias (Symon & Cassel, 1998). Therefore, the most appropriate strategy is to ask the interviewees directly what factors they consider when entering foreign markets. In this case, the semi-structured interview provides a high-quality tool.

The company ABC Inc. was selected based upon its suitability. The reason for the suitability is that, firstly, it is a truly multinational company, offering insurance services in many different countries; secondly, it has quite recently entered the German market; thirdly, it has a long tradition in entering foreign markets. Additionally, the researcher could get access to senior management which facilitated the process.

3.2 Methodology

This section is to indicate the appropriate methods will be adopted in doing this dissertation. So it covers the actual research design used in the research in the light of the previously established research objective. The account of the procedures will include a brief description of the interview participants along with the account of the methods and measures utilised.

According to the objective of the dissertation, the main methods involved in this dissertation are desk-based research and case study.

3.2.1 Desk based research

The purpose of this dissertation is to give an overview of theories about internationalisation and to investigate the major determinants of market selection by an American multinational insurance company. Therefore, desk based research was conducted as one method of accomplishing the purpose. Desk research focused upon the examination of the literature, internal company documents and publicly available information, by which the current author could obtain existing theories, models and different opinions about the subject. Furthermore, by analysing this information, the author could get familiarised with the company in question and its internationalisation process. The analysis of the information also generated further questions for the interview.

3.2.2 Case Study

As another means, field research was also carried out. For the field research, a case study approach was taken by analysing ABC Inc. entering the German market because the case study was believed to give the author a deeper understanding about the theories and help to do a detailed examination of the occurrence or phenomenon (Harrison, 2003).

-Participants-

The research consists of two parts:

1. the pre-test A
2. the main study B

-The Pre-test A-

Before starting data collection, the interview format was successfully pre-tested by ten e-mail questionnaires which were sent out to middle managers of Metzler Investment Bank which often takes part in transactions of foreign investment in the German insurance market. The response rate was fifty percent. Initially, there were two reasons behind this idea of designing the questionnaires. The first reason was to obtain a range of independent opinions about general aspects about the internationalisation process of insurance companies. The second one was to check the relevance of those interview questions to the research subject, which were used for the senior management of ABC Inc. and KPMG which was involved in ABC Inc.'s transaction in Germany.

The pre-test was performed with three fundamental questions:

- 1) What is the general approach for the selection of a target market?
- 2) How would multinational insurance companies define the attractiveness of the German insurance market?
- 3) How would multinational insurance companies approach and make the entry mode

decision?

The results from this pre-test were used as a guide for the interview questions to ensure that the questions cover all the relevant issues and will be further analysed in the main body of the research.

-The Main Study B-

This part consists of two semi-structured interviews:

1. the one with senior management (Director of Insurance Services) of KPMG, who took part in ABC Inc.'s expansion into the German market. This participant has a ten year experience in the German insurance sector and has consulted various multinational insurance companies entering the German market.
2. the other one with senior management (Senior Vice President of Insurance Division) of ABC Inc. This participant has a long experience in the assessment of potential target markets and has coordinated the company's entry into the German market.

Consent was granted by the both participants to use the information obtained from the interviews and confidentiality was firmly assured. According to prior research, candour in interviews is directly related to the interviewee's seniority: junior staff members were less open in their comments while elite individuals were more frank in their answers (Sinclair & Brady, 1987). The choice of the both interview partners in the case study of ABC Inc. explains this finding.

-Procedures-

Two semi-structured interviews were conducted with the participants and for each interview it took approximately one hour as agreed in advance. Semi-structured interviews with quite standardised set of questions were employed so as to allow flexibility and facilitate paying particular attention to what the interviewees consider important, which allowed the views of the interviewees to become known. According to literature, semi-structured interviews are considered as appropriate largely in three kinds of conditions that follow.

- 1) when the step-by-step logic of a situation is not clear
- 2) when the subject matter is confidential or commercially sensitive
- 3) when the interviewee may be unwilling to be truthful (Gummesson, 2003).

These three conditions existed in the current case study. Firstly, the step-by-step logic of choosing a target country or market was not clear, therefore, had to be clarified. Secondly, the factors that the researched firm considers when it expands internationally could be regarded as commercially sensitive. Thirdly, the interviewees might have been reluctant to be truthful in order to prevent the leakage of insider knowledge.

Interview questions were based upon a thorough literature review which revealed key issues with regard to determinants of market selection. Because the interviews were exploratory in nature and aimed to collect a vast range of data regarding the internationalisation process of insurance companies, the questions were phrased to capture all these issues. (Please see the Appendices for an oversight of the questions employed in the main interviews. Some probing was allowed.

At the start of the interview, each interviewee was requested to give a description of the general approach in analysing the attractiveness of a target market in the insurance industry, which was followed by the enquiries about the entry mode. Aspects of the secondary research data collection allowed the detailed questioning of the interviewees. The current author sought further elaboration and clarification when it was necessary.

-Data Analysis-

Yin (1994) says the difficulty in analysing case studies lies in the fact that the employed strategies and techniques in case studies lack a clear definition. The data in the form of two tape recordings of the interviews were transcribed and analysed by the familiarisation with the case, reflection and content analysis. The analysis was based upon Saunders' (2003) approach in terms of disaggregating the mass of qualitative data into meaningful and related parts or categories, which allowed systematically rearranging and analysing the collected data. Therefore, the first activity consisted of the classification of the raw data into meaningful categories. The identification of these categories was guided by the research objective as expressed through the research question (Saunders, 2003).

According to Strauss & Corbin (1998), there are three sources to derive names for these categories from: terms that emerge from the data, based upon actual terms used by participants, or terms used in literature. Consequently, the key issues into which both interviews were coded were:

- (1) Similarity between the home and the host country.
- (2) Competitive advantage.

- (3) Location-specific factors.
- (4) Economic factors.
- (5) Socio-demographic factors.
- (6) Government.
- (7) Entry mode.
- (8) Regulatory requirements
- (9) Managerial attitude.

-Evaluation of the Research Plan-

It was necessary to use the qualitative methodology mainly because of the exploratory nature of the research. Without using this methodology, it would have been impossible to discover the new factors and issues unique to the internationalisation process in the insurance industry. Both semi-structured interviews were proved to be an excellent tool for acquiring rich and in-depth data regarding this topic.

The current author acknowledges the fact that the method of inquiry has certain limitations. As Denzin & Lincoln (2000) point out, a case study approach is often criticised as having limited scope for the generalisation of results. In addition, case studies lack statistical reliability and validity. Hence, the generalisation on the basis of case studies has got to be made with care. However, the current author justifies the use of a case study with the fact that, for the purpose of this dissertation, the advantages by far outweigh the drawbacks.

According to Normann (1970), it is possible to generalise from even a single case. He maintains

that it is due to the comprehensiveness of the measurements which allows attaining a “fundamental understanding of the structure, process and driving forces” rather than a superficial establishment of correlation or cause-effect relationship (Gummesson, 1990, p. 89). Moreover, one can argue that the richness and depth attained in a case study research compensate for the lack of generalisability. This can be so especially if the case validates the results of prior research or identifies areas for the future development of theory and/or practice. According to Campbell (1975), case studies can be seen as a small step towards grand generalisation. However, Denzin & Lincoln (2000)

According to Normann (1970), it is possible to generalise from even a single case. He argues that this is due to the comprehensiveness of the measurements which allows attaining a “fundamental understanding of the structure, process, and driving forces”, rather than a superficial establishment of correlation or cause-effect relationship (Gummesson, 1990, p.89). Furthermore, one can argue that the richness and depth attained in case study research compensate for the lack of generalisability. This is so especially, if the case validates the results of prior research, or identifies areas for future development of theory and/or practice.

According to Campbell (1975), case studies can be seen as a small step towards grand generalisation. However, Denzin & Lincoln (2000) argue that the commitment to generalise should not become too strong that the researcher loses his or her focus upon the most important issues for understanding the case itself.

-Validity-

The current author summarised both interviews and presented them back to both interviewees in

the written form so as to ensure the validity of the findings. Furthermore, the current author employed the confirmation technique which refers to the clarification of a participant's intended meaning (Bauer, 2000). When ambiguities or contradictions appeared during both interviews, the author asked the interviewees to clarify them by using prompts such as "what do you mean by that?" or "Could you give me an example of that?" This ensured that the meaning was provided by the participants rather than inferred by the author.

4. The Case Study: ABC Insurance Inc.

ABC Inc. is the second biggest US-American insurer. Founded in 1875, the company has a long tradition in the insurance business. The company operates all over the world and offers its services to fifteen million clients. While its home market is the United States of America, the company has operations in the following foreign countries: South Korea, Taiwan, Japan, Philippines, Singapore, Arabic Emirates, Mexico, Paraguay, Uruguay, Chile, Brazil, Argentina, Poland, Italy, Spain, France, Switzerland, Luxembourg, Netherlands and Belgium. This case study will focus upon ABC Inc.'s foreign expansion into the German insurance market in 2002, wherein ABC Inc. has acquired a German insurance firm.

This chapter will broadly consist of two sections: the first section will cover the qualitative data analysis. This will include an analysis of how the qualitative data were interpreted and describe the concepts and themes identified from the qualitative analysis. The original data will be included in the appendices. The second section will cover a discussion of the qualitative data. The research findings were interpreted and related back to the theoretical prescriptions from the literature review. This part will also give a brief explanation about the appropriateness of the data collection techniques and methodology employed for the research.

4.1 Data Analysis

In terms of the qualitative data analysis, the current researcher employed the approach outlined by Saunders (2003). The first activity involved the classification of the data collected from the

interviews into meaningful categories. The data were coded into categories in order to provide a logical structure, relevant to this study. Following this, the units of data were attached to the appropriateness category. During the process, the researcher looked for key themes and concepts as well as patterns of factors that insurance companies consider when they internationalise their services. As a result of the coding process, the following eight themes have emerged from the qualitative data: (1) similarity between home and host country, (b) ownership advantage, (c) location-specific factors, (d) economic factors, (e) socio-demographic factors, (f) government, (g) entry mode, (h) regulatory requirements and (i) managerial attitude. In the following section, the current author will outline the above themes that emerged during the data analysis of the case study upon ABC Inc.

4.1.1 Categorisation of Data

-Similarity between the Home and Host Country-

Consistent with the internationalisation theory (Papadopoulos & Denis, 1988; Li & Guisinger, 1992), the similarity between the home and host country seems to be a major determinant for the choice of a particular location in the insurance industry. The industry specialists assert that multinational insurers prefer entering markets which are culturally close. Therefore, an American insurance company would first start its internationalisation path by entering the U.K market:

...when entering foreign markets, American insurance companies would follow a certain pattern: first, they would go to the U.K. Not only is it because they speak the

same language, but it is also because the U.K is culturally much closer...

senior management of KPMG

When these industry specialists were asked about the relative significance of cultural proximity in comparison to market growth, it seemed that American insurance companies would generally choose to enter markets that are culturally close even though the markets were less attractive in terms of market growth.

...they would enter the U.K even though the market was “overfished” and only afterwards they would try to conquer the continent..I would really like to see an American insurance company dare to go directly to France, especially in the insurance sector where cultural proximity plays an important role...however, an insurance company would not be very outspoken about that...

senior management of KPMG

However, ABC Inc.’s internationalisation pattern differs from the prescriptions in the theoretical literature. It is because instead of entering the U.K market first owing to its cultural proximity, the company rather looked at a country where the culture would favour the use of insurances and where the market and the size of the business opportunity would be the biggest:

...well, 20 years ago, there was someone with an idea: if we want to do business beyond the U.S, it would be logical to go to the largest market out there...and the Japanese love insurances because they have the very conservative culture by nature...

senior management of ABC Inc.

ABC Inc. entered the Japanese market because Japan was the largest insurance market in the

world. The top insurance company in Japan sells more insurances a year than the top five companies in the United States sell together. An important issue to note here is that only after its first international expansion into Japan, the similarity between the home and host country became an important issue. In actuality, the company looked for countries which were similar to Japan after its first international movement. Therefore, ABC Inc. focused upon the Far East in its early stage of internationalisation.

-Ownership advantage-

Consistent with the existing theory (Dunning, 1980), ABC Inc.'s ownership advantage played an important role when it entered the German market. As the theoretical literature suggested in prior empirical research (Miller & Parkhe, 1996), the company's senior management discovered the opportunity of transferring its competitive to the German market.

...and we thought about what we could do the best, and that was distribution. We knew how to sell insurances...and we found out that distribution was a critical success factor in the German market...

senior management of ABC Inc.

-Competition-

Consistent with the theory (Li & Guisinger, 1992), competition has a major impact upon the internationalisation process of a multinational insurance company. In this case, the behaviour of

the major competitor in the target country or market is critical. Big American multinational insurance companies are likely to show the patterns of a defensive strategy by simply following their major competitors in the target country. However, unlike the theory, it is not the market structure of the home market, but what is decisive in this respect is the one of the target market.

...if there is an oligopolistic market environment in the target market, independent from the U.S market, a multinational insurer will look closely at its major competitor...if, for instance, ABC Inc.'s major competitor made a mega-successful entry into the German market, however, the company has so far cold-shouldered Germany, you can expect a heated discussion at ABC Inc. concerning going to the same path and following the competitor...it is important to note that this particular behaviour is totally independent from the market structure in the U.S...

senior management of KPMG

Indeed, competition played a critical role in ABC Inc.'s internationalisation process. Concerning the entry into the German insurance market, the company tried to benefit from its role as a follower despite the fact that being a follower was definitely not a strategic choice:

...and then we started looking at our competitors and began to say: we are late, but let's just see how they are doing at the moment, how they are making money and what obstacles are like...

senior management of ABC Inc.

-Economic factors-

Regarding a general approach towards choosing a target market, ABC Inc. has many factors they look at when doing a research upon which markets to enter. Consistent with the findings of Moshirian (2004), economic factors seem to be the fundamentals of any internationalisation decision made in the insurance industry:

...there is actually like what I would call a checklist of factors that we look at. Basically, we start all the way from the top. We look at the economic fundamentals such as economic growth. For instance, in the insurance industry, everyone is talking about China because China is the fastest growing economy and it's going to continue to be the fastest growing economy...

senior management of ABC Inc.

Since ABC Inc.'s core business is insurance, senior management considered industry-specific factors such as the density of insurance coverage when making the entry into the German market, namely the market penetration of insurance services. Here, the penetration would be measured in terms of insurance premium as a percentage of the Gross Domestic Product in a country. Despite the fact that Germany is a very developed country, it has been considered that Germany is an interesting market owing to a low penetration of insurance services per person and per household. Therefore, the company looked at growth rates such as the growth in premiums over the last couple of years and forecasts about industry statistics:

...for instance, in Taiwan, the insurance premium as a percentage of Gross Domestic Product is 9.6% and, in Malaysia, it is 3.3%. So you might say "a country like Malaysia might be interesting to look at..."

senior management of ABC Inc.

Senior management of KPMG pointed out that there was certainly a cultural issue involved. It is because, like ABC Inc., basing internationalisation decisions upon simple economic factors is typical for American companies. Generally, American companies seeking foreign expansion tend to base their decision mainly upon economic factors such as market size and market potential (market growth).

...whenever we consult Americans on their path into Germany, we notice how simple and basic their approach towards internationalisation is...they basically look at market size and examine future market growth...simple and straightforward...

senior management of KPMG

-Socio-Demographic Factors-

Socio-demographic factors play another important role for the choice of ABC Inc.'s target market. Senior management stated that demographic changes have to be analysed from many different angles, in particular, the effects of an aging population. The reason is that, on one hand, an aging population has a positive effect upon the demand of certain products. For example, people will have to be much more responsible for their own retirement if there is no growing population that will pay the taxes into the system. However, on the other hand, the population has to grow at least to a certain extent to secure future demand in order for a country to be attractive. Basing its decision upon forecasts of Datamonitor, senior management said that this socio-demographic trend has positively influenced ABC Inc.'s decision to enter the German

market. Increasing dependency ratios (the relationship between people of working and non-working age) in Germany will make current levels of state pension provision unsustainable. As a result of that, the German government is like to push the growth of private pensions. This anticipated expansion of private pensions in Germany would drive growth in channels that offer customers in-depth financial advice (Datamonitor, European Life and Pensions Distribution Databook, 2005). ABC Inc. would benefit from this development since private pensions are particularly appropriate to be sold through the financial advisers' channel because their complexity and longevity means that their sale requires in-depth financial advice.

The issue of geographical dispersion seems to be even more critical for the company's choice to enter the German market. In a country wherein most people live in cities or suburbs, reaching clients can be said to be easier than in countries with less urbanisation.

...consider a place like China where over half of the population is living in little farm towns. Even though some aspects of the population can look interesting, the fact that there are a billion people and three out of four people living in rural areas requires too many sales men to get to them...

senior management of ABC Inc.

-Government-

Senior management at ABC Inc. considers governmental issues as a major factor for the company's expansion into the German market. When considering Germany as a possible target market, what attracted it to Germany was the upcoming reforms of the German pension and

social welfare system. This is consistent with the Dunning's (1971) findings on the effects of governmental policy upon the saving ratio of households:

...and we said "what a great market Germany is now (2002)" because the government are going to stop taking care of a lot of these retirement assets, and people like at ABC Inc. and Deutsche Bank are going to have to start managing those for each family...so if countries are reforming their pension and welfare system, that is something financial service companies get very excited about...

senior management of ABC Inc.

Senior management of Metzler Investment Bank pointed out that political risk is relatively high in the German insurance market. Therefore, the likelihood is that government interventions deteriorate general business conditions and that lowers returns on investment. To give an example, changing tax policies can drastically lower the demand for certain insurance products, which can pose a major challenge for foreign insurance companies. In spite of this fact, the high political risk seemed not to be a big issue of ABC Inc.'s evaluation of the German market. Senior management of ABC Inc. acknowledged that it was only one of many factors and they actually did not consider it as a possible barrier to the market entry into Germany.

Hence, the senior management of KPMG was asked about why a company like ABC Inc. entered the German market in spite of this unpredictable tax environment. According to them, in general, the uncertainty in governmental policies can certainly be considered as a barrier for entering the German insurance market. However, Germany had been the last European market which had not been entered, and Germany was, in actuality, an important part of ABC Inc.'s long-term strategy to enhance its presence in the European insurance market.

-Entry Mode-

The entry mode decision of American insurance companies is, only to a certain extent, based upon theoretical prescriptions. Rather, the market entry strategy in the American insurance companies seems to be even more culturally influenced. It is because, as senior management of KPMG asserted, although they acknowledge that an acquisition bears a greater risk, American insurance companies have a tendency to prefer this choice of market entry:

...whenever Americans are involved in transactions, they just want to buy. So the primary entry strategy is the acquisition. This is probably owing to the fact that Americans generally have more experience in entering foreign markets...even if they can be really screwed by an acquisition, they see no sense in getting involved in Greenfield...

senior management of KPMG

When ABC Inc. entered Germany in 2002, the German insurance market was already established with a few large players showing oligopolistic behaviour, which somewhat explains ABC Inc.'s entry mode, i.e. acquisition. This entry mode choice is consistent with the view held in literature. Literature suggest that, in both monopolistic and oligopolistic markets, a foreign company has no choice other than choose sole ownership if it wants to be capable of competing effectively with the established firm or firms (Roots, 1998).

Consistent with the existing theory (Robock & Simmonds, 1998), governmental restrictions are a decisive factor particularly in the insurance industry:

...for example, in a country like India, a foreign company can only own twenty-six percent of an insurance company. So, if we'd like to enter this specific market, we have

to have a joint venture where the local company has a majority stake, and we won't have enough power over the company since we have only got twenty-six percent. So, sort of, what the law and the government are like is very important...

senior management of ABC Inc.

When questioned about any possible alternative to joint venturing with a local partner, the thought of control seemed to be an important determinant for ABC Inc.'s decision to choose an acquisition in Germany. The senior management's view was simply that most companies would always want to have control and, especially, if you were going to put your money at risk, you would like to be able to make some decisions.

Other major factors were local market knowledge and the distribution channel of the target market.

...for instance, in Italy, insurance is largely distributed by banks. So, imagine ABC Inc. makes a conclusion that Italy is the market to be in, but we know nothing about banking in Italy. Building retail branches all over the country would cost a fortune. So, we would analyse the market and find out that there are huge banks. They have tons of money, but they know nothing about insurance, yet knowing that they could make a lot of money out of insurance. This would be the perfect situation to joint-venture...

senior management of ABC Inc.

Differing from the view held in literature (Dunning, 1980), senior management of the firm does not consider the leakage of knowledge as a rationale of a market entry via acquisition. So, the senior management explained that this was not an important issue as both parties in a joint

venture would bring their knowledge to the table. They explained that especially the financial services industry has shown much interest in joint ventures. However, it was said that ABC Inc. would not do a joint venture with main competitors from the home market.

Senior management of Metzler Investment Bank considers the rapidity of market entry as a decisive factor for the entry mode choice of ABC Inc. Consistent with literature (Nicolaud, 1998; Roberts, 1999), the rapid market entry helped the company to achieve a significant market position much faster in the German insurance market. It was also revealed that the use of acquisitions is even more useful in mature markets such as the German insurance market as it helped the company to firmly position itself in the market in a shorter time and gain a critical size in comparison to growing organically.

The issue of the critical size was also raised by the senior management of KPMG. They explained that, particularly in the insurance sector, companies need a market share of between 1.2 and 2 percent to survive, which has led ABC Inc. to consider an acquisition as the preferred market entry mode choice in Germany.

-Regulatory Requirements-

Apart from the factors mentioned above, there is also a factor of regulatory requirements which account for ABC Inc.'s entry path into Germany. As the same brand name is used by a big insurance company in the U.K, ABC Inc. has no proprietary right over its brand name in Germany. Therefore, the company is not allowed to operate with its brand name there. Senior management explained that it would have been too costly to build up another brand name in Germany. In addition, the senior management of KPMG emphasised the cost factor as a main

argument against a market entry via Greenfield:

...to introduce a new brand name in the insurance sector, the company would have been required to spend, over a period of 3 or 4 years, an amount of 20 million dollars alone for the marketing budget each year...therefore, the cost factor certainly gives a good explanation for ABC Inc.'s entry mode...

senior management of KPMG

-Managerial Attitude-

As raised in White's et al. (1999) study, the impact of the management's attitude upon a company's internationalisation process is one important issue for ABC Inc.'s foreign expansion. So, even if economic and/or political factors are attractive in a target country and would justify an entry into this specific market, managers have to deal with competing priorities:

...even if I said "we have to go to country X because that's going to be a big market and here are all the data and that is what the industry is saying." But, then, somebody might say: we are spending at the moment a billion dollars over there and we have got other priorities at the moment...being a public traded company, we already told the public that we are going to do this and that...so it is all about competing priorities...

senior management of ABC Inc.

As outlined above, ABC Inc. based its decision to enter Germany upon only a limited number of factors. Here, it is important to note that the senior management of ABC Inc. weighed the importance of some factors greater than other factors. The senior management of KPMG was

asked about the rationale behind this phenomenon, that is, why certain factors were considered more important than others, and why some factors were not even considered at all. It was implied that managerial attitude has a major impact upon the decision on why certain factors rank higher than others. So it can be said that the interpretation of the individual analysing the data of a specific target country is critical:

...let's say there are two possible target countries. It is now up to our interpretation of the data that will be crucial in the decision making. We could deliver two different papers to you. With one, we could offer a coherent rationale for entering the country X, but, then, we could do the same for the country Y...So, it all comes down to the person who interprets the data and how he or she weighs factors differently...do you really believe that the decision making body scrutinises the results critically? No, they usually do not...

senior management of KPMG

Analysing how ABC Inc. made its market entry decision into Germany, the senior management of KPMG seems to identify a trend towards simplicity where companies tend to focus their decision making upon only a limited number of critical factors. Concerning ABC Inc.'s entry into Germany, overall market prospects were positive although the future demand on certain insurance products were incalculable:

...despite the negative aspects such as insecure demand or instability in terms of tax legislation, they probably said "well, if market growth looks good, we will do it...a clear trend towards a more simplistic approach..."

senior management of KPMG

The senior management of KPMG strongly believes that the analytical approaches are becoming much more simplistic in their character and that managerial behaviour is becoming a decisive factor in a company's internationalisation process. To illustrate this belief, the following example can be used:

...I prepared a market entry for an American company entering the German market. Economic factors of the target market were excellent. However, the American company who would have had the majority of stake in this joint venture did not agree on the other party's demand for specific company cars..and the deal failed...

senior management of KPMG

4.2 Discussion

For this dissertation, a single and detailed case study on a big US-American insurance company has been used in order to examine the internationalisation process of multinational insurance companies. While its methodology differs from prior research (cf. Moshirian, 2004), its advantage has been to provide explanations as to how an insurance company assesses the attractiveness of a possible target market and why some factors outweigh others in their relative importance. So, it can be said that the employment of a single case study approach has proved to be appropriate to the research. As Yin (1989) said, the in-depth case study on a multinational insurance company has allowed to shed light upon the applicability of the existing internationalisation theory to the insurance sector. In addition, the exploratory approach has favoured the emergence of market selection determinants for the insurance industry, which have not been explored before.

The following section will discuss the major findings from the case study and contextualise the results with past research.

4.2.1 The Relationship of Key Findings to Literature

-Ownership Advantage-

Consistent with the findings by O'Farrell (1996), it was owing to the company's perceived competitive advantage by which the management could finally decide to enter the German

insurance market. The company was convinced that its competitive advantage in distribution was a critical factor in the German insurance market wherein the distribution was becoming the only way to creatively attract and maintain customers. Also, consistent with Miller & Parkhe (1996), management's attitude towards internationalisation appeared to be positively influenced by the company's capability to transfer its competitive advantage to the German market. As Dunning (1980) theorised more than 20 years ago, these findings also suggest that the ownership advantage has explanatory power for a multinational insurance company's internationalisation process.

-Location-Specific Advantage-

Concerning the Moshirian's (2004) list of economic factors as main determinants for FDI in the American insurance industry, ABC Inc. was expected to examine a variety of factors when it assessed the attractiveness of the German insurance market. Furthermore, location-specific factors were expected to have a strong impact upon the company's decision to expand its service activities into Germany. The results clearly show the significance of economic location-specific advantages as fundamentals for the company's internationalisation decision. Especially, the market growth that was measured as premium growth and the density of insurance coverage were major factors in assessing Germany as a target market. Such findings suggest that ABC Inc.'s internationalisation decision was based upon economic location-specific factors.

However, one surprising issue that needs to be noted is that for ABC Inc. only two economic factors were considered decisive. The location-specific factors which were the determinants for

ABC Inc.'s entry into Germany were not as comprehensive as described in literature and, to a large extent, were not in accordance with the prescriptions from prior research. It is because, among those economic factors that determine FDI in the insurance industry as described by Moshirian (2004), only two factors, market growth and insurance density, seemed to be critical for the company in question. Moreover, no evidence was found out for the economic factors such as labour costs, exchange rate fluctuations, cost of capital, economies of scale and inflation. Concerning cost of capital, the research findings support the prior research by Grubel (1982). Therefore, different costs of capital did not have any explanatory power for ABC Inc.'s foreign expansion into the German insurance market. After considering Grubel's results, one interpretation of our findings might suggest that the company size and experience in internationalisation would allow neutralising this risk.

It is important to note that the search for economies of scale as a major factor determining FDI in the insurance industry (Dunning, 1970) received no evidence from the case study. Since it is only possible for an insurance company to benefit from economies of scale by the standardisation of its products (Lovelock & Yip, 1996), economies of scale were not considered in ABC Inc.'s internationalisation decision. It is because the regulatory requirements from the German insurance market did not allow the company to offer standardised international products, but it demanded adapted and specified products. Such findings explain why economies of scale were not a major determinant of market selection for ABC Inc.

Regarding the effects of inflation upon insurance companies as described by Dunning (1971), the research findings suggest that the negative impact of inflation upon the profitability of an insurance company has not been considered by the company in question. However, it can be suggested that a generalisation of these results would be limited to countries wherein inflation issues play only a minor role.

Initially, it seemed that ABC Inc. looked at a variety of factors when assessing Germany as a possible target market: “there is actually like what I would call a checklist of factors that we look at” (senior management of ABC Inc). However, having taken a closer look at the process, another finding emerged. That is, although ABC Inc. claimed to consider a variety of location-specific factors of the German insurance market, the majority of the factors were not taken into account for the final decision to enter the country. So, it appears that particularly disadvantageous and negative location-specific factors of the German market had not been taken into consideration for the decision making. To give an example, the German insurance industry is strongly influenced by the unpredictable tax environment. However, the results of the case study show that this negative market characteristic had not been taken into consideration by the company in question. Therefore, the finding is not in accordance with Dunning’s (1980) theory. Differing from Dunning’s (1980) theoretical prescriptions, government-related factors, or at least the factors which are influenced by the government such as tax policies seem not to have a significant effect upon ABC Inc.’s decision to enter Germany. One interpretation of the findings suggests that possibly cultural differences can account for ABC Inc.’s preference to focus only on the most important economic factors. Therefore, it can be suggested that U.S companies tend to take a more simplistic approach towards internationalisation and usually base their decisions upon only a limited number of the most relevant economic factors. However, owing to culture as a moderating factor, there might be some limitations for the generalisation of the results.

The exploratory approach of this qualitative research generated many new location-specific factors which ABC Inc. considered decisive for the selection of the German market. These factors can be said to be new in the respect that prior research has not explored before in relation to the insurance industry. The research findings suggest that a major factor for the insurance

industry is the similarity between the home and host country, which will be discussed in turn.

Consistent with the findings by Papadopoulos & Denis (1988), the research findings suggest that the similarity between the home and host country is a key determinant for ABC Inc.'s choice of a particular target market. Particularly, it has been found out that the German and the U.S market are similar in the sense that distribution is a critical success factor. Because of this similarity, the company's competitive advantage in distribution could be successfully transferred to the German market. Such findings suggest that the similarity between the home and host country, especially, in terms of similar critical success factors, seems to have explanatory power for the choice of a target market in the insurance industry.

In terms of cultural proximity, it was expected, as theorised by Li & Guisinger (1992), that insurance companies would first enter the countries which are culturally close and where the people use the same language. However, the research findings suggest that a multinational insurance company's internationalisation path does not necessarily start from culturally close countries. These findings are somewhat compliant with the prior research by Hellman (1996) in the sense that, in general, manufacturing theories are not applicable to the insurance sector: firstly, the cultural similarity between the home and host country did not explain ABC Inc.'s foreign expansion. It is because the company's first foreign expansion was into Japan which is culturally distant from the U.S. Secondly, cultural issues played only one role in terms of cultural receptivity to insurance products. Therefore, ABC Inc. entered Japan not because it was culturally close to the home market, but it was because Japanese culture would favour the use of insurances.

The concept of the cultural proximity between the home and host country became important only at a later stage of internationalisation. It is because, only after then, ABC Inc. started

entering the Far East countries that were culturally similar to the Japanese market. Such findings suggest that there might be a need to refine the picture by Erramilli (1992) about the U-form of internationalisation in order to apply the model to the insurance industry. In addition, another variable such as cultural receptivity to insurance products would have to be integrated into the model so as to guarantee its applicability to the insurance industry. By the key findings, it can be suggested that cultural receptivity to insurance products is much more important than cultural proximity between the home and host country. One interpretation of this finding suggests that American companies are traditionally more experienced in entering foreign markets, which somewhat makes them indifferent to this cultural proximity.

In conclusion, the aspects of Dunning's (1980) eclectic paradigm in relation to the internationalisation process of American insurance companies get satisfying support from this study. Ownership- and location-specific advantages seem to account for the ABC Inc.'s internationalisation process. Such findings suggest that the applicability of Dunning's (1980) eclectic paradigm to the insurance industry.

Nonetheless, there would be a main point by which this argument can be challenged. The point is that the scope of Dunning's (1980) eclectic paradigm is limited to the extent to which it does not give an explanation as to why the researched company considered certain location-specific factors more important than others and why some factors were not even considered at all.

-Factors Affecting the Entry Mode Choice-

1. Rapidity of Market Entry

In accordance with Nicolaud (1989), this study has found out the great importance of the rapidity of market entry for the internationalisation of insurance companies. As can be seen from the example of ABC Inc., the rapid market entry via acquisition allowed the company to position itself within the German insurance market in a shorter time. Such findings support the results of prior research that rapid market entry is critical for success, especially in a mature host country. In accordance with Roberts (1999), it was confirmed that the ABC Inc.'s market entry via acquisition allowed the firm to build an effective distribution network much faster. Furthermore, ABC Inc. benefited from the target company's existing client base as well as its local market knowledge. Consistent with Roberts' (1999) assertion, an entry mode via acquisition has proven to be useful especially for latecomers in a market. In the case of ABC Inc., the rapid market entry via acquisition has shown to be a proven remedy for being a latecomer in the Germany market. Such findings suggest that the rapid market entry is a main determinant of the entry mode choice in the insurance sector.

2. Financial Risk

Financial aspects for the entry mode choice, e.g. financial risk, are not compliant with the prescriptions from literature. It was first expected that ABC Inc. would choose an entry mode via acquisition for minimising the financial risk because, then, the company would not have to establish itself in a foreign market (Roberts, 1999). However, the case study offers no support for the argument. Rather, the findings suggest that financial considerations did not have an impact upon the company's decision to acquire an existing company in the host country. Taking

a closer look, the research findings even show the contrary. The market entry via acquisition exposed ABC Inc. even to a higher financial risk. The study has found out that financial risk for insurance companies entering a foreign market via acquisition tends to be maximised because many companies tend to rush into a particular foreign market by the acquisition of the first target company that comes along.

3. Political Risk

Considering a high political risk in the German insurance market, it was expected that the ABC Inc. would refrain from a high involvement entry mode (sole ownership) and prefer to export their insurance services to Germany (Harrigan, 1983, Erramilli, 1996). Indeed, the political risk was considered high as government interventions such as changing tax policies were likely to lower the demand for certain insurance products, giving rise to a high product uncertainty. However, as described by Ekeledo & Sivakumar (1998), the correlation between a high political risk and a low involvement entry mode such as exporting got little support from the study. On the contrary, it was a highly regulated German insurance market that made the company choose high involvement market entry via acquisition. Locally distributing insurance services made the company more sensitive to macro-economic fluctuations. The findings suggest that ABC Inc. chose an acquisition because it would give the company more control to adapt effectively to macro-economic changes and changing demands. Such findings support the prior results by Brouthers, Brouthers & Werner (2002). For coping with negative effects of government intervention, the need for client proximity seemed to be an important determinant for the company's entry mode choice. So, it can be suggested that the need for client proximity in highly regulated insurance markets is a major determinant for the entry mode choice. Nonetheless, the generalisation of this result must be considered with care. It is because one

interpretation of such finding could suggest that it is ABC Inc.'s international experience in entering foreign markets, which made the company to cope successfully with this product uncertainty.

4. Need for Control

Initially, it was expected that a need for control is a major determinant for ABC Inc.'s entry mode choice in the German insurance market. At first, it seemed that the notion of control received enough support from the study. Hence, the argument that a company's desire for control strongly influences its entry mode (Douglas & Craig, 1995) seemed to be applicable to the insurance industry. Consistent with Erramilli's (1992) view, ABC Inc.'s high need for control made the firm choose sole ownership. The findings seemed to give enough support to Erramilli's (1992) view that the need for control for service companies is U-shaped. Therefore, the evidence would suggest that ABC Inc., which was in the later stages of its internationalisation, preferred an integrated entry mode owing to a higher degree of confidence towards internationalisation. However, a closer examination suggests that the company's desire for control seems to base less upon theoretical prescriptions. To give an example, the statement by the senior management "when you put your money at risk, then you want control" stresses the fact that the desire for control in American insurance companies is much less based upon theoretical prescriptions than it is expected by literature.

5. Industry Structure

The case study results give support for the assertion that the industry structure in the host market is a major determinant for ABC Inc.'s entry mode choice (Roots, 1998). It seems that the company's propensity for sole ownership in the German market has been influenced by

oligopolistic behaviour. This result is supported by Kogut & Singh (1988, p. 429) who argue that “competitive dynamics such as the rush to invest are likely to influence the entry mode choice.” The research findings clearly suggest that ABC Inc.’s entry mode decision was influenced by oligopolistic thinking and a “rush to invest”, following the major competitor in the German market. Therefore, it can be suggested that oligopolistic behaviour has explanatory power for the entry mode choice in the insurance industry.

6. Managerial Impact

The research findings emphasise the impact of managerial attitude upon the company’s decision to enter the German insurance market. Such findings can support the view that managerial impact becomes more and more influential in internationalisation processes owing to a trend towards decentralised business structures (Axinn & Matthyssens, 2002). For instance, in spite of the existence of a variety of negative location-specific factors in Germany, the senior management of ABC Inc. still decided to enter the market. So, it can be suggested that if the decision had been only based upon economic and other location-specific factors, Germany would not have been chosen as a target market. In accordance with Maignan & Lukas (1997), it was the interpretation of the environment by the senior management of ABC Inc. that had a major impact upon the choice of Germany as a target market. Such findings support the critical view that existing internationalisation theories underestimate the vital role of managerial attitude in the internationalisation process of service companies (Axinn & Matthyssens, 2002).

6. Cultural Aspects

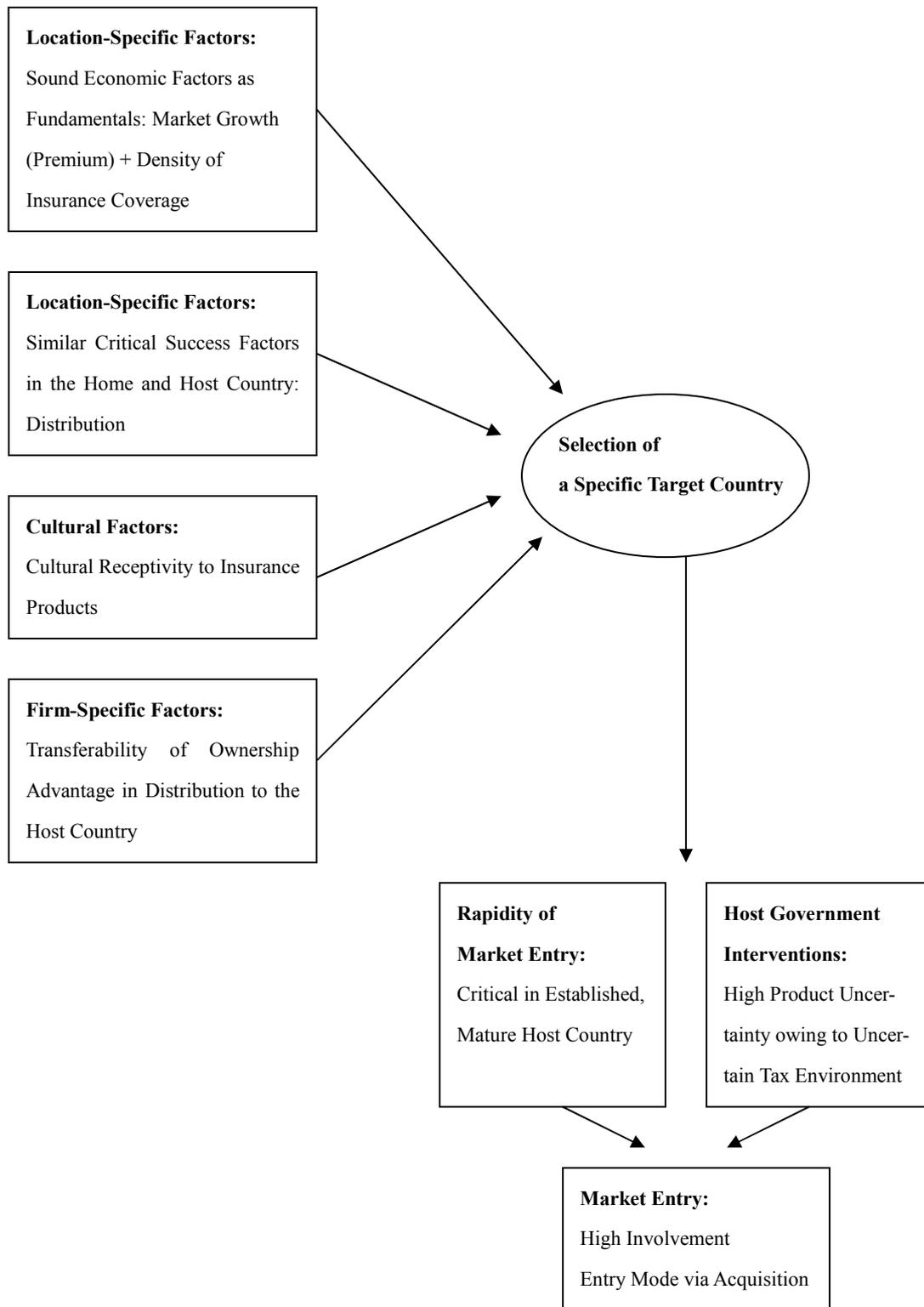
The research findings suggest that cultural aspects have to be taken into consideration when examining the internationalisation process of multinational insurance companies. So it can be

suggested that the American origin of the company had explanatory power for its foreign expansion into Germany. For instance, concerning the economic factors in the target country, ABC Inc. considered only two main economic factors in the host country, the growth rates for insurance premium and the penetration of insurance services per household. An interpretation of this finding suggests that it is owing to cultural differences that the company based its market entry decision upon only a limited number of economic factors. So, it can be suggested that American companies prefer more simplistic approaches towards market selection.

-Strategic Considerations VS Economic Factors-

The senior management of KPMG was asked about how ABC Inc. managed integrating strategic priorities with economic factors. They argue that, under certain circumstances, strategic considerations have probably dominated economic factors. As mentioned before, at the time when the company was thinking about the German insurance market, ABC Inc.'s major competitors had already entered the market. This is when strategic considerations came into play and economic factors were only considered marginally. This has to be seen critically because foreign companies tend to hurry their foreign expansion without careful considerations of sound economic factors.

Figure 3. provides a simplified summary of the major determinants of market selection in the internationalisation process in the case of ABC Inc.



5. Conclusion and Implications

5.1 Research Contribution

This study has contributed to the research upon International Business by providing insight into the internationalisation process of an American multinational insurance company. It is believed to provide an understanding of the major determinants of market selection and market entry in the insurance industry and how these factors differ in their relative importance. In addition, by employing an exploratory approach, this paper has allowed the emergence of new determinants of market selection specifically for the insurance industry. Furthermore, it has addressed the need to further investigate the applicability of existing manufacturing theory (Boddewyn et al., 1986) and, particularly, of the eclectic paradigm to the service industry.

5.2 Key Findings of the Study

This study's major aim was to deepen the understanding of the internationalisation process in the insurance industry. The three underlying objectives are briefly outlined and key findings of the case study and key concepts in literature are highlighted.

The first objective of this dissertation was to investigate the major determinants of market selection for a multinational insurance company. The main finding suggests that only two economic factors built the foundation for the internationalisation process. Factors such as

market growth and the density of insurance coverage tended to be the fundamentals for the decision to enter the German insurance market. The results of the case study indicate that general economic measures of a country's attractiveness such as the market size and market growth (Davidson, 1982), and economic, political, and social factors of the host country (Roots, 1998), have explanatory power for the insurance sector. However, the case study found no support for the exhaustive list of economic determinants of FDI in the American insurance industry, as provided by Moshirian (2004). Therefore, American insurance firms base their internationalisation upon only a few major economic factors. The findings suggest that cultural aspects might explain why American insurance companies tend to take a more simplistic approach concerning economic factors.

The most dominant feature in the internationalisation process was the fact that the company did not start its foreign expansion from a culturally close country. Hence, the notion of cultural proximity between the home and the host country had no significance for the selection of the target country. These findings contradict prior results in the manufacturing sector (Johansson & Yip, 1994; Johansson & Vahlne, 1977). Culture was only a determinant of market selection in the sense that the company entered those foreign markets whose culture favoured the use of insurance services. So, it can be suggested that cultural receptivity to the product is a major determinant of market selection for service companies.

This study also attempted to investigate how market selection factors interact to either encourage or discourage a multinational insurance company to enter a specific market, namely to investigate the proportional importance of each market selection determinant. The key finding indicates that the combination of basic economic fundamentals, cultural receptivity to insurance services, and the transferability of the ownership advantage to the host country have

the strongest explanatory power for internationalisation in the insurance sector. Other market selection determinants that emerged from the case study did not play an important role in the final decision to enter the German market. Hence, they cannot be considered as major determinants of market selection for the insurance sector.

The second objective of this paper was to identify main determinants for a multinational insurance company's entry mode choice. The key finding supports the view that the rapidity of market entry (Nicolaud, 1998; Roberts, 1999) has been the main rationale for the market entry via acquisition. The exploratory approach allowed the emergence of an additional critical factor. Surprisingly, the highly uncertain tax environment, caused by government interventions, did neither act as a barrier to entry, as predicted by Dunning (1980), nor did the firm choose a low involvement entry mode to reduce the risk (Erramilli, 1992). Instead, the company chose a high involvement entry mode via acquisition to increase reactivity and control to adapt more effectively to changes in the regulatory environment.

Thirdly, this paper tried to shed light on the applicability of existing internationalisation theory to the insurance sector. The study seems to, to a large extent, follow prescriptions of prior research. In particular, firm- and location-specific factors appear to build a solid basis for internationalisation in the insurance sector. As predicted by prior research (Boddewyn et al., 1986; Buckley, 1992), the findings suggest that few qualifications and modifications on existing manufacturing theory will allow its applicability to the insurance sector. Overall, the findings support the adequacy of using Dunning's (1980) eclectic paradigm as a framework to deepen the understanding of internationalisation in the insurance industry.

5.3 Implications

5.3.1 Managerial Implications

Managerial implications are twofold. First of all, there is a growing concern about the fact that “ambiguous and confusing findings” that exist in literature “discourage application of the knowledge in practice” (Zou & Cavusgil, 1969, p.52). In the light of this concern, the identification of major determinants of market selection provides managers with a simplified framework for assessing and selecting future target markets, allowing them to take faster decisions through reduced complexity.

Secondly, as has been shown in this case study, ABC Inc.’s decision to enter the German market was, only to a limited extent, justified by economic considerations. According to theoretical propositions, some of the factors had been expected to act as barriers to entry into the German insurance market, for example, a highly uncertain tax environment. However, managers did not take this factor into consideration. Thus, managers of insurance firms could use the results of this case study to reflect upon their own approach towards internationalisation and critically question themselves about to what extent the market entry is actually warranted by solid economic factors or whether the internationalisation is rather based upon personal quest for prestige and status.

5.3.2 Limitations and Implications for Further Studies

The limitations associated with the use of a single case study have been elaborated in detail in the second chapter. In addition, there are three reasons why the findings of this study should be interpreted and generalised with care:

Firstly, it is unlikely that the findings are completely culturally robust. The fact that the company has American origin is likely to have affected the determinants of market selection *per se*. The findings suggest a clear cultural preference of American companies for simple economic approaches, whilst assessing foreign markets. Hence, cultural preferences might have led the company to make use only of the most basic and simple economic factors, such as market growth or the density of insurance services. Therefore, future effort in the field of international business research should focus upon the effect of culture on the main determinants of market selection. The cultural effect on entry mode decisions, however, has already been thoroughly investigated (Kogut & Singh, 1988).

Secondly, the results might only have validity for a particular time period. As found in prior research relative to cultural similarity between the home and the host country (Erramilli, 1991), the experience factor of a company might also have an influence on the main determinants for market selection. Based upon the findings of this case study, it can be suggested that a higher degree of experience associated with a higher level of confidence will lead to a fewer numbers of determinants for market selection, namely, the more experience, the less need for sound economic factors. The results suggest that future research in the experience effects on market selection is warranted.

Thirdly, the study focused clearly upon economic and locational market selection determinants. Findings suggest that strategic considerations have played an integral part in ABC Inc.'s decision to enter the German market. It can be suggested that strategic thinking plays a major part in the market selection process, especially when dealing with mature markets that the main competitor has already entered. Jack Welch, the former CEO of General Electronics, once said concerning market selection determinants: "when there are only strategic reasons for acquiring a foreign firm, then I leave the room and the deal is dead". This statement suggests that future research may wish to focus upon the interface between strategic and economic considerations and investigate how they both interact with the market selection process.

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7. Appendices

7.1 Appendix 1

Interview with the Senior Vice President of ABC Inc.'s Insurance Division, held on 26th of July

Q: What are the major determinants for market selection and why were some factors considered as being more important for the German market?

A: ABC Inc. hat im Allgemeinen eine Anzahl von Faktoren die wir uns bei einer Studie welchen Markt zu betreten betrachten. Aufgrund unserer Arbeit im finanziellen Dienstleistungssektor wäre eine der wichtigsten Maßnahmen die Dichte der Versicherungsabdeckung in einem Land zu betrachten was wir die Marktdurchdringung nennen. Dazu gibt es eine Menge an Forschung bezüglich verschiedener Länder. Obwohl Deutschland ein sehr entwickeltes Land ist und die dritt größte Wirtschaft der Welt besitzt, ist es interessant da es eine geringe Versicherungsdurchdringung pro Person und Haushalt hat im Vergleich zu anderen europäischen Ländern. Es gibt fast wie eine, was ich nennen würde, Checkliste von Faktoren die wir uns anschauen.

Q: What is the relative importance of economic market factors of a target country? Do you also look at economic factors such as economic growth or disposable income?

A: Grundsätzlich würden wir von oben nach unten durchgehen. Wir betrachten die wirtschaftlichen Grundlagen, also, zum Beispiel das jeder in der Versicherungsbranche über China spricht. Warum? Weil China die am schnellsten wachsende Wirtschaft sein und bleiben wird. Auch die anderen Industrien betrachten diese wirtschaftlichen Grundlagen. Dann, die

nächste Sache die wir betrachten, wäre von wo wir starten, eine Art von Macro-level, ist wie die Regierung ist. Wir sind in Finanzdienstleistungen und da gibt es in bestimmten Ländern eine Menge Einschränkungen was ein ausländisches Wesen tun kann. In einem Land wie Indien kann eine ausländische Firma nur 26% einer Versicherungsgesellschaft besitzen. Das wird all die ausländischen Gesellschaften wirklich beeinflussen und deshalb falls wir den Markt wirklich betreten wollen, müssen wir ein Joint Venture eingehen wo die lokale Gesellschaft den Hauptanteil besitzt und wir werden nicht die Kontrolle über die Gesellschaften haben da wir nur 26% davon besitzen. Deshalb ist die Art wie die Gesetze und Regierung ist von großer Bedeutung. Und eine andere Sache wäre die Existenz von Finanzdienstleistungsreformen so das, zum Beispiel, gerade hier in Deutschland wo jeder über Rente und was mit dem Sozialhilfssystem passieren wird spricht und eine Menge an Finanzdienstleistungsgesellschaften würde sagen: ouh, was für ein großartiger Markt, Deutschland, für uns gerade richtig hier zu sein, weil die Regierungen von Ländern wie Deutschland, Frankreich und Italien aufhören müssen sich um die vielen Ruhestandsanlagen zu kümmern, und Gesellschaften wie ABC Inc. und Deutsche Bank werden anfangen müssen dies für jede Familie zu managen. So, falls Länder ihr Renten- und Sozialhilfssysteme reformieren dann ist das etwas wenn Finanzdienstleistungsfirmen wirklich aufgeregt werden. So das wäre eine Art einer nächsten Stufe.

Q: Are there other determinants of market selection other than economic factors?

A: Bestimmt, dann würde ich sagen was wir betrachten ist die Art der Demografie. So wieder, für Leute die in Finanzdienstleistungen sind, ist was wir prüfen müssen ob die Bevölkerung jung ist, ob die junge Bevölkerung wächst, oder ob es ein bedeutendes Problem geben wird,

zum Beispiel, in einem Land wie Italien wo die Bevölkerung richtig alt ist, in Bezug auf das, es ist das älteste Land der Welt nach Japan, niemand wird Babys haben in Italien, deshalb wird es ein großes Problem dort geben, auf der einen Seite ist es ein interessanter Markt weil man wirklich den Leuten sagen kann das sie eine nicht wachsende Bevölkerung haben werden die in das System einzahlen, tatsächlich kann man wirklich fühlen dass die Regierung die Leute mehr verantwortungsbewusst für ihre Rente machen muss. Auf der anderen Seite hat eine Bevölkerung bis zu einen bestimmten Ausmaß zu wachsen, weil das sind die Leute die einen Schutz in der Zukunft brauchen werden. Lass uns sagen, ein Land das eine wachsende Urbanisierung hat, also Deutschland ist ein Land wo die Leute in Städten oder Vorstädten leben; ein Ort wie China, über die Hälfte der Bevölkerung lebt in kleinen landwirtschaftlichen Städten. Trotz das man einen bestimmten Aspekt der Bevölkerung, da sie interessant aussieht, hat, die Tatsache das es dort eine Milliarde Menschen und davon 750 Millionen in diesen kleinen winzigen ländlichen Gebieten leben, braucht man zu viele Versicherungsverkäufer um zu ihnen zu kommen. Dann, wie ich zuvor sagte, du schaust was dir Durchdringen an Lebensversicherungen in einem Land ist, was die Prämien sind und was der prozentuale Anteil des Bruttoinlandsproduktes ist, das ist die Wirklichkeit wie Leute die Durchdringung an Lebensversicherungen messen. Zum Beispiel, in Taiwan die Zahl ist 9.6, in Malaysia 3.3. Also du könntest sagen, ein Land wie Malaysia könnte interessant sein es zu betrachten, niemand dort hat eine Versicherung. Dann, natürlich, du schaust auf die Wachstumsraten, wie viel die Prämien in den letzten paar Jahren gewachsen sind, was die Vorhersagen sind.

Q: Were there other important issues involved when you considered entering the German insurance market?

A: Ja, wenn sie die Industriestatistiken betrachten dann prüfen sie was die Aufnahmefähigkeit in

dem Land für private ausländische Gesellschaften ist, also an einen Ort wie Japan, sie lieben europäische und amerikanische Firmen, oder auch an einen Ort wie Deutschland geht das gut, aber andere Länder sind sehr skeptisch von amerikanischen Gesellschaften, sie werden nicht als amerikanische Gesellschaft in die Türkei gehen.

Q: What was the role of competition?

A: Der Wettbewerb war bestimmt ein Punkt. Also dann wir fingen an unsere Mitstreiter anzuschauen und zu sagen: wir sind spät aber lass uns schauen wie sie sich gerade Zeit machen, verdienen sie Geld, was sind ihre Hindernisse. In Deutschland, wir waren die Gefolgschaft da es ein sehr etablierter Markt ist.

Q: Why were you so confident that you would be successful in the German market?

A: Es gab dahinter eine ganze Reihe von Gründen aber während der Zeit als wir Deutschland betrachteten, besaßen bereits viele bedeutende Spieler enorme Teile des Geschäftes und wir dachten darüber was das beste wäre und das war Vertrieb. Wir wissen wie man Versicherungen verkauft, also lass uns schauen wie es heute in Deutschland passiert, und wir fanden heraus das Vertrieb ein kritischer Erfolgsfaktor auf dem deutschen Markt ist. ABC Inc. weiß wie man Versicherungen verkauft und IFA's (Unabhängige Finanzberater) sind wirklich eine interessante Sache für ABC Inc. ABC Inc. betrachtet zusätzlich deren Vermögensverwaltungsgeschäft, das Anlagefondsgeschäft. Und wieder, wir waren wahrscheinlich ein bisschen spät in Deutschland, also wir fragten uns selber wie wir den Markt betreten wollten, und wir kamen auf die Idee eines Joint Venture mit örtlichen Spieler der bereits einen Markennamen hat.

Q: Why did you prefer entering the market with a joint venture?

A: Gut, es gibt einen unterschiedlichen Grund warum sie ein Joint Venture machen würden wollen, manchmal ist es wegen der regulierenden Anforderungen, aber manchmal ist es nur wegen des Markennamens. Und das war eine Herausforderung für ABC Inc. weil, zum Beispiel, in Großbritannien und in der ganzen Welt kennen die Leute ABC in Großbritannien, was eine total separate Gesellschaft ist die eine Menge an Verwicklungen schafft, es gibt bestimmt

Länder wo ABC Inc. sich in Amerika selber Überlegt nennen kann. Aber sie können es nicht in bestimmten Ländern weil ABC in Großbritannien hat das Recht. Also in Großbritannien ist der Name offensichtlich ABC Inc. UK. Zum Beispiel, in einem Land wie Deutschland können wir nicht den Namen benutzen. Also haben wir keine Marke. In einem wichtigen Land wie Deutschland zu starten und das ohne Markenname können sie sich vorstellen wie viel es kostet sich diesen aufzubauen. Also sagen sie sich selber wir sollten uns vielleicht zusammenschließen mit einem großen Markennamen. Dann kommt natürlich der Kostenfaktor. Einige Länder sind viel teurer als andere um hinein zu kommen wegen der Kapitalanforderungen, verschiedener Regeln, und deshalb wird das auch sehr wichtig. In bestimmten Ländern kann viele Jahre dauern um sein Geld zurück zu kriegen. Bei einer Konferenz haben sich verschiedene Gesellschaften über ihr Indiengeschäft unterhalten, einige Ausländer haben den indischen Markt betreten und keiner von ihnen erwartet dass sie Gewinn machen oder sich die Kosten decken bevor 7 oder 8 Jahren. Und viele von diesen Gesellschaften sagen, gut wir müssen in diesem Markt sein, es braucht uns 7 bis 8 Jahren aber es gibt eine Milliarde Menschen in Indien und sie haben eine hohe Bildung, sie ziehen alle zu den Städten heraus aus den kleinen Dörfern, aber andere Gesellschaften würden vielleicht sagen, wir können nicht warten für 6 oder 7 Jahre, sie müssen ihr Kapital da einsetzen wo sie sofortige Gewinne bekommen. An einem Ort wie Japan zum Beispiel, war ABC Inc. ein früher Teilnehmer. ABC Inc. war einer der ersten Ausländer im Versicherungsgeschäft und sie haben mit einer großen Firma namens Sony zusammengeschlossen. Sony wusste nichts über das Lebensversicherungsgeschäft und ABC Inc. wusste nichts über Japan. Also, sie schlossen sich zusammen vor ungefähr 20 Jahren und irgendwann ABC Inc. zahlte Sony aus und jetzt ist ABC Inc. der größte ausländische Versicherer in Japan.

Q: If you had found a joint venture partner in Germany, would you still have opted for an acquisition? How important was control for you?

A: Es hängt wirklich am Geschäft und an der Branche. Also, eindeutig, die meisten Gesellschaften würden immer die Kontrolle haben wollen. Falls sie ihr Geld dem Risiko aussetzen dann würden sie auch gerne fähig sein Entscheidungen zu treffen. Aber es gibt auch andere Punkte. In Italien zum Beispiel werden Versicherungen größtenteils bei Banken verteilt, eine enorme Anzahl an Banken verkaufen Versicherungen. Gut, in den USA kauft niemand seine Versicherung bei den Banken, das selbe in Japan. Also stellen sie sich vor ABC Inc. entscheidet sich dass das der Markt ist in dem wir drin sein müssen. Aber wir wissen gar nichts über das Bankwesen. Sie wissen wie viel es kostet Privatkundenfilialen über das ganze Land aufzubauen? Das würde ein Vermögen kosten. Also, stattdessen für diesen Markt, sie würden den Markt analysieren und eine große Bank dort finden. Die haben Tonnen von Geld aber sie wissen nichts über Versicherungen. Also das ist der perfekte Weg für ein Jointventure. Also es hängt wirklich von den Umständen ab. Im Vermögensverwaltungsgeschäft fühlten wir das es manchmal mit verschiedenen Eigenkapitalanforderungen verbunden ist, und wieder hatten wir keinen Markennamen und wenn sie ein Einzelhandelsprodukt ohne Markennamen verkaufen wollen ist es richtig schwierig. Aber im Fall unserer Zielfirma in Deutschland ist der Markennamen während der Verbreitung weniger bedeutend, gerade, weil die Berater fühlen das sie in ihrem eigenen Geschäft sind und sie sprechen über sich selber und sie verkaufen Produkte über all die großen bekannten Markennamen. Also, sie entwickeln nicht ein Produkt das zum Konsumenten geht, sie entwickeln den Service der zum Berater geht. Sie würden sagen es ist eher eine Geschäft zu Geschäfts Beziehung. Also, ob sie sich zusammenschließen oder nicht gibt es 1000 verschiedene Punkte heraufkommen und es hängt wirklich von den Umständen ab.

Q: Leaking out of knowledge, has it played a role in the decision to enter the market via acquisition instead of other market entry forms?

A: Ich denke nicht dass das ein Punkt ist, denn wir bringen Wissen zum Tisch und sie bringen ihr Wissen zum Tisch. Ich denke die Finanzdienstleistungsbranche hat eine Menge Interesse in Jointventures gezeigt und eine Menge Leute haben es gemacht und sie würden wahrscheinlich nicht mit jemandem zusammengehen der exakt die gleiche Zielgruppe hat wie sie. Also, wenn sie zum Beispiel nach Italien schauen, das ist ein Ort wo nicht wirklich zwei Gesellschaften miteinander konkurrieren, also auf bestimmten Märkten konkurrieren wir nicht wirklich Kopf an Kopf mit bestimmten Gesellschaften. Jedoch in Großbritannien ist MetLife der große Konkurrent von ABC Inc. Also wir würden uns niemals zusammenschließen mit ihnen in einem anderen Land. Aber eine Bank in Italien hat das ganz örtliche Wissen was wir nicht haben und wir bringen all das Branchenwissen was sie nicht haben, deshalb würde das ein anderer Fall sein.

Q: Why not German at that stage?

A: Vor 20 Jahren starteten wir was wir Nordasien nennen. Japan und Korea und dann bauten wir Geschäfte in Taiwan auf.

Q: How come you started the business there?

A: Gut, sie wissen, vor 20 Jahren, da gab es jemanden mit einer Idee, und Japan ist der größte Versicherungsmarkt der Welt, die Japaner lieben Versicherungen, sie haben die sehr konservative Kultur von Natur aus, der Gedanke war wahrscheinlich, wenn sie ein Geschäft jenseits der USA aufbauen, gehen sie wahrscheinlich zum größten Markt der Welt oder vielleicht die Regeln änderten sich plötzlich in Japan so das Ausländer plötzlich erlaubt waren. Aber Japan ist bei weitem der größte Versicherungsgesellschaftsmarkt in der Welt, die Spitzenversicherungsgesellschaft in Japan verkauft mehr Versicherungen pro Jahr als 5 Firmen in den USA zusammen. Deshalb startete ABC Inc. dort und ein Grund war wahrscheinlich die Größe der Geschäftschance und wahrscheinlich das jemand zur Firma kam, vielleicht klopfte Sony an die Tür und meinte das es eine großartige Idee wäre. Sie wurden sehr erfolgreich in Japan, und sie bauten ein Team von örtlichen Experten auf, und das Geschäft wuchs und wuchs weiter. Und dann starteten sie Länder anzuschauen wo sie dachten dass sie sehr ähnlich zu Japan sind, und wo dasselbe Modell funktionieren würde, sie bauten ein spezielles Geschäftsmodell

auf. Deshalb denke ich ABC Inc. konzentrierte sich wirklich auf Nordasien weil dafür hatten sie sozusagen ihre internationalen Experten.

Q: Would it have been easier to start in countries that are culturally closer, for example, the U.K?

A: Gut, es gibt in England Firmen die für über 300 Jahre Versicherungen verkaufen, und vielleicht dachte jemand, dass dies vielleicht ein harter Markt wäre um ihn als erstes zu knacken.

Q: If economic and political factors look perfect for a target country, how important is managerial attitude on the choice of entering a specific country?

A: Ich denke in jeder Firma hat die betriebswirtschaftliche Einstellung eine Menge mit der Wahl zu tun ein bestimmtes Land zu betreten. Es gibt es konkurrierende Prioritäten. Zum Beispiel, ich kann die ganzen Untersuchungen machen und sagen: Ohh meine Güte, wir müssen in Land X sein. Das wird der große Markt sein, ich sage es euch. Hier sind all die Daten und das hier sagt die Branche. Aber dann sagt die Person für die ich arbeite, welche für jemand anders arbeite, welche wieder für jemand anderes arbeitet, möge sagen: Warte eine Minute, wir geben gerade eine Milliarde Dollar in diesem Land aus, und die Prioritäten sind solche das eben er oder sie denkt wir wären in Land X weil es enorm sein wird, wir haben andere Prioritäten, und wir sind eine öffentlich gehandelte Gesellschaft, und sie sagten der Öffentlichkeit das zu X und Y gehen werden, und nur weil er oder sie denkt das Land X großartig ist, das sagt nicht das wir dorthin zu gehen haben.

7.2 Appendix 2

Telephone Interview with the Director of Insurance of KPMG, held on 14th of July

Q: What are the main determinants of market selection for insurance companies?

A: Einer der wesentlichen Gründe ist das Marktpotential, je mehr sie sich mit angelsächsischen oder gar überseeisch angelsächsischen Häusern beschäftigen, desto simpler werden die in ihren Ansätzen. Im Kern geht's in die Richtung. Die gucken sich wirklich an, wie groß ist der Markt und verglichen dazu wie sieht das Marktwachstum aus. Bei US-Amerikanern ist das sicherlich der Fall, bei Nicht-US Amerikanern würde ich das nicht ganz so nehmen. Amerikaner gehen gerne nach diesem Prinzip vor, nicht ausschließlich, aber sehr gerne.

Q: What is the general analytical approach when insurance companies evaluate the attractiveness of a target country?

A: Also, die Amerikaner wenn sie nach Europa kommen machen in der Regel zwei Schritte: den ersten Schritt nach England, da sprechen sie die Sprache, egal ob der Markt jetzt überfisch ist oder nicht, es ist kulturell irgendwie näher, und versuchen dann von England aus das Festland zu „erobern“. Und bei der Auswahl der Länder, welche Reihenfolge sie gehen, da gehen sie sehr gerne bei Zugrundelegung Marktpotential, Marktgröße und Potential, und das wird regelmäßig gemessen in Wachstum. Was die im Prinzip machen ist die gucken sich an was wäre das Modell, das Geschäftsmodell, und gucken da eben was vertickern wir da für Produkte, dann nehmen sie sich die ganzen Studien vor, Life geht hoch, Kranken konstant, dann haben sie wenn sie das Europa weit mal durchgezogen haben, dann haben sie so ne Art Matrix mit unterschiedlichen Quadranten, dann fangen sie mit den Stars tendenziell an. Ob dann in dem jeweiligen Land, jeweils Targets überhaupt zur Verfügung stehen, das sei dann mal dahingestellt. Eigene Research Abteilungen? Strategie Abteilungen haben die meisten Häuser ja sowieso. Die Sachen zu beschaffen ist ja nicht so dramatisch, da kaufen sie sich halt ein paar Studien, die Studie Vertrieb in Europa zum Beispiel. Wenn sie die Studien haben, müssen sie noch ein paar Dinge in Einklang bringen und vergleichen das Ganze, in der Studie werden sie sehen da haben sie

Vertrieb, es geht um Leben, Life und Pension, das müssen sie für Kranken und Fondanteile usw. Aber auch machen, da können sie wunderbare Matrizen draus basteln, dann sehen sie eben schon in welches Land das sie gehen. Nächster Schritt ist dann sozusagen: Wie definiere ich die Markteintrittsstrategie. Tendenziell, US Amerikaner dabei, dann kaufen wir. Macht ja meistens auch mehr Sinn.

Q: Why do American insurance companies prefer a market entry via acquisition? Are there cultural aspects that play a role?

A: Der primäre Eintrittsweg ist in der Regel der Kauf, was ja meistens auch das erfolgreichste ist. US-Amerikaner haben tendenziell mehr Erfahrung sich in neue Länder zu begeben als andere. Sie können zwar mit einem Kauf stärker auf die Nase fallen, aber wenn sie mit Greenfield das anze wirklich aufbauen wollen, ja wenn sie in einen Markt reingehen, der erst gerade am entstehen ist, dann würden sie ihre Chancen haben, aber auch nur dann. Aber wenn das ein entwickelter Markt ist, dann haben sie mit allem anderem als einem Kauf gar keine Chance. Was anderes sind diese Länder wo man sagt, die haben ein irres Wachstumspotential, aber sind noch klein, dort kann ich über Greenfield nachdenken. Also bis vor einem Jahr hätte ich zu diesen Ländern noch Rumänien und Bulgarien dazu gezählt, aber dass nivelliert sich jetzt auch schon so langsam. Indien ist sicherlich so ein Markt. Aber ob es dann kulturell Sinn macht alles mit Greenfield neu aufzubauen, oder wie auch immer, das sei mal dahingestellt, aber es macht überhaupt keinen Sinn, wenn die Marktgröße schon da ist und wenn es schon eine große Anzahl an Marktteilnehmern gibt. Dann ist es aber nicht immer so, daß wirklich ein Target zur Verfügung steht.

In vielen Ländern brauchen sie so immer üben Daumen im Versicherungsbereich einen Marktanteil von schätzungsweise zwischen 1,2 und 2 Prozent, damit sie überhaupt Profit machen. Wenn sie es nie geschafft haben über die ein Prozent zu kriegen, sie brauchen aber 1,2 Prozent, ja organisch haben sie es offensichtlich nicht geschafft. Entweder ich kauf einen anderen, und werde dadurch größer, und wachse dann organisch weiter oder ich trete aus. Wenn sie in den Markt rankommen und es gibt gerade nichts, was zur Verfügung steht, dann haben sie Pech. Die second beste Lösung ist meistens eine Joint Venture Geschichte, wobei es sehr schwierig ist etwas auszuhandeln, dass es auch so ist dass es beiden Spaß macht.

Q: Why would an insurance company prefer entering markets that are culturally close even when economic factors are negative?

A: Also, wenn sie einen theoretisch fragen, wird der sagen: we go for growth. Praktisch würde ich vermuten, will ich den Amerikaner sehen, der sich direkt irgendwo nach Frankreich setzt, gerade im Financial Services Bereich. Es ist nicht auszuschließen, aber ich glaube es nicht. Das wird ihnen natürlich keiner sagen. Aber fragen Sie doch einmal ABC Inc. direkt.

Q: Why do insurance companies consider some economic market selection determinants as particularly decisive and how do they decide about the relative importance of those factors?

A: Das ist unterschiedlich, es hängt davon ab, wer es aufbereitet, und wie der die Schwerpunkte setzt. Aber im Prinzip, solange es nicht ein völliger Mist-Markt ist, also ein brauchbarer Markt und wenn zwei Märkte sehr engbeieinander liegen, bau ich ihnen ein schlüssiges Papierchen, sowohl für den einen als auch für den anderen Markt, indem ich einfach die Sachen unterschiedlich gewichte. Sie glauben doch nicht dass einer noch groß hinterfragt, ob nun das Marktwachstum, oder aber die income streams schlecht sind, wird das vielleicht im zweiten mal nachfragend berücksichtigt, aber erstmal wird gesagt: Mensch passt. Aber da hab ich schon zu viel unterschiedliche Sachen gesehen, wo der eine in die Richtung geht, und der andere in die nächste, je nachdem wer das vorstellt, aber auf der Entscheidungsebene wird das in der Regel nicht mehr hinterfragt. Wenn man Glück hat, gibt's noch einen der die kritischen fragen vorher stellt.

Q: Why would companies base their market selection upon only a few factors? Isn't there a high risk involved? Is it right that there is a trend towards more simplistic approaches in selecting

markets?

A: In der Praxis erleben sie sehr häufig, wie sehr doch auf einfache Dinge zurückgegriffen wird. Ich hab schon Mergers scheitern sehen, wirklich große Deals, weil man sich nicht über die Frage der künftigen Dienstwagenregelung einigen konnte. Es war einfach nicht auszuhandeln, der Käufer ist dann entsetzt abgesprungen, weil der Übernahmekandidat einen Tag lang nur über die Dienstwagenregelung sprechen wollte.

Q: Why did political factors not act as a barrier to entry? Why did a variety of economic factors not prevent companies such as ABC Inc. From entering the German market?

A: Regulatorisch bzw. steuerliche Gesichtspunkte sind die größte Hürde in Deutschland. Sicherlich könnte dies auch ein Unternehmen davon abhalten überhaupt nach Deutschland zu gehen. Fraglich ist immer, wenn Deutschland der letzte große Markt ist und ich habe die anderen schon alle bestückt, und Deutschland ist immer noch einigermaßen attraktiv, und es ist der letzte europäische Markt den ich erschließen muss, der mir aber zur Strategie dazugehört, dann würde es mich nicht abhalten, aber auch nur dann. Ansonsten sage ich mir geh ich doch erstmal nach Spanien oder Italien.

Q: How do insurance companies balance economic and strategic considerations and is oligopolistic behaviour an issue?

A: Die Konkurrenzsituation wird berücksichtigt, hängt aber von den jeweiligen Marktzyklen ab. Entscheidend natürlich ist wenn der Hauptwettbewerber irgendwas macht, dann guckt der andere dann schon drauf. Also in einem oligopolistischen Marktumfeld, also im jeweiligen Zielmarkt, wobei es völlig egal ist wie hoch der Wettbewerb dabei in den Vereinigten Staaten ist, wenn der Hauptwettbewerber von ABC Inc., ein Megaeinstieg in Deutschland macht, und die haben sich gerade um Italien gekümmert und Deutschland rechts liegen lassen, können sie davon ausgehen dass es eine Diskussion bei ABC Inc. gibt. Ob die dann im Kern dazu führt dass man die Taktik oder die operative Strategie adjustiert, oder ob man bei der bisherigen Strategie bleibt, und sagt erst im nachhinein macht man mal eine neue Bewertung, aber es kann dann

auch sein, dass so eine Meinung gewechselt wird. Und dann muss es plötzlich ganz schnell gehen und dann ist natürlich die Bereitschaft sich auf irgendwelche Abenteuer einzulassen natürlich relativ groß. Dass ist dann der Moment wenn es dann bei den internen Gesprächen über Übernahmen heißt: Jetzt machen wir es strategisch. Jetzt gibt's strategische Gründe. Nebenbei bemerkt Jack Welch hat mal gesagt wenn er einmal das Wort strategisch hört in einer Erörterung, dann ist der Deal tot. Hat er wahrscheinlich gar nicht Unrecht.