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„Internationalization and Choice of Foreign Market Entry Mode. The case of SOCAR"

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Abstract

This study reveals the motives and internationalization methods of SOCAR into European energy market. The internationalization process of SOCAR pursues various strategic objectives: strengthening competitive position, mobilization of resources, the upstream integration and the market diversification process. The oil & gas business development and competitive presence in the electricity sector are the strategic objectives of SOCAR.

In the theoretical part of the paper looks at some popular entry models and one relatively new REM model. Answers to the most questions will be given after deep analysis of existing statistics, study results, various publications, and interviews with experts.

Diese Studie zeigt die Motive und Internationalisierungsmethoden von SOCAR im europäischen Energiemarkt auf. Der Internationalisierungsprozess von SOCAR verfolgt verschiedene strategische Ziele: Stärkung der Wettbewerbsposition, Mobilisierung der Ressourcen, die vorgelagerte Integration und den Marktdiversifizierungsprozess. Die Entwicklung des Öl- und Gasgeschäfts und der wettbewerbsfähige Präsenz im Stromsektor sind die strategischen Ziele von SOCAR.

Im theoretischen Teil des Beitrags werden einige beliebte Einstiegsmodelle und ein relativ neues REM-Modell vorgestellt. Antworten auf die meisten Fragen werden nach eingehender Analyse der vorhandenen Statistiken, Studienergebnisse, verschiedener Veröffentlichungen und Interviews mit Experten gegeben.

Abbreviations

AIOC - Azerbaijan International Operating Company

ACG - Azeri-Chirag-Gunashli

IEA - International Energy Agency

IMF - International Monetary Fund

IPO - Initial Public Offering

PSA - Production Sharing Agreement

SOCAR - State Oil Company of Azerbaijan Republic

TAP - Trans Atlantic Pipeline

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1 Introduction

1.1 Object of Study

Internationalization is considered being a process of growing involvement in international markets through Foreign Direct Investment (FDI), which includes any form of investment that could potentially have a profitable outcome and lead to the establishment of overseas subsidiaries or affiliates.

The current stage of reforming the political and economic spheres in Azerbaijan is characterized by the country's increasing integration with the world community, intensification of the development of new forms of international exchange. Elimination of the state monopoly on foreign trade allowed many Azerbaijani entrepreneurs to enter the international market, as successful commercial and economic activity is impossible without the participation of international cooperation.

Access to the world market is a necessary link in the modern economy. The international market is a set of markets with specific geographical, climatic, ethnic, cultural, religious, and political conditions (Daniels 2008). International marketing is a certain approach to make commercial and economic decisions in order to meet all the requirements of both domestic and foreign consumers.

Expansion of international relations and integration, the establishment of business relations, confident in entering the global market, while simultaneously enhancing the internal one, are mandatory conditions of Azerbaijan occupying a worthy place in the world community. And it is not achievable without mastering the strategy and methods of international marketing (Abramov 2007). In addition, this study is motivated by the fact that the oil industry of the region is mostly resource-oriented.

Bartlett and Ghoshal (1998) argue that one of the main reasons for the expansion on an international level is the opportunity to enter new markets and gain access to scarce resources. What are more new sources of information can be discovered and can prove to be an advantage over the competition. The main object of this study will be to examine the internationalization and foreign market entry process of Azerbaijan's state-owned oil and gas company, SOCAR. There will be an in-depth presentation of both foreign entry modes and internationalization methods, with an explanation of the methodology and background of this research paper.

The structure of the research follows the logical sequence of the objectives to be achieved. The paper includes the Introduction, Theoretical Background, Case Study, Conclusions and Bibliography.

1.2 Previous Researches

There are a great number of publications on international marketing operations. Description of the experience of, for example, American or German international marketing activity is certainly of interest to Asian experts. The number of major European and Asian experts who contributed to the review of the problems of forming a marketing strategy of the company includes Ambler (2000), Ansoff (2007), Bagiev and Tarasevich (2012), Bojuk et. al. (2012), Bondarev and Cherenkov (2009), Budrin (2011), Cheverton (2012), Cherenkov (2003), Gaidaenko (2008), Golubkov (2005), Kotler (2011), Kulibanova et. al. (2001), Pesotskaya et. al. (2012), Seyfullaeva (2012), Shimko and Mikhailushkin (2008), Sobolev (2009), Strovsky (2011) and Walker, et al. (2009). Some theoretical literature that will be used in this case study that is worth mentioning is for example Bondarev and Cherenkov (2009) and Budrin (2011) will be used for the in-depth description of the internalization process within of company. Also, Whitelock (2002) gives more information on market entry and internalization by using the example of a company, which is what this case is all about.

Horwath S. (2013) gives detailed information on SOCARs' history, its operations since its founding and gives a brief insight into the company's future.

1.3 Settings goals and purposes

The main purpose of this research is to study the internationalization and market entry of the Azerbaijani oil company SOCAR. Mainly the focus will be set on identifying the company's strategy when entering foreign markets, i.e. how potential markets are identified and chosen and the used entry mode strategies.

The company definitely has many reasons for expanding abroad. SOCAR cannot be compared to other Azerbaijani companies. Due to the fact, that it is state-owned and is of immense economical and geographical importance for the country that cannot be easily compared. As the company is state owned, it has pure monopoly power over the home market and does not have to compete with domestic competition. However domestic demand for its products still is at a rather low level and therefore decelerates the company's growth and suppresses its full potential. Furthermore, diversification against the uncertainties of the domestic cycle is of great importance, so seeking new markets and resources could prove to be vital for SOCARs' future development. By entering the growing world market, it will be able to respond to foreign competition, reduce costs of production and eventually increase profitability and rate of profit growth. Also, it will be shown that internalization and EFM is of crucial importance if the company wants to acquire new skills which could be used in building additional value creating skills (Knight and Cavusgil 1996) that provides needed stability and efficiency for any company.

The region is characterized by huge ambitions and there have been a number of diversifications attempts until now. Also, the topic is quite interesting for the EU as the region has a great potential as an energy supplier, which could lead to a mutual beneficial collaboration. At the same time the area is almost unexplored, which causes the need of the research.

The research questions are as follows:

- Which key criteria are followed when deciding on which country should be entered?

- Which entry modes are used when entering a given country?

The involvement of businesses, including Azerbaijani companies, in the activities of foreign markets, the importance of developing a set of strategies, including marketing, the increasing globalization trend, manifested fully in the economic sphere, as well as incomplete study of the literature on marketing strategies of the company in entering the international market determined the formulation of this thesis topic, goals and objectives of the research.

2 Theoretical Background

2.1 The Prerequisites and Motivation of Market Entry

One of the characteristic processes in the modern world community is the development of international economic relations on the basis of the international division of labor. They are objective, stable commercial relations between individual countries or groups of countries.

Virtually every country in addition to conducting its internal trade seeks to expand its foreign trade activity that involves a complex mechanism of relations arising in the process of buying and selling goods and services to the international market. Market participants (firms, companies, businesses, organizations, individuals) engage in foreign trade for different reasons. For example, they might need to purchase goods abroad because of the lack of opportunity to acquire these products from domestic manufacturers. Another reason for the participation in foreign markets could be when a market subject has a market commodity, the sale of which abroad may be more favorable than in the country (Peng, 2004).

The developing global partnership significantly increases the tendency towards the internationalization of economic processes, promotes international specialization and cooperation in production, trade, exchange of research and design works. The internationalization of economic processes became essentially an independent force, growing under the influence of the active factors, such as political, economic, socio-demographic, psychological, mentality and technological ones. This process requires a thorough consideration of all factors, the expansion of markets and the development of all modern forms of international commercial and economic relations (Hill, 2001).

International economic relations are manifested in various forms of exchange between participants in the market, such as follows (Abramov, 2007):

- Material resources;

- Services;
- Scientific and technical knowledge;
- Results of industrial and technical cooperation among countries.

Azerbaijanis' economy is integrating into the world economic system, and the aim is to make it more open, providing all market entities the right of independent access to the external market, i.e. the international market. To gain international recognition, to get the right place in the global market, Azerbaijan needs to actively compete with other countries in the creation and offering competitive commercial products and services for the international market.

The successful solution of this problem is possible only with a skillful use of methods and techniques of international marketing, that is a complex system of production and marketing of commercial products, services, focused on the needs, tastes, habits of specific foreign customers by using the latest forecasts and studies of international market. International marketing is the response of the commercial world to such things as the growth and expansion of partnerships in the international market, the increase in production capacity, faster innovation, product variety and frequent changes in the nature and structure of the market demand, its market fluctuations, increased competition, increased and improved quality of information provision (Daniels, 2008).

Requirements of international marketing lead to the development of production programs for manufacturing products with regard to consumers' requirements. According to Henry Schlesinger, one of the leaders of the automotive giant General Motors, the manufacturer can never be certain that his product will meet the customers' requirements. He emphasizes that only the customer himself is aware whether his requirements are satisfied. It requires the consistent application of active supply-side policies that improve the competitiveness of manufactured products to accelerate the implementation of the goods and the turnover of the investment. It should be noted that the market participants in a rapidly developing market relations have to use modern marketing methods, or they will lose their market position as the market is saturated (Hill, 2001).

The implementation of the marketing policy requires restructuring of the production management system and the improvement of the efficiency of all participants. With the help of marketing, companies can identify customer demand and therefore adjust to their requirements and also reach potential consumers. Requirements of the accepted quality standards aim at ensuring long-term relations with customers.

The basic principle of international marketing focuses on the final results of production taking into consideration foreign customers. This principle leads to a number of requirements such as the importance of influencing the market and consumer demand, in accordance with the chosen marketing strategy of the company while also adapting production to market requirements while developing services in order to obtain more profit. Reasonable usage of information in the development of production programs, as well as development of a promising strategy to ensure and expand its position in the international market should also be considered as part of the expansion strategy. Continuous monitoring and adjustment to increase additional market segments, on-going staff development and providing a competitive advantage through the development of new technologies of production and delivery of goods to the market are also of great importance for successful international marketing.

A number of economists and scientists paid their attention to these issues, among them are such authors as: Kotler (2011), Bondardov and Cherenkov (2009), and others. However, analysis of works and publications of these authors shows a lack of scrutiny of issues related to the problems of forming competitive international business strategy.

International marketing provides a systematic, ongoing, active involvement in the international market at various stages of advancement of commodity products and services to the consumer. In this regard one should distinguish the concept of international marketing from the term “export”, as the latter is in fact limited by the fact that the sellers of good export their products to foreign companies-importers. In this case, suppliers are generally unlikely to want to know how satisfied consumers are by this product (Peng, 2004).

A distinctive feature of international marketing is a complete and explicit focus on foreign consumers, the desire to satisfy their needs and requirements. International marketing activities should assist the creation of products (services) that best meet the requirements of the international markets in order to gain an advantage over the competition. It is essential to extract reliable, accurate and timely information on the international market, the structure and dynamics of consumer demand, tastes and preferences of foreign consumers, thereby helping the company to adapt to market changes. Investment in research and development (R&D) to create models, product samples to suit the foreign consumers can pay off greatly in the near future. However, it is questionable to put large amounts of merchandise on the international market, because it is still untested market, so it is more preferable to rationalize merchandising to minimize the possibility of a loss. Coordination and planning of production, sales, finance and taking into account the interests of the international market, as well as improving the methods, techniques and sale of marketable products are also important in satisfying market needs and requirements.

In practice, the main task is to bring the consumer demand in line with its commercial interests. International marketing is a tool that helps to achieve a positive image of the company in the foreign market. Specific quantitative and qualitative marketing goals of the subject of the international market can be named.

Qualitative goals are to increase the prestige of the subject of the international market, increase its potential weight. Qualitative objectives are as follows:

- Economic goals and achievements both in its own country, and in importing countries.

- Positive impact on employment, both in internal and external labor market.

- Support for educational, cultural, sports and other activities, both within the country and abroad.

Quantitative goals are expressed by indicators:

- Increased sales in value and volume terms.

- Growth of market shares held by the subject of the international commodities market, by country, market segments, products.

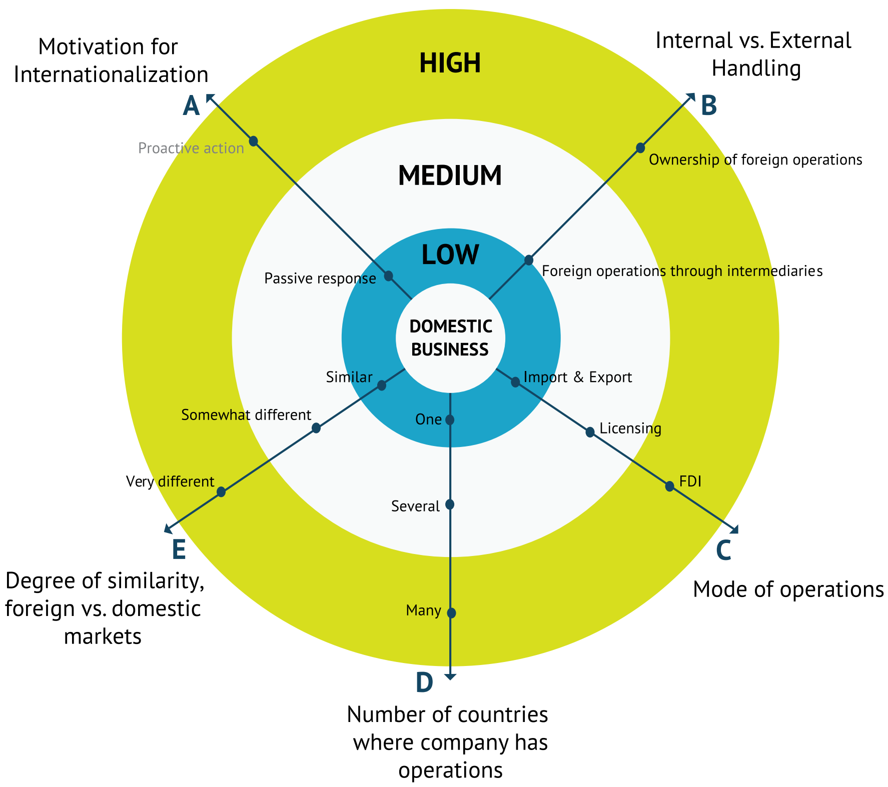
- Profit growth.

International marketing is based on the assumption that the markets have differences, and that the most effective strategies are those that take this into account. In marketing, this means that production companies will have to adapt, where necessary, to ensure compliance with the conditions of the local market and competition, which will also be attempted, where possible, to standardize the range of products and marketing procedures in order to minimize the cost of R&D directly to the production in order to maximize economies of scale and concentration of resources. This is achieved by creating international production companies (Hill, 2001).

There exist three main concepts that offer different approaches towards attracting new customers. The product concept puts the emphasis on the quality, performance and features of a product. Basically, the idea is that goods and services that best "normal" products in the three areas mentioned above are expected to generate bigger income. Therefore, the manufacturer concentrates his efforts on improving the product, with R&D playing major in the company's future success (Solberg, 2009).

Fig. 1 Patterns of international expansion

"International Business - Environments and Operations" - Daniels J.D., Radebaugh L.H., Sullivan D.P., 2005.



A different view is presented in the concept of selling. It is a system of organization of commercial and economic activity, in which the seller tries to improve sales through additional marketing efforts. Selling-oriented manufactures follow the notion that the potential news does not have a clear desire to buy the products, and therefore it is important to constantly keep looking for potential buyers. The main objective of the seller is to achieve the necessary sales volume. While affecting a foreign buyer in various ways of the promotion, the manufacturer is trying to encourage potential customers to buy goods. Often the seller resorts to a policy of imposing their products without worrying about meeting the needs of customers. Such practices can lead to loss of international markets for the manufacturer. The concept of selling can be effective at a particular time, only if there is a sufficient number of a potential buyer (Peng, 2004).

The concept of marketing is an organization of commercial and economic activity, in which the seller hopes to succeed in the international market by identifying the needs of potential customers. If they are able to find a more efficient way to meet those needs than the competitors, new customers are expected to gain interest in the product. As a basis to achieve their goals manufacturers see the specific needs of international buyers. Therefore, the emphasis in management is transferred from production activities on the creation, maintenance and expansion needs for its products with the help of marketing methods (Abramov, 2007). Thus, the concept of marketing is the orientation to foreign consumers, based on the subordination of the production of its interests, and provided that the production will be profitable.

Thus, the concept of marketing is the orientation to foreign consumers, based on the subordination of the production of its interests, and provided that the production will be profitable.

2.2 The Specific Features of Market Entry Modes

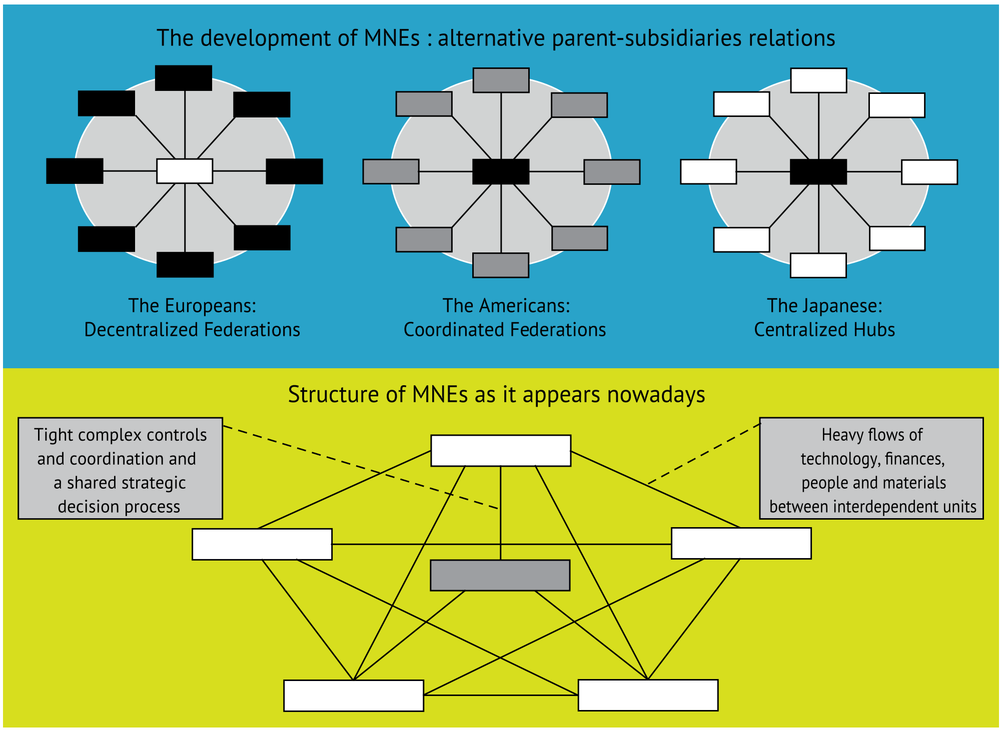
Access to international markets means the exercise of activities outside the country. Each firm, planning to enter the international market, in the first place have to decide for himself following three key questions what foreign markets the company is going to go, how it's going to do it, here it is necessary to choose the internationalization strategy of the business, as well as decide what kind of expansion the company is planning abroad[1].

[1] T. Isobe, S. Markingo, D.B. Montgomery - Academy of Management Journal 43 (2000) pp. 468-484.

An enterprise as a market participant can be a member of Foreign Relations, and thus participate in international marketing. It is reasonable to consider the forms of foreign economic activity (Liuhto, 2001).

Fig.2 - Multinational enterprises and their structures

"Contemporary Strategy Analysis" - Robert M. Grant, 2005



2.2.1 Direct Exports

Direct exports, which involve only the company and its vendors, without the support of intermediaries abroad, is the simplest form. Many companies use this entry method on countries which have low barriers for entry into their national market. Gradually, the company pursuing this strategy increases the number of partners (resellers, agents) in the target market and creates new opportunities towards the export possibilities. There is no in-depth study of the market, knowledge of foreign markets is limited, there are no subsequent delivery and after sales service. The key advantage of this method is the opportunity to cut the costs of creation of new production capacities in the target country. Due to export the firm can receive economy both from local benefits and from the effects of experience curve[2]. Another importance of this method is the possibility of producing goods centrally and exporting them to other target markets, this allows the company to reach considerable economy from scale at the expense of the global sales volumes.

However, there are some disadvantages of this method. In some specific situations the company cannot reach the desired profit during the export of produced good to foreign market, due to the fact that other countries have the ability to produce the goods with substantially lower cost. This happens when a company has the ability to get the economies of local benefits by transferring their production abroad.

Another of the significant drawbacks of direct exports is the fact that often very high transport costs may make the method of entering foreign markets financially unprofitable. One possible solution for this situation is the production of products in strategically important regions. That is, the company manufactures its products in such a way that it is possible to serve several countries simultaneously. It is especially characteristically for such branches as chemical, oil and gas, in which enormous expenses are targeted for transportation of the final product.

2.2.2 Licensing

Licensing is one of the important foreign market entry strategies. License agreement is an agreement whereby a firm selling a license “licensor” grants rights to intangible assets to other company “licensee” for a particular period of time with the possibility of obtaining royalties. Intangible assets include patents, inventions, copyrights, trademarks, design.

The advantage of licensing is that the licensee alone invests the bulk of the funds, which are sufficient and necessary to launch the work of the foreign operation. The main benefit is obtained due to the fact that the company does not have to incur

[2] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p. 480

the costs and risks that directly accompany the opening of a new market. The exit strategy for foreign markets which involves the use of licensing is especially attractive for those companies that do not have sufficient capital to do business in other countries. If the company carries out the first expansion into a new country, it is initially unprofitable to invest significant financial resources in unfamiliar or politically volatile foreign market. The advantage of licensing is that it can be used when a company is interested in entering potentially attractive foreign markets, but it is difficult to implement due to the fact that there are restrictions on foreign investment[3]. Also, licensing is widely used when the firm has intangible assets, which may be used for commercial purposes, but the company itself does not want to teach others. In this case the company can sell its license for a new technology to another company.

Licensing has several important disadvantages. It cannot provide the company complete control over the production and marketing as well as not clearly possible to follow the strategy needed to obtain economies of local benefits and the experience curve effects[4]. Typically licensing implies that the licensee independently creates its own production facilities. But it significantly limits the ability of the company to obtain economies of local benefits and the experience curve effects due to the centralized production of goods in one place. If the company's economies of local benefits are the key, the license may not be the best way of entering into international markets.

2.2.3 Franchising

Franchising is another well-known way to access to foreign markets. It is not much different from licensing, but franchising provides more long-term obligations to the parties. In essence, the franchise is a special form of licensing, in addition to which the franchisor sells the intangible asset (famous brands) to its franchisees; it

[3] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p.
[4] F. J. Contractor "The Role of Licensing in International Strategy" - Columbia Journal of World Business, (1982), pp. 73-83

requires strict adherence to the established rules of business vision within a given brand from the franchisee[5]. In most cases, the franchisor helps the franchisee on the initial stage of launching a new business and in the process of implementing it.

The similarity with licensing is, that the amount of royalties is calculated as a percentage of the revenues received by the franchisee. Franchising is widespread among firms mainly engaged in the service sector, while licensing is most often used between manufacturing companies.

If we talk about the benefits of franchising as a way of international market entry mode, it would be very similar to the benefits derived from the licensing. If a company buys a franchise, it will automatically get rid of a large amount of costs and risks, which could not have been avoided during direct access to foreign market[6]. The franchisor takes over the responsibility for the costs and risks of the activity at the new, untapped market. Thus, the franchisee has a strong incentive to create a profitable company or business. A key ad- vantage of franchising is that the companies using this strategy have the ability to secure a global entry to foreign markets with minimal costs and risks.

Speaking about the disadvantages of franchising, it can be concluded that they appear less clear than the disadvantages of licensing. Considering the fact that in most cases franchising is used by companies engaged in the service sector, there is no need to deep study the need for coordination of production in order to gain economies of local benefits and the effects of the experience curve. However, if the firm operates on a franchise, this limits its use of the profits earned in one country in order to face with competitors in other priority markets.

2.2.4 Joint venture

Joint ventures are one of the important forms of international industrial and technological cooperation. During creation of a joint venture company, partners are

[5] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p. 486
[6] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p. 488

pooling their capital, creating new joint ownership, which they jointly manage and proportionally share the generated revenue according to equity capital. The joint venture is registered in the territory of one of the participating companies.

Joint venture is established by two or more national companies with a view to the most effective realization of the potential of each of the parties and achieve maximum beneficial economic impact of a mutually beneficial cooperation[7]. A key influence on the creation of joint ventures was the internationalization of the world economy and the growing interdependence of all countries apart. All prerequisites for the establishment of joint ventures are met nowadays by modern globalization conditions and increased export of capital.

There are a number of different forms of joint ventures. The main ones are the formation of international joint ventures, the establishment of a subsidiary in another country, the acquisition of the operating company and its transformation into a subsidiary company, signing a license contract with a local firm, the agreement on the distribution of production and sales, an agreement on technology, the agreement on research and development, agreement on the development of products and services, management agreement, an agreement on the delivery of “turn-key” object[8].

Grounding the industrial branch subsidiary in a foreign country to produce goods, allows the company to use some of the benefits of the legal, financial, trade, taxation, customs, political and protectionist nature, to adapt quickly to local demand, labor markets. By creating a supply branch with elements of investment policy with the appropriate control, the company has the ability to quickly penetrate the foreign market, without engaging in on-site production of goods for sale, and creating the conditions based on which developed and controlled by a network of local

[7] B. Kogut - “Joint Ventures: Theoretical and Empirical Perspectives” - Strategic Management Journal 9, (1988), pp. 319-32

[8] Milner B. - “Theory of Enterprises” - Chapter 22., (2000)

mediators, various merchants. Their activities are subject to the laws of the country where a branch is located.

There are several motives for setting up joint ventures, as companies pursue different objectives. It directly affects the choice of strategies that companies are going to implement in their joint cooperation. If the motive of the company is to reduce the cost of capital to create new capacities and production, as well as the company seeks to improve the efficiency of current production, marketing and sales - the company should choose a strategy to improve production efficiency.

As a motive for choosing this strategy can serve a desire to get cheaper production factors, the desire to increase profitability at the expense of the economic use of resources as a result of new technology and work organization. If the company aims to simplify the exchange of patents, licenses, know-how, this strategy should be chosen. If one of the motives of the company is entering and development in a new consumer market, wiliness to learn a new activity, interest in the acquisition of new production facilities, as well as getting access to new sale channels, company should choose a strategy of expanding operations through establishing a joint venture. It is favorable for the company to use this strategy, if one of the goals of the company is to expand and diversify existing production through issuing new products and coming out by selling their goods in other sectors.

When the goals of the company are obtaining sufficient information and additional investment and the possibility to increase the sale volumes of goods and services by entering into foreign markets, the company chooses the given strategy to reduce the risk.

If the company's targets are: obtaining new capital, extra cash, get an access to new technologies, know-how, the ability to purchase unique foreign management experience, the expansion of exports, import substitution, the possibility of education and training of qualified personnel, attracting highly qualified personnel, the company's strategy will be the development of the by attracting investment, technology and skills.

The advantages of the joint venture are: access to the knowledge of a local partner, partially shifting costs and risks of expansion on to a partner, as well as political justification. If we talk about the shortcomings, we can distinguish the lack of full control over the technology, inability to carry out a global strategic coordination[9].

1. *Paid Sales Representative* is slightly more advanced variation of the previous form of presence in the market, especially when it comes to an employee temporarily sent abroad.

2. Technical assistance abroad is selling services, serving as a supplement to the sale of equipment and other supplies. It can have many forms, ranging from assistance in preparation of the project till the commissioning of the equipment, including staff training, transfer of knowledge on the organization and methods of production, etc. (Solberg, 2009).

3. Governance contract is the sale of services for export, because it is about ensuring control for a limited or unlimited period industrial complex, or a set of services provided either by the exporter or by someone else. A typical example is the international hotel complexes, buildings of those are often owned by private or public capital, and current use (sales) internationally is trusted to a company.

4. Delegation of authority ventures abroad without investing when an enterprise-franchisor provides certain rights to sell its products to companies operating in international markets. This allows the manufacturer to sell his products on international markets without costs of implementation. Another reason for

[9] Alliances and joint ventures. Patterns of internationalization for developing country enterprises - United Nations Industrial Development Organization (2006)

entering foreign markets can be when company with its sales network abroad, provides it for a fee at the disposal of another company.

5. Using the services of international mediators such as:

    a. Brokers, who seek and establish contacts without getting any power from the merchant-exporter or importer-buyer. Usually they receive a commission from both parties involved.

    b. Dealers receive instructions from the exporter to study markets, sell and deliver the goods, to issue an account due to the conditions of obtaining commissions as a percentage of the price.

    c. Procurement agents receive commission from the buyer to find a product of a certain quality at a certain price abroad, with specific delivery dates, then there are commission agents who receive from the supplier of the exporting order to represent it abroad.

    d. Commission agents, receiving from the supplier of the exporting order to represent it abroad.

    e. International trade agents, buying and selling on their own account, as appropriate, not necessarily in the future while maintaining communication with customers or suppliers.

    f. Importers and distributors who are independent resellers to join in the commercial relationship with suppliers and wholesale customers, according to long-term contracts.

    g. There are Concessionaires, independent dealers who sign a contract with their partner-exporter that defines the terms of cooperation in the international market and lastly Importers and distributors who are independent resellers to join in the commercial relationship with suppliers and wholesale customers, according to long- term contracts.

6. Transfer or export of know-how can be transfer of the patent license that is used in cases where the exporter is not currently engaged in manufacturing a new product but possesses a promising invention. It is aimed to help spread this innovation rapidly and thereby ensuring excellence in the international market over competitors. Besides that, there is also transfer of technology, which consists in the creation of new points of production or use of the technology abroad. Subcontract made with a foreign company where innovation is transferred to a foreign export market subject while investing. The latter's mandate is to establish in the country a new production base (factory, shop, plot), to receive, install, use, export equipment, machinery, materials, elements of know-how, training of personnel, the provision of technical advice needed to create a production entity and put it into operation.

7. Direct ownership provides placing, marketing, production, sales in other countries without any partners, that is, independent realization and control of foreign trade.

Fig.3 Market Entry Modes

Entry Mode	Degree of Control	Systematic Risk	Dissemination Risk	Resource Commitment
Export	Low	Low	Low	Low
Countertrade	Low	Low	Low	Low
Contract Manufacturing	Medium	Medium	Low to Medium	Medium
Licensing	Low	Low	High	Low
Franchising	Low to Medium	Low	Medium	Low

Management Service Contract	Medium	Low	Medium	Low
Turnkey	Low	Low	Low	Low
Joint Venture	Medium to High	Medium to High	Medium to High	Medium to High
Wholly Owned Subsidiary	High	High	Low	High

In the case of SOCAR the most commonly used modes of entry into foreign markets were: mergers, acquisitions and joint ventures with foreign companies. Especially mergers and acquisitions can be realized in a timely manner and were therefore a "perfect match" for SOCARs' rather aggressive expansion strategy. Hill (2007) points out, that acquiring established enterprises can help the expanding company to settle in the new market more rapidly.

In the oil business where the ability to adapt quickly is essential due to its fast-evolving nature, these modes of entry insure the company's flexibility. Lukoil managed to establish its presence internationally in less than a decade mainly through acquisitions and joint ventures (Sydiakin, 2007; p. 42).

According to Ellis (2000; p. 2) existing theory describes the decision to enter the foreign market as: "rational responses to conditions in the market and are seen to be made on the basis of objective information gathered systematically via market research". When searching for evidence to support the argument, it becomes evident that a systematic approach is not applied in most cases (Johanson & Vahlne, 2003). Many studies argue that entry decisions are usually not influenced by rational factors and consequently do not apply to the classical theory of the market (Root, 1994).

Modern conditions provide the subjects of the international market a wide range of commercial communication with foreign partners, the optimal solutions are thereby able conduct of international marketing (Peng, 2004).

2.3 Market analysis and development of market entry strategy.

The basis of the international marketing strategy consists of the following approaches (Hill, 2001):

- segmentation of the market;
- selection of target markets;
- search for the company entering the market;
- selection and application of methods and means of marketing;
- determination of the time of entering the market.

The basis of market segmentation is a well-known provision that each element of the international market is heterogeneous and consists of various product groups, regions, countries, customers with unequal needs and behavior. In developing the strategy, the company should determine its attitude to these groups and decide which of them will be a potential customer and buyer of a particular commodity production of the company.

When selecting target markets, the company can use the following methods to strengthen its position in the international market (Daniels, 2008):

1. “Old market - old product” (the strategy of deep penetration). The company can Increase its market share by reducing distribution costs of turnover and production, increased advertising, changed goals, as well as by expanding the use of manufactured goods.

2. “New market - old product” (strategic energy of expanding the boundaries of the market). The strategy includes strengthening entrepreneurship activities through the development of new international markets. The company is continuously seeking not only new geographic markets, but also new market segments

3. “Old market - new product” (the strategy of developing a new product) - expansion, development, exploration, production of completely new products for the market. Expanding market share is made through the issuance and offering new products to the international market, creating new consumer needs, penetration into new spheres of product application. Modification and market introduction of new products is carried out in terms of both direct and hidden methods of competition, such as lower prices, selling better quality products at the same price, providing extended warranties to customers, consumer loans, free services and other related methods sales promotion. Market structures shaped by market share of certain goods are subjects to change due to the appearance in the market of medium-sized and small companies and innovators, as well as resellers, competing in the market while offering imported goods. Large multinational companies usually specialize mainly on innovations in production technology in order to reduce the cost of manufacturing products or on product differentiation. At the same time, small companies are more actively pursue a policy of innovation (Abramov, 2007).

4. “New products - new market” (active expansion strategy). It requires considerable effort on the part of the management and staff of the company, as well as significant. With the release of a new product a company can copy the innovations developed by competitors. This is being led by a company with significant resources and production facilities necessary for the development of mass production and marketing of products copied it to the markets that are not captured by a rival. In this case, R&D costs are relatively low, but the profit is

also low, as the catch-ups have to work on these segments of the international market, where demand depends on the price (Gerardo, 2002).

The entry of the company to the international market is based on the selection of priority activities for the company in the market. For example, they have set the task to win market leadership by the new pioneer products. To do this, the possibilities of buyers are studied, and it is necessary to decide if they are scared with a higher price, what action can be expected from the competition due to the market entry of the pioneer products, etc.

Companies sometimes are oriented to the developing countries, producing new products easier than ones sold in the domestic market. Examples of this strategy are manual cash registers and non-electric sewing machines for countries without branched power systems. If the company intends to gain a leading position in one segment of the international market, such a strategy is called one-segment concentration. If the company expects to achieve success in several segments of the international market, such a strategy is called a multi-segment concentration (Liuhto, 2001).

The firm can ignore the differences in the segments and appeal to the entire market at once with the same product, that is, to engage in mass production and sale of one product to all customers immediately. The advantages of this strategy are the low costs through mass production and a unique marketing concept, as well as broad boundaries of the consumer market.

In the international market, the company can develop the production of goods that are not inherent in its core business, which is intended to strengthen its market position, and this strategy is called diversification.

The company can start making products which are in demand on the market, organize their own distribution channels, advertising, etc. But it also may choose to cooperate with the companies through the purchase of shares in these companies, intermediary fees and advertising companies, etc.

Selecting the way to market is largely dependent on the production and financial status of the company. When designated to a specific segment of the market, the company faces the task of selecting marketing tools for the development of this segment. These tools include: product, place of sale, channels sales promotion, promotion, price, etc. Each of these marketing tools in the specific market conditions has a different meaning. Moreover, with the dynamics of these conditions, it is constantly changing.

The company's success in the market is largely determined by the best time to enter the international market, which is primarily determined by the degree of competitiveness. The market is usually won by the one who is ahead of competitors. But sometimes it is advantageous not to rush the introduction of the goods on the international market. This occurs in cases where the market situation is not clear and the company should examine the actions of competitors (Peng, 2004).

Speaking about long term economic benefits of the new country as a potential market it is necessary to take in account such factors as, the market size, demographic significance (how promising is the development of the domestic demand in the national market), the current consumer welfare on a potential new market, as well as forecasting the long-term well-being in the future, that depends on the current rate of growth of the local economy. It is essential to take into account such nuances that despite the fact that these markets as Indian, Chinese, Indonesian, in terms of market size and the number of consumers are very large, during their analysis is particularly important to pay attention to the standards of living and economic growth of local economies[10].

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[10] Y. Pan, P.S.K. Chi - "Financial performance and Survival of Multinational Corporations in China" - Strategic Management Journal 20, (1999) pp. 359-74

One of the key factors is the value that the company is able to create on the foreign market during its internationalization process[11]. This value is directly dependent on how the product offering of the company meets and can be adapted to the needs of the market, which was focused during its overseas expansion, as well as on how new product offering corresponds to the character of the local competition.

The company's success in foreign market depends on how aptly it will be able to get into the mainstream of the local market, will it be able to offer such a product, which in addition to meeting the market needs, will also be a completely new, or at least accepted as a new product. A key conclusion is that, the higher is the value of the goods in a foreign market, more realistic is to establish a higher price, as well as sales acceleration. After this analysis, the company which is going to develop in the international market can rank countries according to their degree of investment attractiveness, as well as to evaluate the long-term profit potential, which is possible to get in a new country as a potential market for international business.

Once a company decides for itself in which markets it is most favorable and optimal to enter, it is necessary to determine the time of entry into foreign markets. Early entry is characterized by the fact that the firm appears in a new market before its competitors, and if it is able to offer such a product offering that is able to meet local customer needs and comply with local competition, it certainly will be a success.

The late market entry is characterized by the fact that at a time when the company is going to expand into new market, it has already been "occupied" by competitors.

Early market entry and its advantages are characterized by the first-mover advantage[12]. The pioneering company in first gets the opportunity to get ahead of its

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[11] D. Collins - "A Resource-Based Analysis of Global Competition" - Strategic Management Journal 12 (1991), pp. 49-68
[12] M.Lieberman, D. Montgomery - "First-Mover Advantages" - Strategic Management Journal 9 (Summer Special Issue, 1988), pp. 41-58

competitors and firmly consolidate its brand in the minds of consumers in the target market. Another advantage is that the company gets the opportunity to strongly increase the volume of sales in the country, thus leaving behind its competitors, and receives a significant advantage in cost, compared with firms following her. Due to the large volume of sales in the new market, the company has the ability to reduce its prices; thereby competitors with smaller volumes will be forced to leave the market. Moreover, another significant advantage in favor of the country, the pioneer has the ability to create switching costs that would tie customers to well-known brands. Competitors will be extremely difficult to deal with the company, which has already generated a huge share of loyal customers, it is known in economic theory as the concept of "qwerty – effect"[13], it is a really strong effect on the preference of the consumer market.

The pioneering companies can be aimed at a long-term successful outcome of their activities, if they have the leadership in respect of any technology during the process of entering new markets. "Leader got its advantage by owning exclusive technology can also use his leading position in full in order to obtain other competitive advantages, even when the competitors will reach the technology level of the leader"[14]. The company, which makes the first move gets the ability to set the rules for competition games in various spheres of activity.

The key advantages of the companies making the first move are several important aspects. The pioneering company earns a reputation of a leader which is strengthening its image, it is important for long-term development of the company in foreign markets. The pioneering company is able to get the leadership in positioning, which makes it possible to take a very profitable niche market. Additionally, a

[13] David P. - "Clio and the Economics of QWERTY" - The American Economic Review, Vol. 75 (1985), pp. 332-337
[14] Porter M. - "Competitive advantage - Creating and sustaining superior performance" (1985) p.272

pioneer can get very promising access to the most profitable sales and distribution channels in the country[15].

However, there are negative aspects of being a pioneer. Such drawbacks primarily characterized by extremely high costs of early market entry[16]. The pioneering company is facing with these drawbacks, the followers may avoid them. High costs of early market entry are occurring, when the "system of doing business" in a country that has been selected for international expansion is radically different from that which is present in the country from where the company is pioneering[17]. If there is a strong difference between the ways of doing business, then the pioneer would need more time, effort and money to be in the mainstream of the local business in the target country. Often, the most stable position is awaiting the companies which go into a new market where several foreign companies are already operating. So, there is a real opportunity to avoid the mistakes and the opportunity to observe the actions of the pioneering company. However, we should not forget about one of the major benefits of early market entry; since there is no competition in the market, the company has an opportunity to rapidly increase his sales.

Additionally, the uncertainty of the product demand in the future is one of the negative aspects, as well as possible changes in customer needs. Consumers are always interested in innovation, and any technology gradually loses its relevance and value. In this situation, companies need to modify and improve their products in order to remain pioneers in the technology and to satisfy the growing needs of their customers.

Difficulties may also arise if a company during its foreign market entry uses a specific investment in technology that during the transition to new levels of product

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[15] Porter M. - "Competitive advantage - Creating and sustaining superior performance" (1985) p.273

[16] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p. 475

[17] S. Zaheer, E. Mosakowski "The dynamics of the Liability of Foreignness: A Global Study of Survival in the Financial Services Industry" - Strategic Management Journal 18, (1997), pp. 439-64

development is extremely difficult to change, in such situations the company may also experience significant problems[18].

The third aspect which the companies also have to define for themselves, appearing at international market is a question of the scale of the expansion[19]. If the company is planning a large-scale access to the foreign market, it requires the allocation of enormous resources, and market entry depth should be pretty significant. Most businesses do not have the resources for large-scale and rapid entry into new markets and therefore, companies initially consolidate their brands in the market and gradually implement their entry as a deeper becomes their acquaintance with the local business environment.

2.4 Prerequisites and Criteria for the External Market Selection. Foreign Market Potential Evaluation

In today's world there are more than 200 countries, located on all continents. Each of them has its own special mentality, the unique national traditions, as well as their particular business atmosphere. For the company, planning to develop on the overseas market it is crucially important to take into account the fact that not all markets have the equivalent profit potential. Companies need to do a thorough analysis of the possible potential of countries in which they are likely tending to carry out foreign expansion, and ultimate preference should be given to the country where they have a real prospect of long-term profit. The political and economic factors are strongly influencing to attractiveness of the international market. On the other side, the priority has the ratio of benefits, costs and risks that may directly face the company starting his business in a particular country[20].

The international market entry requires a comprehensive account of the totality of the major factors of both general (for example, the state of conditions in the world

[18] Porter M. - "Competitive advantage - Creating and sustaining superior performance" (1985) p.277
[19] P. Ghemawat - "Commitment: The Dynamic of Strategy" - The Free Press, New York (1991).
[20] Hill C. - International Business. Competing in the Global Marketplace 8th ed. p. 474

commodity market as a whole, the political situation in the world, and so on), and specific nature (especially customs regulations in a particular country, the level of competition in it , the specificity of the local demand and the requirements of the law to the different characteristics of the goods, etc.), which can determine the success or failure of the exporter in the foreign market. For studying national markets various information sources are used. They are as follows (Hill, 2001):

1. Information of the prints:
   a. Periodicals (newspapers, trade journals, economic bulletins);
   b. Specialized publications (monographs, publications by chambers of commerce and business associations, collections of trade agreements, market surveys, publications of banks, advertising agencies, individual companies, collections of public institutions, reflecting governmental laws and proposals for foreign trade);
   c. Statistical references, both general and specific ones of individual countries, the UN and various international organizations;
   d. Information of major brokerage houses;
   e. Bulletins of wire services.
2. Online information, etc.
3. Special references by:
   a. Government agencies and organizations; □
   b. Consular staff;
   c. Chambers of commerce;
   d. Associations and federations of relevant industries;

e. Special private information agencies;

f. R&D institutions and companies;

g. Credit reference firms.

4. Surveys and polls:

a. At fairs, exhibitions and exchanges;

b. Conferences and symposia;

c. Business conversations;

d. By telephone, fax,

e. The mailing address information.

In the process of market research, a set of questions is made in the following areas: products, markets, prices, the external environment of marketing, competition, product promotion system, after sales service, control of marketing activities (for all components of the marketing system) (Abramov, 2007).

It should be considered what questions need to be answered to justify actions in international marketing. A company that is seeking to become an international market (segment) actor should have a high industrial activity. Namely:

– No arrears on the loan providers;

– Increased performance indicators;

– The availability of funds in the current account in an amount sufficient for immediate payment;

– Contractual obligations;

– A high level of turnover of the target destination.

Thus, the main reason of market research is to identify the company's abilities to take appropriate niche (its position) on the real sector of the market through the selection and implementation of effective marketing strategies. This goal can only be achieved through comprehensive research and analysis of the international market, the main provisions of which are described above (Gerardo, 2002).

The main purpose of market research in the international market is to minify the risk level in the process of making business decisions. In this context, market research in the international market can be defined as an information system for collecting, recording and analyzing the data in order to adapt the company to changing demands of the international market. The area of the application of marketing research is not particularly limited, but at the same time, we have the main lines of research of the international market, are used in the world (Hill, 2001).

International market research is preceded by an analysis of general information about the country of interest, such as: population, size of territory, national resources, government, the structure of the economy, the monetary system, socio-cultural characteristics.

Currently, there are various ways to promote products to the international market. Promotion of products to the international market can be made through its own distribution network or through a widely developed network of intermediaries.

1. *Export business management companies* are independent organizations in the export of performing for various client company's agency services in the development of cultural relations with foreign countries, international policy, tax policy and legislation; they perform the provision of export operations of the manufacturer (Gerardo R., 2002).

2. *Agents* for export of goods carry out services as export management companies, but act in a narrow range market segment. This kind of activity is usually short-lived.

3. *Commissioners* fulfill orders of a foreign customer for the purchase of export products.

4. *Traders* export products perform procurement services directly from the manufacturers under their name, taking on all the risks.

5. *Cooperative exporters* are the companies that have developed their own distribution network to transport their goods and provide logistics services to other companies abroad on a cooperative basis.

6. *The companies dealing with bulk purchasing cheap goods* for export specialize in the procurement of goods of poor quality, as well as stocks that have accumulated as a result of overproduction for their further distribution abroad.

7. *Product selling agents* operate on a commission basis on contracts for a specified period of time, and do not take any risks.

8. *Brokers* on the sale of goods for export is mediation between buyers and sellers, they work on a fee or commission. They, like the dealers of goods, do not carry any risks.

9. *Distributors* export carried purchasing goods from the manufacturer with the highest possible discount and resell, yielding benefits. These obligations include customer service spare parts and parts repair services and related services.

10. *Trading companies* of private and public ownership. It should be borne in mind that in some foreign countries, public companies are the only way of conducting business. They fill the gap between the different types of business and local traditional forms of trade.

In the process of moving goods to the international market different ways of entering the international market are used.

3 Strategies and Models of Market Entry

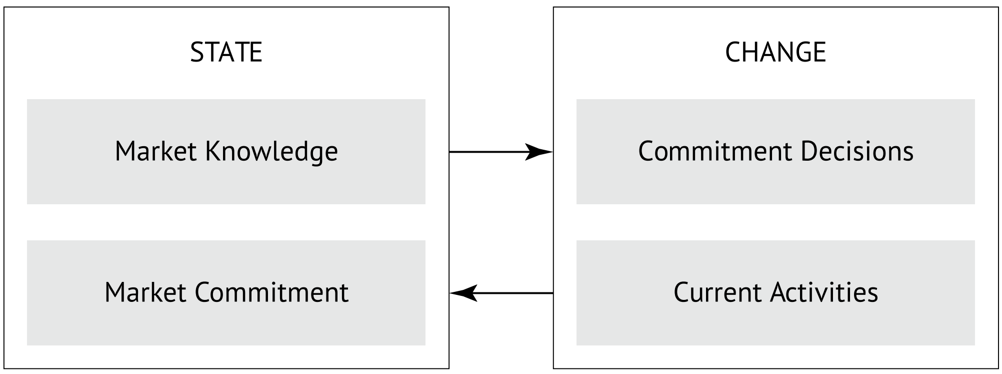
There are some strategies and models of market entry. In this research three of them are discussed, namely: Uppsala Model, Eclectic Framework and REM Model. The brief description of them is presented below.

3.1 Uppsala Model

The name is derived from the Uppsala university, located in Sweden, where it was designed to explore and explain the internationalization process of progressive companies (Fig. 4). This model considers internationalization as a gradually evolving process, due to the company's experience and knowledge of foreign markets. According to this model, the first stage of expansion of a company is associated with lower risk and does not involve a significant transfer of resources to foreign markets. Only in later stages companies begin to use riskier methods of expansion.

Fig.4 - Uppsala Model

Johanson & Vahlne 1977, p.24



Wiedersheim-Paul and Johanson (1975, p.307) noted four stages of internationalization:

1. Having not regular export activities

2. Exporting through independent representatives (agent)

3. Establishing sales subsidiaries

4. Production and Manufacturing

According to this model, the company begins to develop its activity in the domestic market, and then continues the process of expansion. It selects markets that are geographically closer to its home country and have similar business conditions. First, the company exports its products by itself, before it begins to use independent facilitators to minimize its responsibilities. In the following stage the company establishes branches and completes the process of creating industrial complexes in the foreign market. Furthermore, gaining the market experience, collecting knowledge about foreign markets and improving qualifications, the company may start to invest and transfer their production to countries with little or no similarity to their own.

Among researchers of the Uppsala model Johanson and Vahlne take a notable place. They have formulated their approach, with a reference to Swedish steel, pulp and paper industries. It is described as the process of experiential learning and incremental commitments which leads to an evolutionary development in a foreign market (Johanson and Vahlne, 1977, p. 23).

Uppsala Model has some indisputable advantages, for example it is very useful in early stage of internationalization. But some academicians argue that many companies use "mixed" strategies (Buckley 1987) and companies in some fileds are skipping the export and moving directly to FDI (Cantwell & Narula, 2003).

The Uppsala Model is also criticized for its weakness in describing rapid expansion processes such as active online internationalizations taking place nowadays.

3.2 Eclectic Framework

Dunning 's Eclectic Paradigm (Dunning 1980) is another popular model of market entry. It is also well known as the OLI-Model or OLI-Framework (Fig. 5). This theory deserves special attention because it provides a more comprehensive study of the internationalization process in general. Complemented by the importance of location and characteristics of the benefits of owning property it allows the formation and development of more comprehensive models of a multinational company.

Dunning united parameters, such as location advantages in his eclectic theory of basic elements of internationalization. Paradigms determine that the firm will give more preference to the implementation of foreign direct investment than exports if three basic conditions are simultaneously:

- *Ownership advantages*: the expanding company has certain comparative advantages compared to companies in the local market. The bigger the advantages, the higher the possibility of expansion abroad;

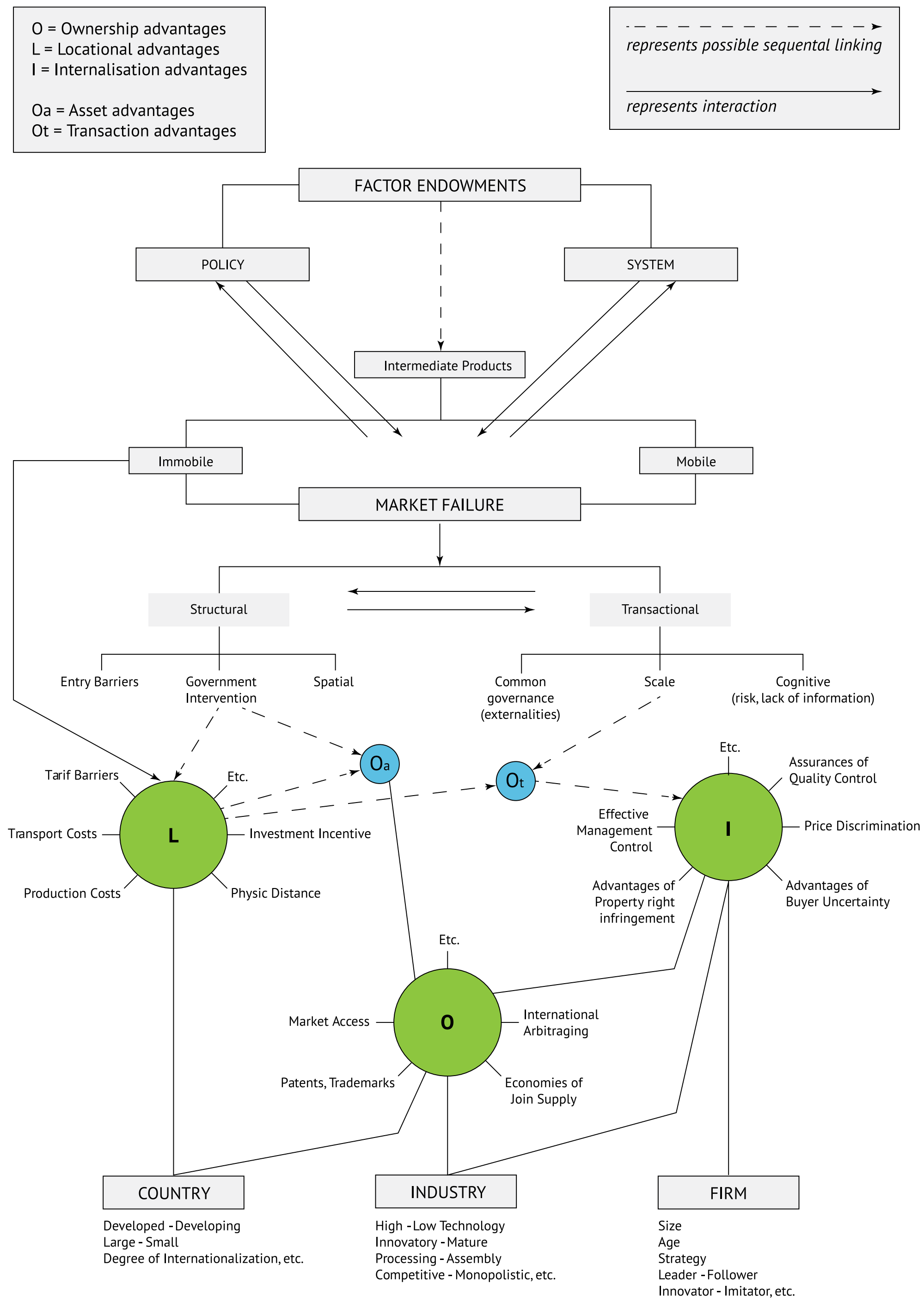
- *Local advantages*: the foreign country offers opportunities that can only be seized by expansion of the company. The local advantages are especially apparent, when the goods or products in question are immobile. In the case of oil and gas in order to reap the benefits of these materials, a company has to move to locations where there are enough reserves.

- *Internationalization advantages*: means that it is more preferable for the firm to enter the foreign market itself, instead of looking for an agreement with an agent or any other foreign company.

However, this theory does not answer the question of why production facilities for production should be located abroad, regardless of whether these capacities belong to the company itself or its contractor.

Fig. 5 - Eclectic Framework

Dunning 1988, p.12



There is some criticism of this model, for example, Svetlicic (2003) introduces an interesting and arguable point that the emerging countries, especially the post-soviet countries and firms from these economies are not motivated by domestic ownership advantages and locational advantages abroad, but by their L-disadvantages, as they want to escape from their domestic control and local market constraints. Kuada & Sorensen (2000) noting that in some emerging countries, for example Ghana, firms are not powerful enough to expand their businesses abroad.

3.3 REM Model

This model was designed in order to describe the enterprise level expansion processes of Russian steel and gas companies (Fig. 6). Liuhto states that his model can be taken in account in order to describe the internationalization process of companies. (Liuhto 2001, pp. 21).

The model consists of the three factors:

- The R-factor: is the model foundation which describes the reasons for a firm to internationalize and enter the foreign market. Ohmae (1990) describes the external motives for internationalization, such as price advantages compared to rivals in the targeted market, or a weak domestic demand. Internal factors also have influenced the decision to expand. The most common internal reasons are increasing profitability and cost reduction.

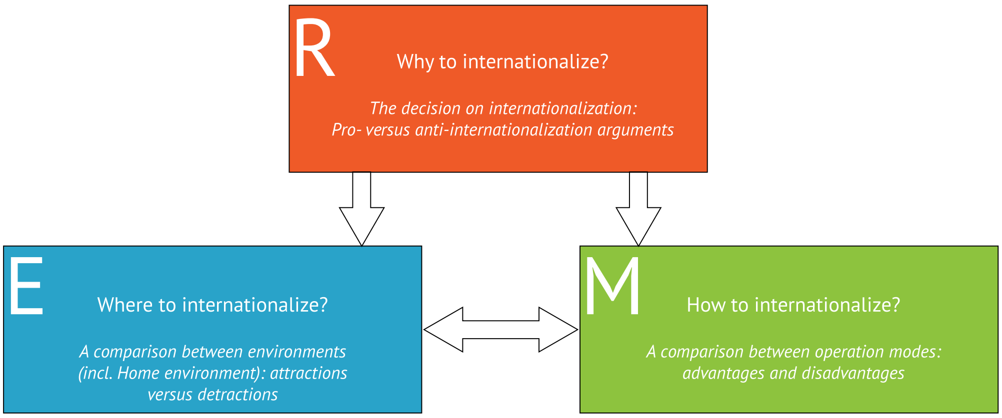
- The E-factor: this factor explains the selection of business environments. Liuhto has chosen the term "environment", as national borders are disappearing as a consequence of trade agreements or economic unions terms like "country" do not fit any more.

- The M-factor: describes the implementation process of internationalization. It is clear that the entry mode relies upon the targeted environment. Therefore, a superior mode of entry does not exist and is always closely tied with the environment. But it has to be said that the mode of entry a company is able to carry out, influences the choice of environment.

The disadvantage of the model is that very little empirical evidence is available, except for the information provided by the author.

Fig.6 - REM Model

Liuhto 2001, pp. 21



4 Methodology

The next chapters will deal with the empirical part of this study. First some basic information will be given on the design of the study and methods and data will be described. Then the focus will shift to the company, its history and international expansion up to this point. In the following chapter the process of internationalization will be analyzed and after that the results will be summarized and limitations of this study will be debated.

4.1 Research Design

The first step will define the design of the study. A research design in general describes the blueprint and conducts the research process of the project. It consists the steps and routines which are necessary in obtaining the needed information in order to structure and solve research problems. Given the characteristics of the underlying study, it is categorized as an exploratory research. The main characteristics being (Rofianto, 2011, p.5):

1. Objective is to discover ideas and offer insights
2. Information needed is defined only loosely
3. Research process is flexible and unstructured
4. Small sample and non-representative
5. Analysis of primary data is qualitative
6. Results are tentative and demand further research

As put forward by Yin (1994), which states that research method is based on the review of literature and publications, case study reviews and analyze of selected cases, focus group interviews and surveys. Additionally, we obtain the analysis of involved processes (Hartley, 1994).

The chosen method for this study was a case study, simply because the author focuses on a single company. This research method has been utilized by numerous researches since many years in their works. Yin describes this method as: "An empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1994, p. 23)".

Another definition of the case study research method is suggested by Tomas: "Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. The case that is the subject of the inquiry will be an instance of a class of phenomena that provides an analytical frame — an object — within which the study is conducted and which the case illuminates and explicates." (Tomas, 2011, p. 513).

The quality of the case study depends on a thorough thinking process, adequate presentation of the evidence, proper conclusions and the consideration of other explanations of the found evidence.

One of important points in designing a case study is whether to concentrate on a single case, or to consider a greater amount of different cases (Yin, 1994). As pointed out by Hartley (2004) a single case study can offer great insights into a specific case. In some cases, it may not be possible to carry out a case study based on multiple cases and as a result the single case is the only option. Also, a single case study helps to gather more information, because it concentrates on one subject only and leaves enough space to carefully analyze it. Multiple case studies take more time and require a bigger effort to gather and process information, which could have led to missing important details for example.

This study is based on a single case of the State Oil Company of Azerbaijan Republic (SOCAR) and its internationalization process. The main reason for a single case is that the company is a monopolist and therefore the multi case study method cannot be considered in this analysis. What is more, information about the company is scarce and a thorough research is needed, in order to generate valuable results.

Given the fact, that obtaining information on the subject through existing literature is a rather complicated matter, relying simply on quantitative methods of research, would hinder the study immensely. Consequently, a qualitative form of research has to be conducted in order to compensate the quantitative part of the study. The qualitative methods were especially important for the gathering of information about the international expansion of the company.

Strauss and Corbin state the qualitative research (1990, p.17): "As a research of any kind that produces findings not arrived at by means or statistical procedures or other means of quantification".

In comparison to quantitative research, which has the objective to quantify data and generalize the results from the sample to the population of interest, the qualitative research explores the underlying reasons and motivations behind a phenomenon. It focuses on small samples in order to gain deeper insights, whereas the quantitative approach analyzes large samples to get statistically valuable results. That is why a qualitative approach for this study promises more relevant results.

This study tries to understand the reasons for the company's internationalization strategy and therefore it is of great significance to gather information from people with close ties to the company. In order to do so, the qualitative research needs to carefully be designed and executed. The author has conducted several interviews with representatives of SOCAR, with the goal to gain insights into the firm and more importantly into its motives and strategy for expansion.

4.2 Case selection

Since the given data and other studies show that SOCAR's international expansion is comparable to that of other ex-Soviet companies and its biggest competitors, it has been selected for this particular study. SOCAR is the 68th largest company in the world and is worth approximately $20 billion (turkishweekly.net). Due to the country's vast resources of oil and gas its activities will be relevant not only for the country itself, but also for the Caucasus region and Europe. Furthermore, as the company seeks to establish itself abroad, the demand from potential investors, clients, and governments to disclose vital information on its strategy, financing and investment policies is high. Also, an important reason for the decision to focus on SOCAR is the timing of the study. The company has only recently started to expand its operations on international level and as a result it was possible to observe SOCAR's activities more closely. Especially its push for European markets has raised awareness for the company. In addition to the reasons mentioned above the author's personal preferences and interests have influenced the decision to choose SOCAR.

4.3 Data

Essentially two main sources of data can be distinguished:

- *Primary data*: also referred to as original data; are collected for the specific research in question via questionnaires, telephone interviews, observations and or experiments.

- *Secondary data*: are derived from previously gathered or issued sources. They are not collected for the purpose of the specific research undertaken (Sidyakin, 2007). The sources mainly used to collect secondary data are books, issued statistical reports, movies, publications/reports and accounts of companies, and internal company records (Brannick & Roche, 1997). Yin (1994) considers this approach reasonable for conducting a case study and further describes two important principles for collecting data.

- *Utilizing diverse sources of evidence*, and the usage of multiple sources of evidence.

– *Maintaining the evidence chain.*

In order to generate results of a higher degree of validity and reliability, it is necessary to comply with these principles. Utilizing diverse sources of information during collection of data ensures efficient cross examination (Yin, 1994) thereby enhancing the quality of the case. It is equally important to maintain a chain of evidence, as it enhances the validity of the results and benefits the subsequent analysis.

The main sources of secondary data, which the author relied on, were collected from:

– *The internet*: information provided on the company's official web site and the web sites of its subsidiaries has been relevant for this study, as other sources on the internet do not provide the needed information. Annual reports, financial reports, news published on the web site, speeches and general information that were accessible, were gathered and searched for relevant contents. In addition, well-known web sites in the region were searched for relevant contents, but the gained knowledge did not have a big impact on the outcome of the study. This can however be attributed to the information disclosure of SOCAR.

– *Other public sources*: similarly, it was a rather difficult task to gain information from public sources, as there do not exist any relevant papers, dissertations or books with an exclusive focus on the internationalization of SOCAR.

Given these difficulties the author had to rely on qualitative research. Primary data was gathered, by conducting interviews with representatives of SOCAR's Vienna office and more importantly with the CEO of the company, Rovnag Abdullayev.

For this case we have chosen to rely on semi-structured interviews. These consist of several key questions that should allow the interviewer to gather as much information as possible. Furthermore, due to the structure of a semi-structured interview the interviewer has the opportunity to clarify and discuss particular questions in more detail. Also, questions that arise during the interview can be considered, which allows the interviewer to be more flexible. (Gill et. al., 2008). The semi-structured format is used mostly in health care, because often matters need to be discussed more deeply, in order for both participants to gain essential information.

It was possible to gain exclusive insights into the internationalization process of SOCAR, particularly light was shed on the reasons and motivations of the company to expand abroad. Also, the strategy behind its foreign involvement was uncovered and further steps of its international operations were identified.

Additionally, the author has worked in the petroleum industry and has been able to meet representatives of SOCAR, herby collecting information about the company and conducting vital interviews.

4.4 Used Methods

Hartley (2004) points out, that researchers tend to get influenced by seemingly interesting data and as a result leave out other information. After carrying out the interviews and summarizing the information at hand and collecting the existing secondary data, the first step is to organize the data around certain topics. This allows the researcher to keep track over the data and more importantly to prevent him from reaching premature conclusions. In this study the primary data was divided into three sections. As the focus will remain on three countries, namely Georgia, Turkey and Switzerland the data will be divided according to its relevance to each country. Later in the study the reasons for internationalization and modes of entry will be summarized into two chapters. Also, the existing secondary data will be used for strengthening the information acquired from the interviews.

The author will apply the REM model for the analysis of the data. Even if it is regarded “untested”, its structure fits the analysis of an oil company. Additionally, the Uppsala model will be used to explain the company’s early stages of international engagement and the eclectic paradigm to explain environment selection and give a deeper insight.

4.5 Limitations

With the already mentioned problems, the present research has certain weaknesses that need to be pointed out. First and foremost, the lack of secondary data poses a threat to the objectiveness of the underlying study. It is not possible to compare the outcomes of current study with the results of related studies and as a consequence the findings are to be treated with caution. What is more, the secondary data used was mainly derived from the internet sources of the company and as a result also endangers the objectiveness the study. Also, it is having to be taken into account that the personal bias of the author has an impact on the analysis and interpretation given the general characteristics of qualitative research.

The usual critique of a single case method not being able to grant any generalization, does not apply in this case, because of the company's position as a monopolist. However, this study could prove to be a good starting point for future studies.

5 History of SOCAR[21]

On the 13th of September 1992 the State Oil Company of the Republic of Azerbaijan (SOCAR) was established by decree of the republic's president at that time, Heydar Aliyev, by merging the nation's two Soviet-era oil companies, Azneft and Azerneftkimiya, together.

The timing of such an important enterprise could not have been more difficult, as the early nineteen nineties in Azerbaijan were marked by war with neighboring Armenia and violent protests in Azerbaijan. However, the importance of a strong petroleum sector for the nations' well-being was recognized by the Azerbaijani government and elite. It was evident that it was the only sector capable of generating large volumes of foreign exchange and national income.

Large investments in the oil and gas sector are expensive and time-consuming undertakings, therefore investors look for political stability in the country they want to invest in. As the Caucasus and Transcaucasia regions were politically unstable during this period, they did not attract foreign direct investment from Western oil companies. Azerbaijan however managed to attract foreign investors, as it promised great business opportunities and an investor friendly climate. Also, the election of Heydar Aliyev in 1993 with a huge majority of the electorate signaled stability to outside investors.

Three offshore oilfields discovered in the Caspian Sea during the Soviet era, were drawing the attention of international firms and the focus of national interest: Azeri, Chirag, Gunashli, the lie 80-120 km offshore at a depth of 120-300 meters. At the time the technology available in Azerbaijan only made it possible for SOCAR to exploit the western section of Gunashli. Therefore, the advanced technology and expertise of western companies was needed, in order to make the other fields accessible.

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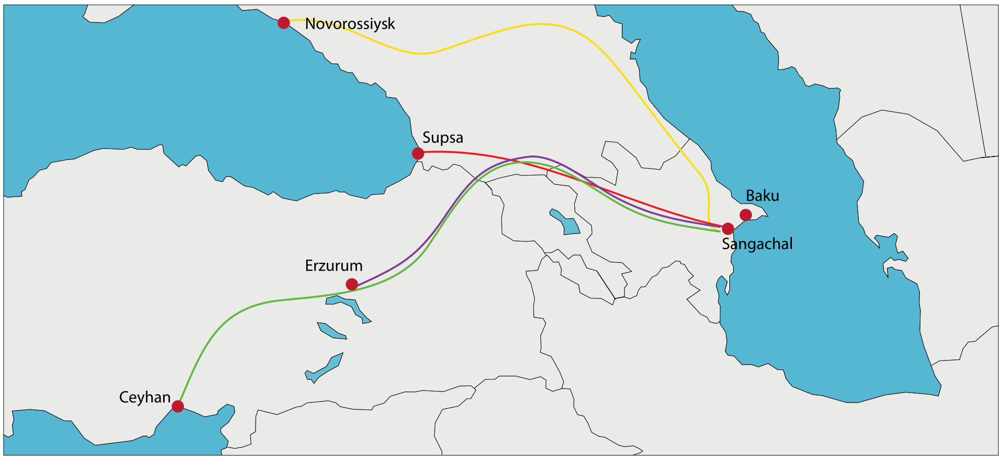
[21] Horwath 2013, p. 53-57

On the 20th of September 1994 a major milestone was set with the signing of the multilateral 30-year Production Sharing Agreement (PSA). It became known worldwide as the “Contract of the century” and included eleven partners: BP (UK), Statoil (Norway), TPAO (Turkey), Amoco (U.S.), Pennzoil, (now Devon of U.S.), UNOCAL (U.S.), LUKoil (Russia), McDermott (U.S.), Delta Nimir (now Amerada Hess of U.S.), Ramco (Scotland), and SOCAR (Azerbaijan). Their percentage of ownership ranged from 20 per cent (SOCAR) down to 1.68 per cent (Delta-Nimir of Saudi Arabia).

Fig.7 - Major Regional Pipelines

SOCAR Website



International Operating Company (AIOC) was established on 24 February 1995. The ownership was composed of the signatories of the contract. Since the signing of the contract, the percentages of ownership have changed. For example, BP has more than doubled its share from 17.127 per cent to 37.43 per cent. Also, the partners changed over time, as McDermott, Ramco and LUKoil have left the consortium and ITOCHU (Japan); ExxonMobil (U.S.); and INPEX (Japan) have joined it.

As a result of the contract access to the estimated four to six billion barrels of light sweet crude oil, which is easy to refine, in the Azeri-Chirag-Gunashli (ACG) oilfields was gained. If the three oilfields are taken together as one unit, they are the world's largest producing offshore field, with a production rate of roughly 700,000 bpd. The importance of ACG for Azerbaijan is evident, since it is providing about 80 per cent of Azerbaijan's whole oil production. SOCAR itself operates only the western section of Gunashli, whereas BP is responsible for the eastern deep-water section of Gunashli and the Azeri and Chirag fields on behalf of AIOC since 1999.

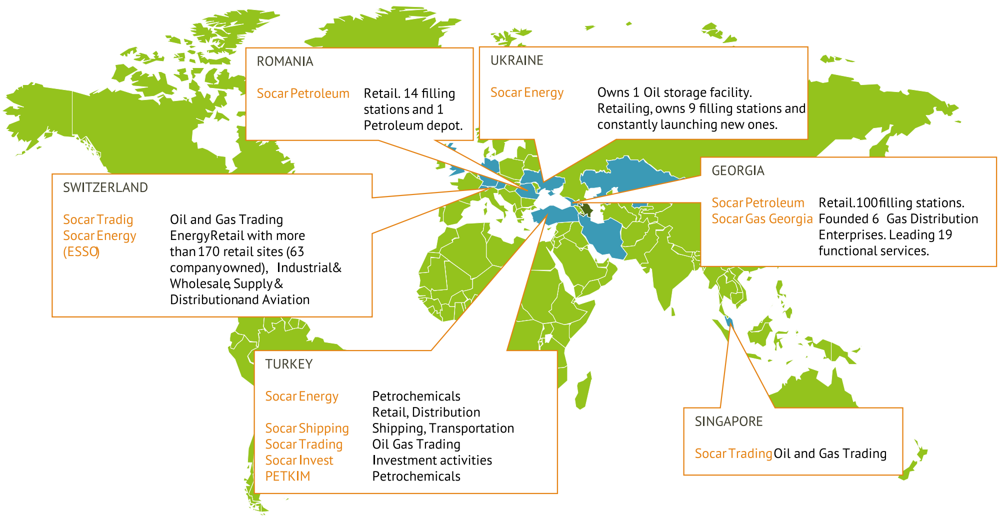
Since then the company has expanded domestically as well as internationally. In Azerbaijan it operates an oil and gas refinery in Azerbaijan, pipelines and a vast transportation network. Internationally it has been increasing its influence constantly since its incorporation. This will be the subject of our further analysis.

6 International Expansion of SOCAR[22]

After the opening of its first representative office in the UK shortly after signing the “Contract of the Century”, SOCAR has increased its international presence across an array of countries including: Turkey, Switzerland, Austria, Germany, Romania, Georgia, Kazakhstan, Ukraine, Iran, Vietnam, Singapore, Nigeria, and other countries. In the following chapter we will look into the company’s internationalization strategy by studying its involvement in three important countries, namely Georgia, Turkey and Switzerland.

Fig. 8 - SOCAR’s Major Facilities

SOCAR Website



6.1 Georgia

As SOCAR recognized the opportunity to strengthen its position in the region, it was vital to make the right decisions on where to expand in the beginning. Geographically Armenia would be the perfect fit for the company’s first major investment outside of the country. It is a neighboring country, bordered Turkey, Georgia and Iran. Additionally, the proximity to Turkey was attractive, as a pipeline

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[22] Horwath 2013, p. 138-142

through Armenia would make the Turkish market easily accessible for SOCAR. However, the relationships between the two countries were marred by an armed conflict, which lasted until 1994 and consequently investments in Armenia were ruled out.

Therefore, Georgia seemed to be a good alternative for its first major investment abroad. Georgia and Azerbaijan are neighboring countries, meaning SOCAR could further expand its pipeline-system through the country. In 1999 SOCAR opened the Baku-Supsa pipeline, this pipeline starts from the Sangachal Terminal near Baku and ends in the Supsa Terminal in Georgia. The pipeline transports oil from the Azeri-Chirag-Guneshli oilfields and is operated by BP. Furthermore, Georgia shares a border with Turkey, which is of utter importance for the company's expansion in the region. After the introduction of the Baku-Supsa Pipeline, the company decided to build additional pipelines, oil pipeline Baku–Tbilisi–Ceyhan (BTC), gas pipeline Baku–Tbilisi–Erzurum (BTE) and also extend its road and railway infrastructure in Georgia.

In 2006 SOCAR founded a subsidiary in Georgia, the SOCAR Energy Georgia, Ltd. First it established itself in the retail and wholesale of fuel, import of petroleum and liquefied natural gas. The company continued its progress by constructing warehouses and oil terminals and today it is the major petroleum and diesel provider in Georgia.

Overall Georgia has opened many doors for the company. SOCAR was able to enter a new market and became an important player in the petroleum and gas sector in the country. Today with 110 filling stations, several warehouses and oil terminals, Georgia still is SOCAR's biggest single foreign involvement. Also, it was ranked Georgia's biggest taxpayer in 2009 with 162,000,000 lari paid. The company also gained access to Turkey and direct entrance to the Black See and the Mediterranean enabled it to reach markets of the wider world.

6.2 Turkey

Turkey is undoubtedly at the center of the company's expansion strategy. Its geo-strategic location between the European and Asian markets makes it a country of significant importance. Additionally, it is surrounded by three important sees, the Black Sea in the north, the Aegean Sea in the west and the Mediterranean Sea in the south. With its fast developing "oil and gas thirsty" economy and geographic position, the opportunities for SOCAR are immense, to say at least (bbc.com).

Another crucial argument for SOCAR's involvement in Turkey is surely the strong alliance of the two countries. The two countries share a similar language and are culturally very close. Heydar Aliyev's principle "One nation, two states" (SOCAR Turkey), formed the internationalization strategy of the company massively.

SOCAR first entered the Turkish market by expanding its oil and gas pipelines. In 2008 a subsidiary was founded, the SOCAR Turkey Energy Co. and from then on the involvement of the company in Turkey grew rapidly. Since then another two subsidiaries have been established in 2011. SOCAR POWER ENERGY INVESTMENTS INC. has the task to provide the needed energy of the group within the framework of the group's projection in the near future. An energy power plant will be built, that will produce electricity through the usage of refinery wastes. The other subsidiary, SOCAR TURKEY GAS DISTRIBUTION INDUSTRY AND TRADE INC. focuses on evaluating investment opportunities in gas distribution in large cities.

As already mentioned, the political situation in the region poses a constant threat to the company. The company still explores, develops and produces exclusively in Azerbaijan and therefore it is unavoidable for the company to relocate some of its operations abroad. In order to reduce independence of the home country, SOCAR Turkey Energy acquired 51 per cent of the public shares of Petkim on June 30th, 2008 and increased its share to 61.32 per cent at the beginning of 2012. Petkim is the leading petrochemical company in Turkey and will open the door for the establishment of SOCAR's midstream and upstream operations in the future. Near by the Petkim complex SOCAR started the development of the "Aegean" Star refinery and is to be completed by 2015.

6.3 Switzerland

In contrast Switzerland was the first European and non-ex-Soviet country the company expanded its business to. It is an economically and politically stable country with a strong legal system, which makes conducting business attractive. What is more, the geographical position in the middle of Europe with borders to France, Germany, Austria, Italy and Liechtenstein puts SOCAR in a great position for "conquest" of the European markets.

In 2007 the SOCAR arm, SOCAR Trading was founded and is based in Geneva, Switzerland. At first SOCAR Trading was just given the task to sell the company's oil products and developed into an important part of international operations. Today it assists SOCAR with sourcing, analysis, representation and negotiation support on large-cap international acquisitions fund invests in mid-cap production and logistics operations on a global scale. The company states that most of its expansion is being conducted through SOCAR Trading.

As the business in Switzerland proved to bear fruits for the company, SOCAR decided to increase its share as soon as possible. The opportunity was given when Exxon Mobil Central Europe Holding GmbH made the decision to sell its Esso Switzerland GmbH division. On 16th November 2011, SOCAR and Exxon agreed on an asset's sale and purchase arrangement for Esso. SOCAR gained a network of 140 filling stations and assets for the wholesale distribution of fuel and aviation fuel in the Swiss market. Esso was substituted by a wholly owned subsidiary SOCAR Energy Switzerland and has various business interests in the Swiss market.

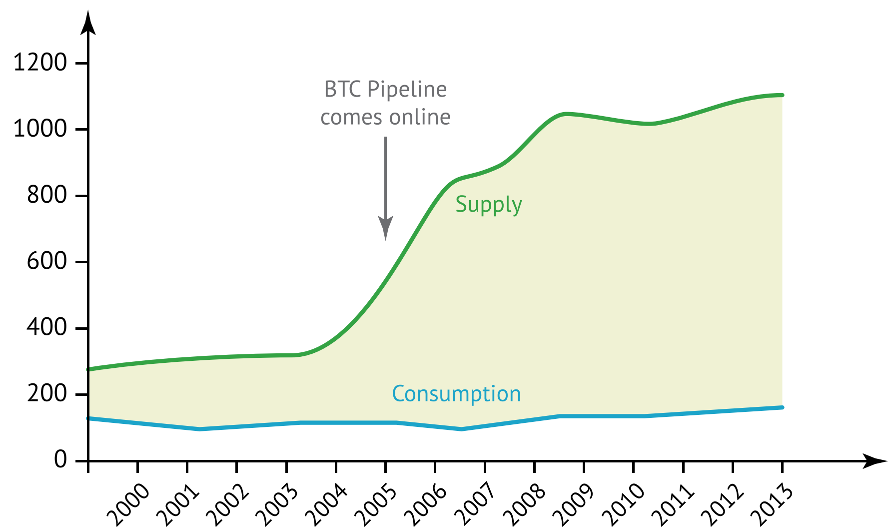
Most importantly the goal of SOCAR was to gain access to an experienced European company, with a highly trained workforce and a strong "Western style" mentality. This was regarded important, because Western countries still have strong prejudices towards ex-Soviet companies in general. By acquiring Esso and integrating its 900 employees into SOCAR Energy Switzerland, the company seeks to attract customers and weaken the existing prejudices.

6.4 Reasons for Internationalization

After describing the three cases of SOCAR's internationalization, we will sum up the main reasons for expansion given by the interviewees. They are ordered by the level of importance attributed to them.

Fig.9 - Azerbaijan's Oil Production and Consumption 2000-2013

U.S. Energy Information Administration



1. *Diminishing oil reserves at home*: Due to the fact that current predictions show Azerbaijani reserves in the ACG are expected to diminish in the following fifteen to twenty years, finding new fields and business opportunities has become the top priority. Growth of the economy and development of the country still are closely tied to the oil sector and strengthening SOCAR is vital for Azerbaijan's future.

2. *Weak demand at home*: As a result of the vast investments carried out to set up operations in Azerbaijan, the company does not make a profit if it exclusively relies on the rather weak home demand. This is a major push for internationalization, given the already mentioned declining oil reserves and the motivation to generate profits (Fig. 10). It is evident that Azerbaijan's consumption has remained relatively low and forecasts do not suggest a sudden increase of demand. Consequently, a surplus has to be created outside of the country.

3. *Government control*: Being a state-owned company bears a lot of responsibility, meaning that stricter rules are laid down on the company, regarding information demanded from the company. This can slow down business activities and pose a threat to its competitiveness, because of a big number of people having an influence on the decision-making process.

4. *Price difference*: The company has a major comparative advantage, as a result of its low prices compared to the world markets and so can attract foreign creditworthy customers.

5. *Geostrategic importance*: Georgia and Turkey have been mostly chosen, given their geographic location. Especially Georgia was selected because of its access to open see and borders with important potential markets like Turkey. Furthermore, SOCAR was able to expand its pipeline infrastructure through Georgia towards Turkey and avoid Armenia. Turkey, in addition to be a large market with an increasing demand for oil, promises even greater geostrategic advantages. Entrance to three major sees and its proximity to Europe were reason enough for the company to engage in business activity there.

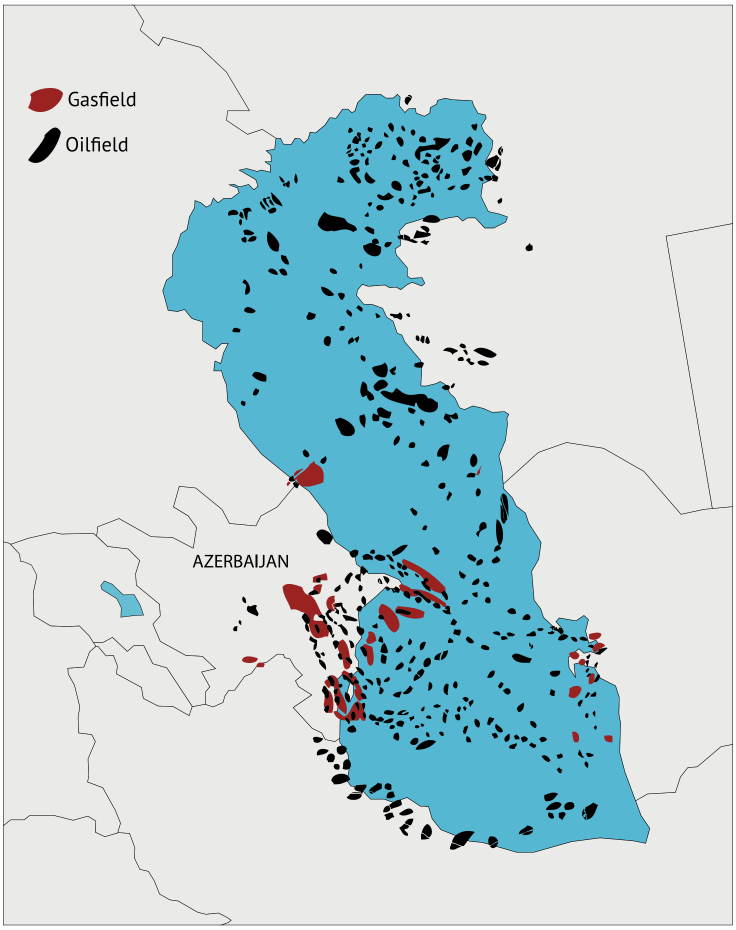
6. *Cultural similarity*: As has been the case with other ex-Soviet companies, especially Russian, early international experience was gathered in familiar countries. In the case of SOCAR the first steps were made in Russia and Georgia, because they are also ex-Soviet countries. Turkey on the other hand was not a member

of the Soviet Union, however similarities such as ethnicity, language and culture of the two countries contributed to the quick establishment of business relations.

7. *Political developments outside of the region*: European leaders have stated in the past the desire to reduce their respective countries dependence on Russian oil and gas. Since the Russian government tends to hold the supply of these materials for ransom in order to achieve political goals. Consequently, Europeans are looking for alternative solutions and Azerbaijan can prove to be an attractive option.

Fig. 10 - Oil and Gas reserves in Caspian Sea

PFC Energy, The Economist



8. *Political developments in the region*: Since the end of the Nagorno-Karabakh War the relationship with Armenia has remained unstable. A solution to the situation remains out of sight and an armed conflict cannot be ruled out. This has to also be considered as a major threat to SOCAR, as its whole operation is based in Azerbaijan, making it vulnerable in the case of a war. In order to circumvent a complete halt of business activity in such an extreme situation, other reserves and locations for production have to be found.

6.5 Entry Modes used by SOCAR

After summing up the reasons for expansion, we will proceed with identifying the entry modes used and on what basis they were chosen. The underlying information suggests that SOCAR's mainly uses the following entry modes into foreign markets:

1. Asset purchase
2. Acquisition
3. Establishment of subsidiaries (Greenfield),
4. And Joint ventures with foreign companies

After building its transportation infrastructure and securing its export routes, the company started to engage more seriously in the region by establishing subsidiaries. This option helps improving the company's everyday operations, efficiency and reduces risk of potential losses.

In this case the Parent-subsidiary structure isolates risks because the two companies are separate legal entities. Meaning for instance if a subsidiary generates losses, these do not affect the parent company automatically. Also, the parent company is able to exercise control over a subsidiary if it owns a large block of its stock, even if it does possess a majority of the shares. The parent-subsidiary operating structure can result in increased efficiencies, partly because senior management at the parent company does not have to handle day to day operations in the subsidiary. Furthermore, subsidiaries are important for building a company's reputation. Well-functioning subsidiaries may attract local talent and lucrative business ventures.

According to Hill (2007) the primary reason to use acquisitions as a mode of entry, is the fact that their realization is less time consuming than establishing a new operation in the country in question. Acquisitions of already established enterprises can significantly speed up the process of building a presence in a particular market. The big advantage of this entry mode is that an already established enterprise is bought, that has functioning facilities in place, a trained workforce and a customer base. Given the highly competitive nature of the petroleum sector, many companies rely on this method. For example, the Russian oil firm Lukoil used acquisitions quite extensively (Sidyakin 2007, p. 42). Compared to Lukoil for example, SOCAR expanded slowly, because it mainly used subsidiaries when entering new markets. Lukoil on the other hand quite extensively used mergers and acquisitions to quickly get a hold of new markets. It is apparent that Lukoil could not become an influential company if it relied only on Greenfield investments (Sidyakin 2007, p.42). But it has to be said that Lukoil had a major driver for this type of expansion strategy. Namely the strict regulations in the Russian oil market and the high level of competition pushed the company to diversify its operations to foreign countries more rapidly (Sidyakin 2007, p.48).

SOCAR has started to take advantage of this method in recent time, realizing the opportunities it presents. After several years of experience in international business, the company has started to use more aggressive methods of expansion. The involvement in Petkim, Turkey's most important oil company especially shows the determination to secure positions in key markets and also weaken its competition.

Another reason for the acquisition of a rival foreign company is to take away investment chances from their competition. This was not needed in SOCAR's case, because of two reasons. Firstly, as a monopolist, it has no competition in the domestic market, which means that it has total control over the country's vast oil and gas reserves. And secondly the competition in the region was not able to threaten its position, due to the company's comparative advantages. Furthermore, the initial goal of the international operation was to establish transportation systems and pipelines in the neighboring countries, in order to gain a powerful position in the region, from which further strides towards new markets, especially European markets, would be made. The asset sale agreement with Exxon shows, according to expert opinions, lucrative deals were not the sole reason for the acquisition but also certain political issues. Because of the firm control by the government of Azerbaijan over the company's activities, there is a strong incentive to locate some of its operations abroad. Also, the possibility of another conflict with Armenia is a major motivation for the company to internationalize. SOCAR's rationale behind its international acquisitions can be summed up as follows:

1. SOCAR's goal was to quickly solidify its position in the region, due to its superiority over the competition. Also, the knowledge of knowing how to conduct business and understanding the political and economic situation in the region proved to be a major advantage over Western companies;

2. The geographic placement of the countries provided SOCAR with favorable export opportunities and opened the door for expansion towards Europe;

3. Various political reasons, which could have had a negative impact on its business.

Finally, the company has also extensively used joint ventures in different countries. This offers the sharing of risks and costs that result out of big engagements in the oil sector. For example, the joint venture with TURCAS, that was signed in order to build a refinery in Turkey, will need a substantial amount of invested money. The joint venture therefore reduces costs and also transfers a part of the responsibility to the partner. In the oil industry it is a common phenomenon, due to the fact that the risks involved are high and countries with oil reserves prefer to keep control over them and also want to profit their riches.

7 Analysis and Discussion

In order to analyze the market entry strategies of SOCAR in this study the REM and Uppsala models are applied. As has already been discussed in Chapter 2.5.3, the model consists of three factors.

7.1 R-Factor

There are many reasons (the R-factor) for international expansion in the case of SOCAR. An "oil-hungry" global market, logistical advantages, a scarce commodity and the expectation of high profits all strengthen the decision to expand into new markets.

Notably the most obvious reason to expand is the fact that SOCAR is in need of additional sources of oil. The ACG-fields are expected to be closed in the near future, leaving the company without sufficient reserves.

For SOCAR to be able to participate in the world market and transport its products to a bigger customer base, advancements in the transportation systems have to be made. SOCAR needs to weigh in the political instability of the region, which could have negative consequences for the wellbeing of the company. Therefore, the company has started to establish operations abroad in order to minimize the risk a "direct export only" policy can pose.

Also, what should be noted is that SOCAR is a state-owned company, which means that by performing well and generating profits it enhances the wealth of the country of Azerbaijan and its people. This implicates greater responsibility and stronger regulations for the company, which further Vahtra (2006) further points to another important factor contributing to the rapid expansion of ex-Soviet companies. Namely their ability to produce at a significantly lower price than the prices set on world markets. What is more, they possess large amounts of scarce strategic commodities and are facing growing global demand (Sidyakin 2007). This proves to be a major driver for internationalization for SOCAR as well as other large companies in the region.

7.2 E-Factor

If the company wants to secure itself a strong position in the oil and gas markets it will need to further expand towards new markets. This brings us to the second factor, the environment selection factor (the E- factor). In the beginning the main criteria for the selection of the environment was based on familiarity. However, the recent evidence shows that the company is applying a more balanced, global approach. This is a commonly seen development of companies in ex-soviet countries. After the collapse of the Soviet Union, companies faced new challenges. The new political situation resulted in widespread uncertainty, so consequently the strategy of growth was based on expanding towards familiar environments in order to reduce risk. and then with the accumulation of knowledge and experience a more global strategy was formed. This pattern is best described by the "psychic distance concept", this concept was used in the Uppsala Model. Once a firm starts to expand, it will enter "psychically close" environments and then with more knowledge and experience gathered, it will start to move into psychically "distant" environments (Johanson & Vahlne, 1977).

The main reasons of expansion of SOCAR being:

1. *Economic reasons*: It has already been mentioned that the company is not able to generate profits be relying on domestic consumption. With the goal to increase the wellbeing of the state of Azerbaijan it has to seek ways to increase profits. Consequently, expansion towards bigger and richer markets is inevitable.

2. *Past experience and cultural similarities*: Due to the fact, that ex-Soviet countries al- ready had had established business networks over the years, which proved vital for the beginning of the internationalization process of SOCAR.

Also, the given infrastructure was already set up in a way, which allowed a faster advancement towards other ex-Soviet countries.

3. *Political reason*: SOCAR needed to consider the political situation in the region, when it was expanding. Armenia would have been the logical choice for extending its pipeline network. But given the recent history and political tension between the two countries it shifted its interest towards Georgia.

4. *Geographic reason*: Especially Georgia and Turkey are geographically positioned at strategically important locations, because they both offer direct entrance to the open see and the possibility to expand transportation infrastructure. Georgia was additionally chosen, because it borders Azerbaijan and Turkey, which was of utter importance for the company's regional plans. Additionally, Switzerland lies in the heart of Europe and neighbors' important countries like Germany or France, thereby opening the possibility to enter these markets.

Dunning's approach (eclectic paradigm) also offers an interesting contribution to the question how environment selection takes place. We will analyze SOCAR's environment choices by examining if the three conditions of the eclectic paradigm are fulfilled.

– *O-advantages*: As a state-owned company SOCAR certainly has certain advantages com- pared to firms in the local markets. It has an easier access to needed funding, because the state ensures its financial stability. It is a monopolist which implies economies of scale and scope.

– *L-advantages*: Georgia and Turkey particularly offer geographical advantages, like access to open see and are located near markets SOCAR considers interesting. In addition, its purchase of Esso in Switzerland helped the company gain much needed know-how. The company has also entered the Israeli and Vietnamese markets, because of their oil reserves.

- *I-advantages*: The size and vast sources of funding, give the company a great advantage when choosing the proper entry mode. Also, its ability to offer cheaper prices than its competition strengthens the company's position to expand abroad.

The eclectic paradigm recommends a company if it has satisfied all three conditions, to engage in FDI. As can be seen in this study this has been the case. SOCAR has engaged more and more in capital intensive activities, after first relying on exports.

7.3 M-Factor

Since the establishment of an office in the UK in 1994 the modes of entry (M-factor) have be- come more complex. It seems quite obvious that SOCAR's long-term plan is to establish itself in the region via acquisitions of companies and establishing subsidiaries and then expanding further into Europe. SOCARs' mostly used strategies were joint ventures (including ventures in Georgia and Turkey), consortia, and operating companies established with SOCAR's participation[23].

Many ex-Soviet countries governments impose restrictions on strategic raw materials in order to satisfy domestic demand at a lower price. This is a particularly big problem for Russian companies as the government regulates these markets rigorously and therefore provides an incentive for internationalization. In contrast SOCAR does not have to face these difficulties, meaning it offers its products at similar prices at home and abroad. Hereby SOCAR is not urged to move its production abroad in order to stay competitive but is able to keep production in Azerbaijan and also establish its production abroad simultaneously (Sidyakin, 2007).

Another development is also promoting Azerbaijani oil and gas in Europe. The tense political situation between Russia and the EU is a threat for the energy

[23] SOCAR's official website: http://www.socar.az/socar/en/company/about-socar/discover-socar

supply of European countries. Therefore, Europe is forced to search for alternative sources of the much-needed oil and gas supplies. SOCAR can exploit this by offering European consumers security and high-quality products (Voice of America, Sep. 2013).

8 Summary and Limitations

In the following chapter the conclusions of the present research will be summarized, and existing limitations of the findings will be presented.

8.1 Summary

This study first presented the main theories behind internationalization and proceeded with the analysis of the internationalization strategies of SOCAR.

SOCARs' expansion strategy pursues two goals: The first goal being the expansion of its presence in the region, by expanding production and transportation infrastructure. Secondly SOCAR is making powerful strides into European markets. Being one of the biggest oil companies in the world, it has established business activities in an array of foreign countries. At the moment the majority of its exploration and production activities take place at home. However future projects in Turkey, Vietnam and Israel will help establish production in important geostrategic areas and further enhance its reserves. In Turkey the joint venture with TURCAS has been agreed upon and will result in SOCARs' first refinery abroad. This step is necessary if the company wants to be able to secure a larger market share in Europe and also reduce its dependence on its domestic production. Vietnam and Israel on the other hand will be its first exploratory projects for oil and gas outside of Azerbaijan. The company also has extended its reach in Europe by buying filling stations in Romania, the Ukraine, Georgia and most notably Switzerland. Most recently of all, SOCAR has opened offices in Brussels, Belgium and Washington D.C.

The underlying study shows that the company's expansion decisions were influenced by external as well as internal factors. Its desire to grow internationally, by securing and broadening its transportation network outside of the country; a growing global demand for a scarce commodity, customers with high credibility, favorable price differences between the Azerbaijani and the world markets, are all important external factors influencing to the expansion of the company. However, the most important reason is the fact that Azerbaijan's oil reserves are coming to an end. The petroleum sector is still remaining the main booster for economic growth and making sure it generates profit is an important concern for the political elites as well as for the leadership of SOCAR. Evidently, the provided arguments for internationalization outweigh the arguments against.

From a political point of view the Caucasus region, where the company is conducting a majority of its business, faces a high risk of turmoil. This could easily affect its business negatively so consequently the company is looking to seek business opportunities elsewhere. On the other hand, the current development of the Russian and European relationship promises a shift from Russian companies towards SOCAR and could be a great opportunity for the firm to further penetrate European markets.

Also, the possibility of government intervention poses another incentive to expand abroad. As a state-controlled company SOCAR faces high taxation, unfavorable laws and other types of government intervention, which do not occur in European Markets for example.

SOCARs' expansion to foreign countries began in ex-Soviet republics and ally countries in the region. Profit opportunities, earlier experience, logistical advantages and markets with an unsatisfiable hunger for oil and gas allowed SOCAR to both recognize the potential lying in the region and to make sure their early participation. Uppsala model gives an explanation of this strategy, companies will prefer to enter the neighbor markets first and later on as they gain the knowledge, they will start expanding to more and more distant markets (Johanson and Vahlne, 2003). In the case of SOCAR the validity of this model can be seen quite clearly. Above it has been described how the company targeted nearby countries like Georgia and after accumulating experience in international business, it started to enter "distant" markets like Switzerland. Its presence in Eu-rope will be further strengthened through involvements in other ex-Socialist countries. Romania and the Ukraine for instance are already proving to be interesting options. Finally, as a number of former communist countries will join the European Union in the coming years, more and more chances to further participate in European markets will emerge.

The results of this study show that the company uses a variety of different modes of entry, depending on its goals in the host country. Establishing subsidiaries was mainly used to help establish a strong presence in regional markets. Only recently more aggressive and more complex methods like acquisitions have been used to speed up the internationalization process. SOCAR has also grounded several wholly owned subsidiaries in other countries, in order to secure its share in these markets.

SOCAR will face numerous challenges in its pursuit of further expansion in Europe. The main reasons being already saturated markets and the influence of Russian companies in the region. Nevertheless, Europe is showing more and more interest in SOCAR, proved by the planning of the TAP pipeline and similar projects. Difficulties in the relationship between Europe and Russia, could make European countries shift towards SOCAR and the question is how it will balance the opportunities and potential dangers that could result from this development. It has to be considered that Russia and Azerbaijan have a good relationship and endangering the business of Russian companies could prove to be counterproductive in the future.

8.2 Comments

Since the Soviet Union collapsed a number of big oil companies have emerged out of the new established countries and have started to expand on the global level. This trend of international expansions of ex-Soviet companies has been followed by SOCAR, the State Oil Company of the Azerbaijan Republic. With a fast-growing economy, political developments and changes in the Azerbaijan's society, there is an opportunity that its role in the global markets will increase steadily. This work tries to shed light on the past developments and on the future advancement of the company. However, the findings of this study have to be taken with caution, as certain limitations have to be considered.

First of all, the missing of comparable studies presents an obstacle for an objective research. Also, the available data is very limited and had to be gathered through interviews, with representatives of SOCAR. Therefore, the findings of the underlying study will have to wait for future research in order to be confirmed or rejected.

Secondly, the study examines the internationalization of one of the biggest state-owned oil companies in the world. As a monopolist in the Azerbaijani petroleum industry it has certain privileges, but also bigger responsibilities given its strategic importance for the State of Azerbaijan. Its way of operating and decision making is not comparable to the functioning of other Azerbaijani companies, most notably private enterprises.

The study stretches over a time span of about twenty years, but the most significant developments have taken place from 2006 to 2017. Clearly, this short observation period may not be long enough to examine the company's entire internationalization strategy. Future studies could offer a long-term view of the company's strategy and may reveal some aspects which could not be dealt with in this study.

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