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INTERNATIONALIZATION AND THE NEED OF BUSINESS MODEL INNOVATION – A THEORETICAL APPROACH

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Introduction

The global market can be considered a volatile environment and the internationalization of a firm through the adoption of any entry mode represents a change in the way a firm operates. As argued by Schneider and Spieth (2013), the effects of increasing globalization of the business environment have been identified as a driver of firm's need to business model innovation (LEE; SHIN; PARK, 2012). A business model that efficiently supports a company's competitive advantage in one market, may be challenged in a different one. Therefore, the business model needs to innovate or adapt to better fit specific contexts of international markets (LANDAU; KARNA; SAILER, 2016). And a business model innovation is a promising approach for firms to respond to changing sources of value creation in high volatility environments (POHLE; CHAPMAN, 2006).

A business model is a way the company can commercialize new ideas and technologies, and as the same technology commercializes it in two different ways, it will lead to two different returns (CHESBROUGH, 2010). Internally, it is motivated by the company's social capital as it helps the achievement of the objectives, including apparent and potential resources and capabilities, and externally, it is motivated by the market demand, the technological advancement and the economic environment (ZHANG; ZHAO; XU, 2015). The creation of value can go beyond the perspective of Schumpeterian innovation, the Porter's (re) configuration of the value chain, the formation of strategic networks among firms, and the exploitation of firm's core competences (ZOOT; AMIT; MASSA, 2011) can be created by an innovative business model.

There is a current increase in the interest about business model and one of the main question researchers are trying to answer is how to innovate the business model. This interest opens a range of avenues for further research in the field. Spieth, Schneckenberg and Ricart (2014) presented a set of future research direction to the field of business models. One of the topics listed by them relate with the antecedents for business model innovation and if volatile environments drive business model innovation of firms or *vice versa*. As argued by Chesbrough (2007), even a successful business model cannot be assured as permanent give in dynamics environments. The circumstances of the environment may 'force' a company to reinvent its business model, and the ability to do so represents a source of competitive advantage in turbulent environments (HAMEL; VALIKANGAS, 2003). The ability to innovate a business model represents a way to respond to changing sources of value creation in volatile environments (POHLE; CHAPMAN, 2006).

Regarding the need of research about the processes and elements of business model innovation, Schneider and Spieth (2013) argue that there is a need to investigate what determines it specific contexts. The global environment can be considered as a specific context for the research field. Despite the already identified lack in the literature and even a specific call for it (DEMIL et al, 2015), little is known, through an empirical perspective, about the adaption of a business model to specific markets besides the work of Landau, Karna and Sailer (2016). Besides this gap, business model innovation involves its creation or reinvention to support internationalization (Rask, 2014). Entry modes are ways to materialize company's internationalization process and each one implies in different needs of changes in a company's business model. Even though entry modes have been deeply investigated during the last decades, the relation of business model innovation and entry modes is a new study subject. The study of Landau, Karna and Sailer (2016) investigated a single case study of a German company′s

internationalization. During this investigation, the authors identified that the company started exporting its goods to the new market, and later the organization did a Foreign Direct Investment. No special aspects of the entry mode were investigated at their research. Rask (2014) did a theoretical investigation using entry mode concepts to understand a company's strategy. The focus relies on the strategy and in the development of a framework to understand its adoption. The entry modes were considered as antecedents and the consequences of each one into the business model is neglected. Based on this, it is relevant to question: Does the internationalization of a company through the adoption of different entry modes generates the need for Business Model Innovation?

This article assumes that the internationalization process is a trigger for innovation. Product and service innovation are well investigated in international business literature. The Life-Cycle theory is an example of this research line. However, the theory about international business and its different approaches neglect the need of business model innovation. This gap could exist because Business Model is a recent research subject in the Management field, and theories about International Business were developed in earlier years. Most of the researches regarding business model are related with technology-based companies or start-ups. There is also a gap regarding studies about more traditional business and well-established firms. To contribute with this knowledge field, this article investigates the concept of business model, business model innovation, and its relationship with internationalization and entry modes. Based on the literature review, a theoretical model is proposed to relate entry modes and the need of business model innovation.

Business Model

Business model represents how a firm operates and creates value for its stakeholders (CASADESUS-MASANELL; RICART, 2010a). It is more than a logical way to do business (TEECE, 2010). It represents a system of interdependent activities with a firm's partners, including how it delivers value to stakeholders (ZOOT; AMIT, 2010). As defined by Teece (2010, p. 172), the "essence of a business model is in defining how the enterprise delivers value to customers, entice customers to pay for value and converts those payments to profit". Casadesus and Ricart (2010) argues that a business model represents a set of choices and consequences. The choices include policies, assets and governance. While consequences include flexibility and rigidly. Beside the different concepts of business models, Schneider and Spieth (2013) argue that the common element of these concepts is the fact that no one limits its scope on firm internal elements or external environmental factors. The concept of business model is more of a holistic perspective to understand a firm's activities.

A business model must be designed to create value through the exploitation of business opportunities (AMIT; ZOOT, 2001) fulfilling customers' needs and creating customers surplus while generating a profit for the local firm and its partners (ZOOT; AMIT, 2010). It can also be considered as the coordinated plan to design strategy through customer interaction, asset configuration and knowledge leverage (VENKATRAMAN; HENDERSON, 1998). Other elements include the architecture for products services and information flows, the description of the business actors and their roles, the description of their potential benefits, and the description of the sources of revenue (TIMERS 1998). It's also possible to include in a business model concept the capacity to collect value into the developer or implementer revenues (TEECE, 2010).

A business model must reflect the managers' hypothesis related with the customers' needs, how they want to be satisfied and what they will pay for it, to organize all these answers in a system capable to give the best offer for customers and assure the better return for the company (TEECE, 2010). To address the same costumers' needs or even to pursue similar

product market strategies, firms can adopt very different business models. As Zoot and Amit (2008 p. 1031) highlight "business model design and product market strategy are complement, not substitutes". Chesbrough and Rosenbloom (2002) affirm that a business model must: articulates the value proposition; identifies a market segment and specify the revenue generation mechanism; defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support its position; details the revenue mechanisms; estimates the costs structure and profit potential; describes the position of the firm within the value network linking suppliers and customers; and, formulates the competitive strategy b which the innovating firm will gain and sustain competitive advantage.

The concept of business model emerges with the need of frameworks to create and capture value out of an innovative idea or technological development that were not able to do it by itself. These innovations needed a commercialization way and it turns to be called as business model (CHESBROUGH 2010). Casadesus-Masanell and Zhu (2013) argue that, besides all the interest that the business model subject had attractive over the last few years, it stills a 'slippery' construct of research. Spieth, Schneckenberg and Ricart (2014) had investigated the research related to the field. According to them, the papers address one of these three goals: explaining the business; running the business; and, developing the business. The papers that try to explain the business investigate a company's "response to the need of being capable of explaining how an existing or future company or business stream is to generate profit (SPIETH; SCHNECKENBERG; RICART, 2014, p. 238). Running the business "compromises the operational roles assigned to business model" (SPIETH; SCHNECKENBERG; RICART, 2014, p. 239. And explaining the business include the studies about companies that "have developed new ways of doing business" (SPIETH; SCHNECKENBERG; RICART, 2014, p. 239).

As investigated by Schneider and Spieth (2013), three theoretical approaches have been used to explain and support business model. The first is resource-based view, it focuses on the heterogeneity between firms to emphasiz their unique, imitable, rare and non-substitutable resources used as source of competitive advantage (SCHNEIDER; SPIETH, 2013). The dynamic-capabilities is the second and emphasizes the decreasingly lasting character of competitive advantage in volatile environments, and the need of companies to re-create themselves and to apply new value creating strategies (SCHNEIDER; SPIETH, 2013). The third theoretical approach is the strategic entrepreneurship perspective that allows the consideration of a company's internal initial situation and external opportunities as its core including an entrepreneurial opportunity-seeking and strategic advantage-seeking as part of the unit of analysis. Based on these approaches, it is possible to highlight that while the resource-based view and the dynamic capabilities approaches allow the company to identify and adjust aspects to develop a business model, the strategic entrepreneurship approach better explain how companies can explore and exploit opportunities to business model innovation.

Business Model Design

A business model is a conceptual model of a business, not a financial one (TEECE, 2010). Design–means to architecture an activity system through which firms do business and capture the essence of the business model (ZOOT; AMIT, 2010). Teece (2010) defines some key elements of a business model design. One is to figure out how to capture value from innovation. Another is related with the need to figure out how to deliver and capture value from customers at the same time. To him, this is must be an "art" as "[T]he chances of good design are greater if entrepreneurs and managers have a deep understanding of user needs, consider multiple alternatives, analyze the value chain thoroughly so as to understand just how to deliver what the customer wants in a cost-effective and timely fashion, adopt a neutrality or relative

efficiency perspective to outsourcing decisions, and are good listeners and fast learners" (TEECE, 2010, p. 190).

To design a business model, a company must do a careful strategic analysis to assure that it will lead the company to a commercial success, as the lack of analysis may lead the company to a fail (TEECE, 2010). To address a market opportunity, the firm's managers may need to span across the firm and its boundaries (ZOOT; AMIT, 2013) to craft the better design. Sometimes, it may be need to managers to expand their perspectives to find an appropriated business model that enable the company to capture the value from a technology (CHESBROUGH, 2010).

According to Amit and Zoot (2001) and Zoot and Amit (2010), a business model has three main components: content, structure and governance.

- Content is related to how information and goods are exchanged, and the required resources and capabilities to enable exchanges (AMIT; ZOOT, 2001). It represents the selection of activities that are performed (ZOOT; AMIT, 2010).
- Structure is related to the network size and the ways in which parties are linked and exchanges are executed, the order and timing of exchanges, the market mechanism and the flexibility and adaptability of the transaction structure (AMIT; ZOOT, 2001). It describes how the activities are linked, it means, the sequence between the activities (ZOOT; AMIT, 2010).
- Governance is related to the locus of control of flows of information, goods and finances. It also includes the nature of control mechanisms, like trust ad incentives (AMIT; ZOOT, 2001). It refers to who performs the activities (ZOOT; AMIT, 2010).

To create value through a business model, a firm can adopt a design theme. A design theme is a configuration of design elements or the degree to which they are structured and connected by distinct themes (AMIT; ZOOT, 2001; ZOOT; AMIT, 2010). There are four design themes:

- Novelty, through the establishment of new transaction structures, new transactional content and new participants (AMIT; ZOOT, 2001). It is related to the adoption of new activities (content), and/or new ways of linking the activities (structure), and/or new ways of governing the activities (governance) (ZOOT; AMIT, 2010).
- Lock-In, through the switching costs (loyalty programs, dominant design, trust and customization) and the positive network externalities (direct and indirect) (AMIT; ZOOT, 2001). It is related to the power to keep third parties attracted as business model participants (ZOOT; AMIT, 2010).
- Complementarities, between products and services for customers (vertical versus horizontal), between online and offline assets, and between technologies and activities (AMIT; ZOOT, 2001). It is related to the bundle of activities to generate more value (ZOOT; AMIT, 2010).
- Efficiency, through the search of cost selection range, symmetric information, simplicity speed and scale economies (AMIT; ZOOT, 2001). It is related to the reorganization of the activities to reduce transaction costs (ZOOT; AMIT, 2010).

As a way to synthetize the business model design, Zoot and Amit (2010) consider it as an activity system that addresses all the vital issues of a business, "and give managers and academics a language and a conceptual toolbox to address them and engage in insightful dialogue and creative design" (ZOOT; AMIT, 2010, p. 222). Figure 1 represents this activity system main concepts.

Design Elements	
Content	*What* activities should be performed?
Structure	*How* should they be linked and sequenced?
Governance	*Who* should perform them, and *Where*?
Design Themes	
Novelty	Adopt *innovative* content, structure or governance
Lock-In	Build in elements to *retain business model stakeholders*, e.g., *customers*
Complementarities	*Bundle activities* to generate more value
Efficiency	Reorganize activities to *reduce transaction costs*

Figure 1 – An activity system design framework
Source: Zoot and Amit (2010, p. 222)

Business Model Innovation

The competitive environment requests the companies not just to address customer needs more precisely, but also to capture value from providing new products and services continually (TEECE, 2010). As highlighted by Chesbrough (2010, p. 356), a company may have “at least as much value to gain from developing an innovative new business model as from developing an innovative new technology”; managers need to develop the capability to innovate their business models. The need of change can be either in response to, or in proactive anticipation of exogenous change (SPIETH; SCHNECKENBERG; MATZLER, 2016).

Usually companies innovate its business model when they first create it. But the need of innovation must be a constant in a company life to keep the business model viable (TEECE, 2010). To innovate its business model, managers must rethink an old model to make it fit in the future (ZOOT; AMIT, 2010). The need of innovation becomes higher when the ‘old’ models no longer work, and the business model experimentation turns to be very important as only experimentation can help identify and create the data needed to justify a new business model (CHESBROUGH, 2010).

To innovate in business model, companies need to develop “processes that provide high fidelity as quickly and cheaply as possible, aiming to gain cumulative learning from (perhaps) a series of ‘failures’ before discovering a viable alternative business models (CHESBROUGH, 2010). Business model innovation is “simultaneously about the (re-) deployment and usage of existing resources and capabilities to develop new value offerings or forms of value creation” (SCHNEIDER; SPIETH, 2013). Business model innovation is a continuous and evolutionary process, focusing on the learning aspects of the process to improve it (CHANAL; CARON-FASAN, 2010).

The business model is a way to deliver the frame to organize value-creation and value-capturing transaction of a company. To innovate, managers need to rethink the customer value proposition to reconfigure the value creation and value-capturing activities. Therefore, the new business model will provide new opportunities to gain competitive advantages (SPIETH; SCHNECKENBERG; MATZLER, 2016). The continuous business model innovation may include an attention in the identification of virtuous cycles in the company actual model to allow the creation and capture of value. It should also include the identification and correction of any vicious cycles like those generated by business model inconsistencies and those that could become virtuous if supported by appropriated complementary choices. A third recommendation proposed by Casadesus-Masanell and Ricart (2010) is to pay attention to act in interaction with other industry players’ business models as the business interaction may open opportunities to reconfigure the business model to add value in ‘open spaces’ where there is little negative interaction with other industry players, to build positive and complementary interactions when possible, and to reduce negative interactions or neutralize them through tactical choices.

Chesbrough (2010) argues that the success of the current business model may influence

the managers in order to keep it instead of experimenting a new one. Innovate in business may imply in a conflict with the more traditional configurations of firm assets (AMIT; ZOOT, 2001). Christensen and Raynor (2003) highlight the potential tension because of the conflict between the already established business model and a new one required to explore an emerging or disruptive technology. Euchner (2016, p. 10) calls it the 'paradox of business model innovation' – "(…) it should probably be undertaken only when necessary – that is, when the existing business model is hitting its limits – but it must be initiated while that model is still profitable, before there is sufficient discomfort to motivate such wrenching change. That makes implementation tricky".

Emergent opportunities usually lack deep wealth of data to justify company's actions. Chesbrough (2010, p. 361) emphasis that "it is only through taking experimental actions that new data will be generate". It does not mean that companies should always take risks to innovate their business models. Instead, it means that a portion of experimentation is needed to catch the best opportunities to innovate. The simultaneous existence of a traditional business model and the new one may imply in conflicts with functional areas and the available resources. The co-existence of theses business models reveals another barrier related to this process: leadership. Companies need to address leaders to ensure effective governance of business model experimentation and leaders for business model. The lack of leadership may make it impossible to manage the results of these process and to deliver a new better business model for the firm (CHESBROUGH, 2010). A final barrier is culture. Company's culture must embrace new model, while it keeps the effectiveness of the current one (CHESBROUGH, 2010).

Considering business model innovation as the process to optimize and reengineer complex resources, Zhang, Zhao and Xu (2015) identify three types of business model innovation:

- Original innovation is related with the existing or new companies that offer product or services using a new business model. It can be motivated by the discovery of potential market opportunities and represents an effort to meet these new demands. It can also represent a consequence of new operation process, including the process of producing and selling products and services, to reduce transaction costs and improve profit. A value chain structure, as outsourcing and integration, can also motivate this kind of innovation.
- Induced innovation is related with the external factors that affect one or several elements of the business model, the changes in the business value system, and the changes promoted by a complex economic environment and a dynamic market demand. Technology innovation, information flow and the industry evolution can also promote this type of business model innovation.
- Imitation innovation is based on the development of similar successful business models.

Chesbrough (2010) argues that the use of maps of business models is a key element in the innovation process. One of the most known map was developed by Osterwalder (1994). It is composed of nine points that characterized a business model: key-activities; value proposition; client relationship; partner network; client segment; key resources; distribution channels; cost structure; and revenue flows. The goal is to identify how the business is being conduct at the current moment in each point, and then identify what can be done in a different way to innovate. Chesbrough (2010) presents a second map developed by IBM. These maps are based on component business modelling: business administration; new business development; relationship management; servicing and sales; product fulfillment; and, financial control and accounting. The model focuses on the possibility of experimentation with alternative business model with a simulation approach. Another approach is proposed by Rayna and Striukova

(2016) and present five elements of a business model: value creation; value proposition; value capture; value delivery; and, value communication.

Business Model Innovation and Internationalization

Little is known about business model innovation and internationalization. Rask (2014), for example, present an interesting critic on Osterwalder (1994) model affirming that it is important to distinguish between domestic and international markets. Rask (2014) argue that the nine points can be separated into two dimensions: the kind of activity – upstream activity or downstream activity, and the kind of globalization – globalization of production or globalization of markets. Based on this, he identifies four types of international business models with specific strategy and entry mode elements:

- Domestic-based Business Models: It relies on overcome differences by taking a standardized strategic approach to domestic demand and supply markets through domestic sales, indirect export, and local production activities.
- Import-based Business Models: It focus on domestic markets with a specialized strategic approach through import, contract manufacturing/outsourcing, and production subsidiaries abroad.
- Export-based Business Models: It focus on domestic production with an adaptive strategic approach to globalized markets through direct international sales, direct export through agents, and sales subsidiaries abroad.
- Semi-global Business Model: It relies on the globalization of markets and production with coordination as the strategic approach through licensing, franchising, joint ventures, and sales and production subsidiaries abroad.

Lee, Shin and Park (2012) had studied the globalization as a driver of business model innovation. They selected four business model components as relevant keys in emerging markets: offering; strategy; capability; and, globalization. As a result, the authors identified four principle business models distinctive regarding their innovativeness: global champion; focused R&D; global niche market; and, global infant. This research investigates globalization as a prerequisite of conducting business model innovation (SCHNEIDER; SPIETH, 2013), and does not represent an investigation about how the globalization influences the innovation process. Actually, when researching about the elements and process of business model innovation, Schneider and Spieth (2013) identified that the already published papers only presented frameworks and hypotheses derived from conducted explorative research – there is a lack of empirical research about this subject.

Through the investigation of a single case study, Landau, Karna and Sailer (2016) find out that companies adapt their business models in international markets. The internationalization process was investigated through the analysis of these components: value proposition (to target market segment); value creation and delivery; value capture; activity system content; activity system structure; activity system governance; and, activity system design theme. They identified that the three first ones were the more important in the context of business model innovation and they used the degree of adjustment in each one to propose a four phases adaption process to develop a local emerging market business model. The first phase 'International extension' focus on adjusting value proposition and value capture. The 'Local emergence' is the second and its focus on adjusting downstream value delivery. The third is 'Local expansion', focusing on adjusting upstream value creation. The 'Local consolidation' is the last one and present equal emphasis on value proposition, creation and delivery, and capture. Besides it was developed through a single case study, it highlights that, instead of

completely change the business model, each phase emphasizes different components of the business model in a way that the firm can generate a new business model by the end of the process.

Johansson and Abrahamsson (2014) investigated how business models were used and innovated by three born global companies of services to catch new business opportunities. They identify that the sensing capabilities, entrepreneurship and relational capabilities represent the core to manage and to innovate a business model in the investigated firm's context. The companies used the business model concept as a tool to 'navigate' their value chains to achieve international success. Casadesus-Masanell and Ricart (2010) analyzed innovative companies in Catalonia to understand the need to adapt business models to changes in the environment to keep their competitiveness. The researchers investigated the companies' paths to innovation and internationalization. Each of the investigated companies had followed a different route to it, but they all need to adapt their business models to be competitive. The three mains 'lessons' taken from these companies are: be alert and take advantage of changes in the environment, search for robust virtuous cycles and support them with complementary choices, and focus on virtuous cycles that generate added value. As presented, the linkage of the internationalization through the different types of entry modes and the need of business model innovation is a new study field. To start stablishing the connection between the subjects, the next section presents the entry modes.

Internationalization and Entry Modes

Entry modes represent forms of internationalization. The different types of entry modes had been deeply investigated over the last decades. As we no longer want to investigate the entry modes, as our focus relay on the consequences of its adoption on business model, a brief description of the entry modes is presented.

Export is the more appropriate entry mode for companies that are internationalizing for the first time and seek to reduce their risks of start. It requires less commitment of the exporting company. Usually the company starts selling to its internal market and then starts to export. An **indirect export** represents the use of intermediaries to connect the company with its customers abroad. The firm begins exporting with low fixed capital investments, reduced start-up costs and lower risks (ROOT, 1994). It has little control over the way its products are sold abroad and, therefore, depends on the intermediary's ability to act in the target market (KOTABE; HELSEN, 2000). The use of indirect export as entry mode implies in a low effort from the company to internationalize. Usually companies adopt a very passive approach, as they are still working the same way they operate in their home countries. They just start selling products to company that export them. Even though this behavior is not mandatory, it use of indirect export represent a way to reduce the need of changes into the company's activities. The company can still performe the same activities, and goods and information can still be exchanged the same way: the sell is made to the internal market. A new client is added, but the selling process is still the same. Considering the need to innovate the company's business model, the need to innovate the content is low. Regarding the structure, the same low need of innovation is identified, as the linked of the activities and its sequence do not need to change. The governance, at the same time, also has a low innovation need. The traditional sales office can conduct the negotiation process for the indirect export and the operational, and international logistics, aspects are usually conducted by the intermediary. One could argue that the intermediary could represent a change into the company's structure and governance. We consider that this change implies changes into the Supply Chain, not into the company's itself. To analyze the business model innovation, the concept of Zoot and Amit (2010) focuses on a company's internal activities, and in their interorganizational relations.

The **direct export** implies a direct contact from the company and its customer. Usually, companies have a department responsible for its abroad sales, which may include traders with deeply knowledge of the markets, besides the operational staff. When companies evolve, they accumulate international experience and market knowledge and move from indirect export to direct export (JOHANSON and VAHLNE, 1990). Its main advantage is the possibility to obtain information about the external market and feedback from international clients more quickly (ROOT, 1994). However, since direct export requires the company to manage the process, it has the disadvantage of higher initial costs, more information to be obtained, and greater risks than indirect export (ROOT, 1994). The direct export, however, usually represents a proactive effort from a company to develop new markets for their products. This effort may start with the development of prospective activities. A company may need to change their production process or even the product to adapt it to an international market. To explore the international market, a company usually do prospective activities to promote the product and to contact potential clients. These are new activities for a company that are used to perform only in a domestic market. Hiring staff to conduct these activities, or the relocation of employees is necessary. The establishment of a department to deal with the export activities is usually identified at companies that start to directly export. To direct export, a company needs to be able to attend the customs regulations and to manage the relationship with third-parts providers. Considering these need of changes, one may affirm that the adoption of direct export leads to a medium level of innovation in a company's business model, considering its three aspects: content, structure and governance.

Proposition 1a: Indirect exports will lead to low business model innovations in terms of content, structure and governance.

Proposition 1b: Direct export will lead to medium business model innovations in terms of content, structure and governance.

Proposition 1c: Considering exports, the business model innovations will be more related with induced and imitation.

Direct and Indirect export can be related with the "Export-based Business Models" proposed by Rask (2014). The second type relate with the international environment is the "Semi-global Business Model" which is related with the **Contractual agreements** including different forms of entry modes like strategic alliances, joint venture (JV), licensing, and franchising.

Strategic alliances represent forms of partnership between two or more companies, with the purpose to carry out joint projects or to cooperate in a single market (PORTER, 1991). Companies combine to explore the benefits of new opportunities together, as well as sharing costs and minimizing risks, generating a competitive advantage for everyone involved (KOTABE; HELSEN, 2000). They arise from the need of companies to complement their resources and capabilities, since not all of them have the necessary elements for international operations (HAMEL; PRAHALAD, 1995). Alliances represent a facilitated way to enter in international markets, since physical resources, knowledge and skills are shared, which can be incorporated into already existing competences in the firm, to take advantage of the opportunities of various markets (national and international) (HAMEL; PRAHALAD, 1995, HITT; IRELAND; HOSKISSON, 2008). According to Teece (1992), a strategic alliance requires a certain degree of strategic and operational coordination of activities and should consider, among other elements, research and development activities, technology transfer, granting of production rights and the cooperation agreements between the companies involved

in the partnership. A Joint Venture is a strategic alliance, even though some conceptual models consider it as a different type of contractual agreement.

A **Joint Venture (JV)** is a form of cooperation between independent companies, in which a joint project is carried out, with fixed time and shared risks. It is the appropriate entry mode when the company wants to transfer imitable and substitutable resources (KOGUT; ZANDER, 1993). Among the disadvantages of a JV, it is possible to point the high cost incurred by the company due to the control and coordination of partners involved (KEEGAN; GREEN, 2000). Another challenge that may exist, is the possible cultural difference between the partners, their activities and managerial styles. In addition, many companies end their JV agreements when partners see themselves as competitors in the market (KEEGAN; GREEN, 2000).

Licensing is the contractual agreement in which a company, called a licensor, provides a good – patent, name of a company, technology or any business information, to another company, licensed. Through a licensing agreement, it is possible for a foreign company to buy the right to manufacture and sell the products of another firm in a host country. Thus, for each unit produced and sold, a royalty or licensing fee is paid to the licensor. On the other hand, the licensee invests in facilities for the manufacture, distribution and sale of goods and services, also taking the risks involved. This entry mode is ideal for companies that present advanced technology, high know-how or a strong and consolidated brand in the market, therefore, they obtain greater profitability without a high initial investment (KEEGAN, GREEN, 2000, DAVIDSON; MCFETRIDGE, 1984). This entry mode also brings benefits to products that require physical adaptation to the target market, since part of these costs can be transferred to the foreign licensee (ROOT, 1994). The disadvantages of licensing can be the lack of control it gives to firms on the manufacture and marketing of their products in foreign countries, and smaller returns, considering that the profits are distributed between the licensee and the licensor (HITT; IRELAND; HOSKISSON, 2008). In addition, when the licensee develops his own know-how, it becomes a competitor of the licensor, representing a threat to the licensor and a general disadvantage of that entry mode (KOTABE; HELSEN, 2000).

Franchising is a contract agreement between a franchisor that allow a company – franchisee, to use the name of the company and to receive assistance from the franchisor in general aspects of company management and marketing, through the payment of fees and royalties to the franchisor. It is appropriate for companies that have a high internationalization capacity but whose managers cannot, or do not want to, make efforts to go abroad. The main advantages of a franchise include the fast insertion and expansion in international markets, the standardized marketing method with an already consolidated image, highly motivated franchisees, and reduced political risks (ROOT, 1994). Kotabe and Helsen (2000) point out that regarding the establishment of franchises, a low investment is necessary to expand the business abroad. Its disadvantages include the restriction on the profit of the franchisor, the lack of total control over the operation of the franchise, the possibility of creating competitors, and the restrictions on contracts imposed by governments (ROOT, 1994; KOTABE; HELSEN, 2000).

Contractual agreements represent ways to internationalize with lower effort from the company. The higher effort is related with the source of the partner and the establishment of a contract that allow the partnership to be development while it protect the company from the related risks. Considering this, it is possible to affirm that a high investment in terms of governance is necessary. Contractual agreements include the change of the actors that perform the activities. In a JV, for example, a third company is created to perform it. And in a Franchising, the efforts of sales, for example, may be transferred to the partner. Looking at this second example, we can also identify that the flow of information, goods and finance will be modified as the customer will buy a product from the franchisee. Innovations in terms of governance in the company's business model will be required. At the same time, innovations in terms of content and structure are low when we consider a company that is starting to operate abroad.

Into its home country, the company can keep operating the same way it used to do before and the contractual agreement only imply into its international activities. A different situation may be identified if we look at companies that already operated abroad and change its model to a contractual agreement. Considering the subject of this study, we will focus on the first situation.

Proposition 2a: Contractual agreements will lead to low business model innovations in terms of content and structure, and high business model innovation in terms of governance.

Proposition 2b: Considering contractual agreements, the business model innovations will be more related with induced and imitation.

Foreign Direct Investment (FDI) consists in the territorial expansion of business activities, without being subject to the same conditions of domestic investment. Beside the high risks, it allows local learning and access of external partner knowledge (DUNNING, 1973). It also allows the investor to have control of an economic activity of production, transformation or production of goods and services, resulting, in most cases, on the implantation of a physical unit in the target country of the operation (HYMER, 1960). There are different forms of FDI as subsidiaries, merges and acquisitions (M&A), and greenfield operations.

The establishment of a **subsidiary** requires greater commitment (of capital and labor) by the company that wishes to internationalize. The control over a subsidiary may be total or partial, in accordance with the interest of the organization and the barriers and legislation of the target country (KEEGAN; GREEN, 2000). Subsidiaries are relevant to organizations that wish to concentrate the control of the operations in the main company and leave to the investor the control of the operations in this company (KOTABE; HELSEN, 2000, JOHANSON; VAHLNE, 1990). In this type of entry mode, the transfer of knowledge, technologies and manufacturing techniques between the national company and the one inserted in the target market occurs (KEEGAN; GREEN, 2000). The disadvantage of the subsidiary is that it is not possible to share risks because all liabilities are concentrated in the main company (BROUTHERS; HENNART, 2007). Another limitation is the lack of partnerships, since the resources used are greater than in other entry modes (KOTABE; HELSEN, 2000). There are two possibilities of subsidiaries owned by the main company: acquisition, when the company acquires an existing company; or complete operations (also called a greenfield), which consists of the company going through all stages of the process of building a subsidiary (KOTABE, HELSEN, 2000).

Acquisitions consist of companies or groups of investors that buy the equity or share control of another company and have the advantage of allowing the company to enter into established relationships in the target country and to enter the local market immediately (PORTER, 1991). It allows the rapidly access international markets, local technologies and brands already consolidated in the target market. It also combines resources of the new entrant with the ones of the acquired company (MEYER; PENG, 2005, KOTABE; HELSEN, 2000) and it is a less expensive internationalization alternative (KEEGAN; GREEN, 2000). The acquisition represents a high investment for the company's international strategy, since, for the most part, the promising companies are not for sale, and if they are, its value is very high (KOTABE; HELSEN, 2000). In addition, more efficient markets facilitate the entry of new companies by the acquisition (MEYER et al, 2009).

Mergers are entry modes that are characterized as alternatives for the adequacy of the size and organizational structure of the companies to the market and the world economic scenario (MATIAS; PASIN, 2001). They usually occur among firms that have equivalent dimensions, making the original company disappear and create a new company resulting from the union of the material and human assets of the organizations involved in the business (MATIAS; PASIN, 2001). It allows companies to achieve economies of production scale,

greater market power, risk diversification (since the company operates in several countries and is less vulnerable to local crises), and above all, faster entry into new markets and new industries (SAMUELS; WILKERS, 1996).

Greenfield operations are characterized by complete operations, established from the beginning. They are used when the acquisition strategy is not viable for the organization that wishes to internationalize. It presents greater flexibility in human resources, supplies, logistics, factory layout and technology (KOTABE; HELSEN, 2000). A greenfield project does not allow direct access to the existing resources in the foreign company, but it allows the entrant to purchase resources available in the local markets (MEYER et al., 2009). Some governments in foreign countries offer incentives and benefit packages for companies that install full operations in that region, aiming to establish greater market attractiveness. On the other hand, this operation requires high investments of time and capital (KOTABE; HELSEN, 2000). In general, companies with diversified product lines prefer to enter a new market through acquisitions, other than those with a specific product line, which opt for greenfield (BROUTHERS, BROUTHERS, 2000). FDI and its different forms are not explored at Rask (2014) model.

Analyzing the use of FDI as an internationalization strategy, one can realize that it implies in a high level of business model innovation considering the three main elements: content, structure and governance. Considering the model proposed by Zhang, Zhao and Xu (2015), this entry mode can be more related with original innovation, as the company is promoting changes into their global value chain with the opening of a new unit. Business model innovations related with the previously entry modes tend to be more a result of an induced and/or imitation.

Proposition 3a: FDI will lead to high business model innovations in terms of content, structure and governance.

Proposition 3b: Considering FDI, the business model innovations will be more related with original innovation.

Figure 2 presents the consolidation of the analysis of entry modes and the level and type of business model innovation.

		Elements of a Business Model (Amit and Zoot, 2001; Zoot and Amit, 2010)			Type of business model innovation (Zhang, Zhao and Xu, 2015)
Type of entry mode		Content How information and goods are exchanged, and the selection of activities that are performed	Structure How activities are linked, and the sequence between the activities	Governance Who performs the activities, and the control of flows of information, goods and finance	
Export	Indirect export	Low	Low	Low	More related with induced and imitation
	Direct export	Medium	Medium	Medium	
Contractual Agreements	Strategic alliance	Low	Low	High	More related with induced and imitation
	Joint venture	Low	Low	High	
	Licensing	Low	Low	High	
	Franchising	Low	Low	High	

FDI	Subsidiary	High	High	High	More related with original innovation
	Acquisition	High	High	High	
	Merges	High	High	High	
	Greenfield	High	High	High	

Figure 2 – Entry modes, elements of a business model and types of business model innovation
Source: Developed by the authors

Final considerations

This article presents a theoretical investigation of the construct 'Business Model Innovation' and the internationalization process of a firm based on the entry modes. Based on the literature review, we identify that little is known about the relation between these two subjects. Some researches about Business Model Innovation already consider the international environment, but no one had already stablished a relation with entry modes. Based on this gap we developed a literature review about entry modes. This review focused on the analysis of the confrontation of entry modes with the main concept of business model and its elements developed by Amit and Zoot (2001) and Zoot and Amit (2010). Considering the three elements, we identified the potential level of impact in the need of innovation that each entry mode may generate in a company. At the same time, we used the model of Zhang, Zhao and Xu (2015) to relate the types of entry modes and the type of business model innovation. Exports and contractual agreements appeared to be more related with induced and imitation, and FDI with original innovation.

Considering the lack of applied research focusing on our subject, we conduced our research to develop some propositions that could lead us to an explorative research. This paper is restricted to the lack of previously research, but we need to develop a theoretical basic model to start the discussion about the relation of business model innovation and entry modes. Empirical investigation is required for advancement in the study of these fields of knowledge. We suggest the development of some case studies focusing on the analysis of the internationalization process and the impacts of it into its business model. As a previously research on this, we have already investigated some case studies papers that present internationalization process and we identified that most of them do not present all the required information to be used as a complete base for this kind of investigation. The main reason is that the concept of business model was not included as an investigation variable and parts of the required information may not be well investigated. Because of that, some case studies as an exploratory investigation is recommended. Even though a survey is a very important research method that allow us to investigate a boarder number of companies, we were not able to identify, in the literature review, a consistent base of knowledge to identify the variables to be investigated in deeper investigation model. More research is required to identify these variables. Most of the papers about business model and business model innovation are theoretical or case studies investigation of technology-based companies or start-ups. Little is known about this innovations in more mature industries. This article represents the first effort aiming to analyze the need of business model innovation because of the internationalization process through the adoption of different entry modes, and more research is required.

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