Notre Dame University
Faculty of Business Administration & Economics
Graduate Division
&

Bordeaux Business School
Institute of International Business

2006-2007

MBA/MIB Thesis

Notre Dame University
Faculty of Business Administration & Economics
Graduate Division

&

Bordeaux Business School
Institute of International Business

ITEC Going International

A Thesis Submitted in Partial Fulfillment of the Requirements for the Joint Degree of the Master of Business Administration (M.B.A.) and the Master of Science in International Business (M.I.B.)

Saad Elias Ghanem

NDU-Lebanon
2007

Approval Certificate

ITec Going International

BY

Saad Elias Ghanem

Approved:

Signature:______________________________
Supervisor

NDU MBA/MIB Academic Committee: ______________________________

____

Director of Graduate Programs

Bordeaux Business School: ______________________________

3/17/08
Date

DECLARATION

I hereby declare that this Thesis is entirely my own work and that it has not been submitted as an exercise for a degree at any other University.

FULL NAME

ABSTRACT

By 2005, ITec had 51 employees and was on track to make 2$ million in sales for the year with a firm projected forecast for the coming years. ITec margin were on average, 30 percent of sales. The company was well established in Lebanon and had some customers in the Gulf region. ITec main business was ERP Implementation, business consultancy, process reengineering and project management. This type of business is Human capital intensive; resources and experience were the main assets. The company's yearlong development effort has been extremely successful and growth was more than expected.

By the end of 2005, everything has changed; a series of assassinations invaded the country followed by a devastating war with Israel and daily demonstrations to overthrow the government. This crisis had direct impact on the Lebanese economy, already burdened by a gigantic public debt amounting to 180 per cent of gross domestic product. This situation slowed our pace and forced the company to expand to a new geographic location.

This case poses a set of questions that needs to be prepared and answered before deciding to go abroad. Questions include Model to adapt, company Readiness, market and channel issues, Intellectual Property, product and localization.

In the study it was concluded that ITec should expand to a nearby geographic location adapting the Uppsala-model during the expansion and following a number of steps in the Establishment Chain. The choice of the country to enter was based on the Market potential and the rate of psychic distance.

The Main findings and the observed patterns were identified during the study based on real case scenarios. Mode of Entry, Resources committed, Network and Channel and the risk factors faced during the Internationalization process.

List of Tables

LIST OF FIGURES

Acknowledgements

Before presenting my research, I would like to thank a number of people that have made this thesis possible and that have supported me during the process.
First, I would like to thank my supervisor, Dr. Atef Harb for support and for giving me both positive and negative critiques in order to further improve my work.
I also would like to thank Dr. Chidiac Chidiac who helped me and supported me continuously through out my career at ITec.
I would here like to express my gratitude to the interviewees at Astrolabes and Hyperlinks, on their feedback and the fruitful discussion we had on this topic. These real cases helped me pave the way to expand internationally.

Saad Elias Ghanem

TABLE OF CONTENTS

Chapter.1. Introduction

This introductory chapter aims at giving the reader an understanding of the problem area and the specific problems that we are going to investigate more thoroughly. Delimitations and the structure of the thesis will be presented at the end of the chapter.

1.1 Background

By 2005, ITec had 51 employees and was on track to make 2$ million in sales for the year with a firm projected forecast for the coming years. ITec margin were on average, 30 percent of sales. The company was well established in Lebanon and had some customers in the Gulf region. ITec main business was ERP Implementation, business consultancy, process reengineering and project management. This type of business is Human capital intensive; resources and experience were the main assets. The company's yearlong development effort has been extremely successful and growth was more than expected.

By the end of 2005, everything has changed; a series of assassinations invaded the country followed by a devastating war with Israel and daily demonstrations to overthrow the government. These crises had direct impact on the Lebanese economy, already burdened by a gigantic public debt amounting to 180 per cent of gross domestic product. This situation slowed our pace and forced us to start thinking of a Solution.

ITec main Business and experience had been ERP Implementations and consultancy mainly on JDEdwards in Lebanon. 90% of the revenue was from the Lebanese market, International operations accounted only for 10% of sales.

After many years of strong performance, ITec growth slowed in the late 2005 as its core Business went down. Distribution and manufacturing companies in Lebanon severely damaged by the devastated war, postponed their investment in Information Technology systems and put their projects on hold.

ITec reacted fast upon this situation and chose to expand to a new geographical location to sustain growth.

1.2 Need for the Study

The intention of this study is to build the framework and foundations for ITec to go international and expand into a new geographical location. This paper doe not seek to recommend one solution;

however several models for this purpose were studied and interpreted in addition to practical examples based on real case scenarios and experience were investigated to help smoothening the process.

1.3 Purpose

The first purpose of this thesis is to solve ITec problem by developing a plan for ITec to expand to a new market. Secondly, I intend to investigate if the Uppsala-model can be adapted and used nowadays during our internationalization process, I also intend to Interview similar companies in the same field that already paved the way and expand to different countries.

Finally, my third aim is to highlight what are the critical issues and risks that need to be taken into consideration during the process of Internationalization.

1.4 Limitations

Although there are several internationalization models that can be studied and applied, I have focused on the (Uppsala-model) only, since I found it most relevant in relation to ITec problem. Furthermore, I have made more of a deep study in two companies having gone through the internationalization process and are solely devoted to ERP business.

1.5 Definitions

For you as a reader to be 'on the same page' as us, we here explain our own definitions of some of the concepts and terminologies used throughout this thesis.

ERP: Enterprise Resource Planning is such a strategic tool, which helps the company to gain competitive edge by integrating all business processes and optimizing the resources available.

Traditional company: A company with a sufficient domestic market and with the option to expand internationally, compared to born global firms who exists on the international market from being established.

Cooperations: Formal relationships and/or partnerships where there is a mutual goal

1.6 Disposition

The problem of this thesis is looked upon both from a theoretical and empirical perspective. We hope that those views together can contribute to a solution for ITec problem.

The first chapter aims to give the reader an understanding of the problem highlighted, and the purposes we wish to fulfill. In chapter two, we present our theoretical framework, i.e. the Uppsala-model and its Internationalization process. In chapter three, the process methodology is presented. The fourth chapter describes the steps and challenges that ITec will be using when going international. Chapter five conducts a feasibility study, Break Even analysis and Return on Investment analysis to simulates in figures and numbers the forecast and budget needed to Go International. Finally, we present the results and analysis of our findings, followed by our conclusions in chapter six.

Chapter.2. Review of Literature

2.1 IP Model

In this part of the paper, we aim to describe and discuss the theoretical framework that we are going to use as a guide and reference in building our plan "ITEC going International".

2.1.1 Background of IP Model

How do we define *internationalization* then? It is one of those words we use on a daily basis without really being able to define it because it involves so much. We learned that one definition of the word internationalize was "*bring under the protection or control of two or more nations*" (The Concise Oxford English Dictionary, 2006). This is exactly what has happened during the past years of internationalization, more and more companies have the ability to become under the protection and control of other countries. The question is how to do it in a controlled and advantageous way? This is where internationalization theories and models for internationalization processes become relevant.

2.1.2 Presentation of the Model

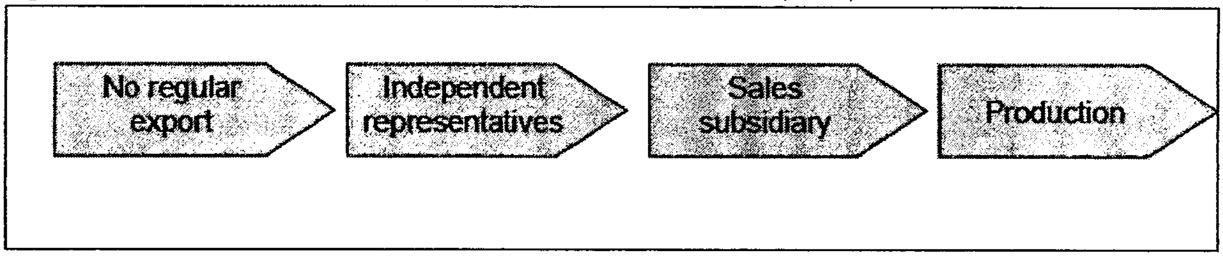
One of the most reoccurring models in the research field of internationalization is "The Internationalization Process Model", "The Internationalization Model", "The Uppsala Internationalization Model" or "The U-model"; (Johanson & Vahlne, 1977; 1990; 2003; 2006) just by reviewing all the different names for the same model we can conclude that it has existed for quite some time.

The *IP model*, as we prefer to call it, came into light in 1977 when Johanson and Vahlne presented it as a model of the internationalization process and based it on empirical research from 1975. The model displays an incremental process of international involvement where knowledge of foreign markets and commitment are leading concepts. The characteristics of the model are based on two aspects involved when going international, where to go and how to do it.

How to Go International?

The authors found empirical evidence for that the internationalization process is a gradual process which follows a number of steps in the *Establishment Chain* (Johanson & Wiedersheim-Paul, 1975) where a company as a first international engagement normally export or provide service to another company. When this activity becomes a substantial part of that company, the next move might be to engage agents who can represent the company in a specific country. An internal sales subsidiary is then to be established in those countries where sales are high and then the final step of the internationalization process is to set up own company abroad.

Figure 1 - The Establishment Chain (Johanson & Wiedersheim-Paul, 1975)



A company moves from one stage to another in terms of how people within the company involve in international market activities and gain experience in the market place. The first stage gives practically no experience at all, while the second stage provides the company with information about the market and the market conditions. The following two steps lead to actual experience and a more differentiated and extensive market knowledge (Johanson & Vahlne, 1990 p13).

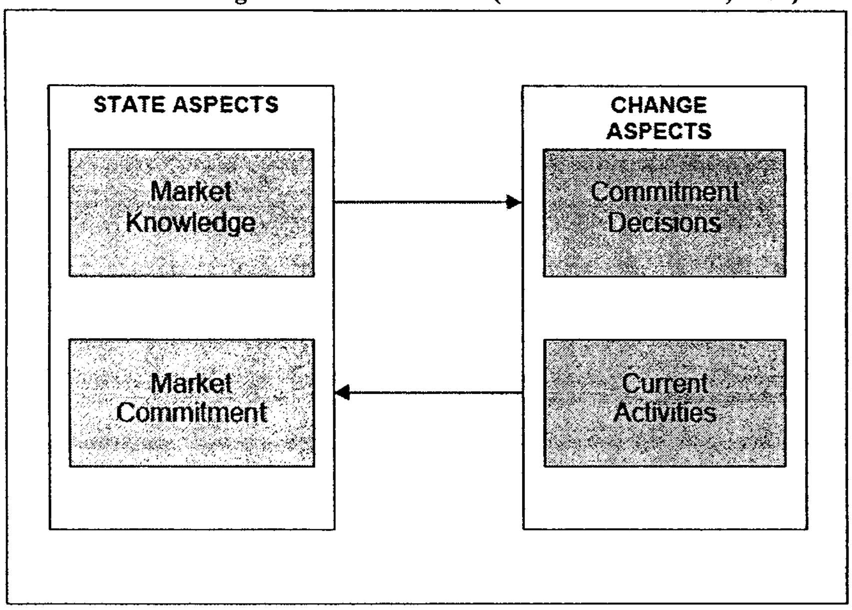
Where to Go?

The internationalization of a firm is described as an incremental process partly because of how activities proceed; from export to production, but *where* the company goes is also an incremental process. The pattern for a firm is to approach markets and countries where they perceive the market uncertainty to be low and where the flow of information is not disturbed by differences in language, culture, political systems and so forth (Johanson & Vahlne, 1990 p13). This is the trend because of what is described as *psychological distance* and was first introduced by Beckerman (1956) but became popular when Johanson & Vahlne brought it up in the IP model in the 1970's. The impact of psychological distance seems to decrease with experience but is even after the first market entry, a crucial factor to consider since knowledge is easier to obtain from countries (geographically and psychologically close) than others (Dow, 2000; Brewer, 2007).

The theory concerning psychic distance has been questioned though, as much has changed since the concept was introduced. Because of the information flow today, markets are more homogenized and the awareness of differences in cultures, languages and people is much higher. There is no empirical support that differences in countries affect the flow of information –other than the understanding that it does affect business relationships. Since relationship is the key, the person involved in a business relationship across the country borders, and the nature of that person, is of great importance. In other words; the person's existing or potential familiarity with the country market is the key element, not psychic distance; even though it contributes to the understanding of a foreign relationship (Brewer, 2007).

This presentation of the model is based on Johanson and Vahlne's article published in 1977, unless any other reference is given.

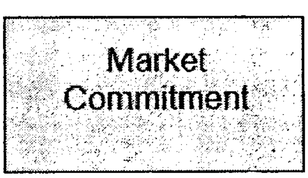
Figure 2 - The IP Model (Johanson & Vahlne, 1977)



The model is made up of two main states of a firm; the state and the change aspects, both interrelating and affecting each other.

State Aspects

The *state aspects* are considered to be commitment in terms of resources to foreign markets; including both market knowledge and market commitment.



Market commitment is the result of a company's perception of opportunities and risks within a market. *Degree of commitment* is one factor involved in the general commitment to a market. The more resources already addressed to a market - the higher the commitment is. When human resources are carried out to a specific market they tend to be most committed to that specific market. *Committed resources* are the other factor involved and this is basically just the physical size of the investment in the market, for example marketing, organization, personnel and so forth.

Market Knowledge

Knowledge about opportunities and/or problems is the foundation for many decisions. For example when it comes to evaluating which market to focus on, knowledge about the market environment or current performance in that specific market are crucial.

The authors make a distinction between *objective* and *experiential* knowledge. Experiential knowledge is the kind of knowledge a person obtain from experience and can only be learned, meanwhile objective knowledge is the more theoretical kind of knowledge that can be taught (Penrose, 1959). Johanson and Vahlne argue that when activities are unstructured and undefined, such as for example relations to other human beings, the experiential kind of knowledge is more important. Furthermore, experiential knowledge creates more "real" opportunities and strengthens the feeling of the opportunities explored, compared to objective market knowledge.

Another distinction of knowledge is the one between *general* knowledge; marketing methods and consumer behavior, and *market specific* knowledge; business climate, culture patterns and characteristics of the individual companies and their people. Both kinds of knowledge are useful when operating on a new market, however general knowledge can be acquired more easily and transferred from one market to another, meanwhile market specific knowledge comes from mainly own experience in that specific market.

The link between market knowledge and commitment is that the greater the knowledge about a specific market is, the greater are also the resources devoted to that market. As mentioned before; when a large amount of resources are devoted to a market, the commitment to that market increases.

Change Aspects

The *change aspects* are all about what is actually making a change in how a market is perceived. Ongoing activities such as business trips, meetings, marketing efforts, market research etc. along with commitment decisions affect the market knowledge and the commitment about that specific market.

Current Activities

Current activities on a market provide a company with experience and specific market knowledge. When carrying out activities; both *firm experience* (internal knowledge about the company and its culture) and *market experience* (people with knowledge and experience about a specific market) are needed in order to interpret the inside information and market information correctly.

One option is to hire people with the specific market experience and make use of their knowledge -a setback could be the time it takes to integrate that person in the company. However, if the person has already worked as a representative for the company the integration process is not that long; an effective way to gain market experience is therefore to involve representatives or even buy a part or the whole company in the specific country. Unfortunately, this kind of knowledge is not always for sale and might not even exist at the point of entry which is why the long road of experience and learning through current activities makes the process proceed in a much slower speed.

What needs to be considered when carrying out these business activities is the delay in time between the activity itself and its consequences. Marketing activities is a good example of how resources committed to a market creates an increased commitment to that market. The more complicated the product is the more market activities are needed, with the result that commitment increases even more.

Commitment Decisions

Commitment decisions (decisions about what resources to devote to foreign operations) are based on perceived problems and/or opportunities on the market, which further depend on experience in that specific market. Both problems and opportunities are identified primarily by those responsible for activities in question and both findings normally lead to some kind of extension of the current operations; increased commitment in order to examine opportunities or increased commitment to 'fix' occurring problems. Opportunities may also be identified by individuals with whom the organization is interacting with. This partner might propose an offer or create demands for the company in question. The more committed a company is to a market, the higher are the chances of being offered external opportunities.

2.1.3 Criticism of the Model

As mentioned before the IP model and its implications have been the target of a lot of criticism, which is rooted in the fact that the model is old and the business climate of today has changed quite a lot since the model was first presented. We believe it is necessary to bring forward criticism that other researchers have directed to the chosen model.

Deterministic Model

One of the major issues has concerned the "stages theory" deriving from the establishment chain. The model is considered too deterministic, (Reid, 1983; Rosson, 1987; Young et al. 1989) meaning that according to the IP model, companies who go international have no choice but to proceed incrementally, and have to follow the given steps. This theory can be applied to small companies with limited budget, slow process and low risk approach like ITec, but not for those big companies that want to move very quickly and aggressively. The same critics argue that the choice of entrance depend on factors such as foreign market opportunity, the firm's internal resources and the selection of export mode, affect the decision to go international to a larger extent than psychological distance and insecurities of markets.

Too Simple

The model is said to be too simplistic and general, lacking explanatory power. It is hard to identify how the process proceeds and move on from one stage to another, and the time dimension is ignored. Other critical factors such as the company's export behavior are lacking and should be added. Furthermore; it is difficult to test the model in order to see if it actually works, since the theoretical level is so different from the operational. Evaluation of the IP model suggests that it has the potential to explain the initial stage of the internationalization process only, provided that additional research complete the model and its mentioned weaknesses (Andersen, 1993).

A Changed World

One of the major reasons for why the IP model has been questioned, and whether it could be adapted by ITec in the process of Internationalization, is that our world has changed quite a lot the past decades and the IP model has lost much of its explanatory power when it comes to incremental internationalization. With all the Technology and communication Things occur much faster and easier today; information flows, monetary transactions, transportations, cultural integration etc., and the way companies compete on the international market is so different compared to in the 1970's (Hedlund & Kverneland, 1985; Sullivan & Bauerschmidt, 1990).

On the basis of several other authors, e.g. Porter (1980) and Levitt (1983), says that the world generally has moved towards homogenization over time. Levitt argues that technology is the underlying force that is driving the world towards one convergent unit. Nordström states that it is hard to separate cause and effect in discussions about these forces, as political, technological, economic, and psychosocial forces are at work in complex interaction. It is evident, he means, that the formation of common markets in e.g. Europe, the EU, and trade agreements, e.g. GATT, with the ambition to deregulate world trade, have contributed to the process of homogenization. Homogenization is said to lower psychic distance between countries, and the uncertainty that the companies feel when entering foreign countries decreases.

Finally, most of the critiques ends up that further explanatory variable are needed in order to more fully understand today's internationalization processes.

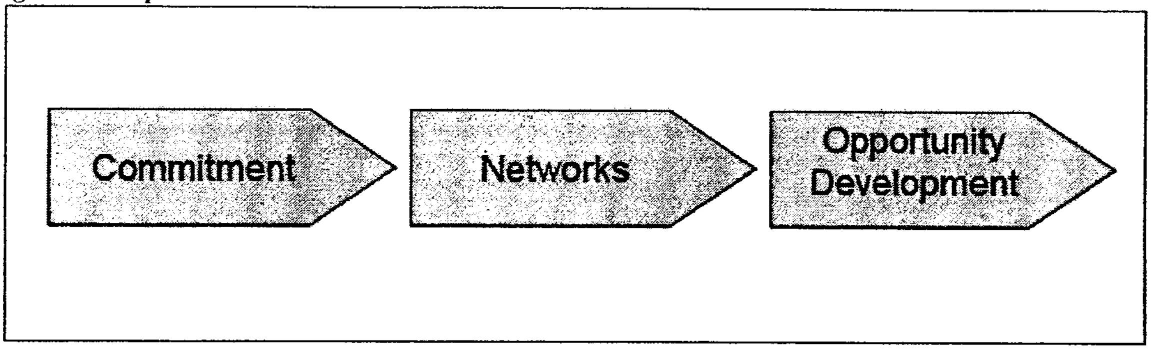
2.1.4 Improvement of the Model

The creators of the IP model are today surprised of how their initial model has managed to survive for so long in the world of international business research. As mentioned above, a lot of criticism has been directed to the theory they represent but the IP model is still of current interest. Johanson and Vahlne (2006, p166) state that the model would have been created in the same way today, however with a somewhat different underpinning.

The authors clarifies that the IP model is not synonymous with the establishment chain, but solely the empirical phenomena observed when creating the model (Johanson & Vahlne 2006, p 166). The IP model has rather behavioral theories as its theoretical base (Cyert & March, 1963) and focuses on the relation between market commitment, market knowledge, current business activities and commitment decisions (Johanson & Vahlne, 1990).

When taking part of the Johanson and Vahlne's more recent work it is obvious that the expression of stages and the focus on psychic distance has been replaced by *knowledge* and how relationships in different forms can create mutual *commitments*. Furthermore, they focus on relationships and networks in order to obtain this kind of knowledge and explore opportunities in the market place. The model beneath is to summarize how the IP model has changed focus and developed:

Figure 3 – Improvement of the IP Model



Dual Focus on Commitment

Experiential learning and commitment building was initially related to the company in focus only, however with time, the authors realized that this process occurs as an interplay between at least two partners (Johanson & Vahlne, 1990) where there is a mutual interest for future business and where new business opportunities are developed (Johanson & Vahlne, 2006 p168). Furthermore; if the partner company is linked to a wide network of shared knowledge which the exporting company can get access to, the relationship is worth so much more than just future business with the partner company in question. Setbacks with this type of reasoning though is that the process is time-consuming and risky, since the relationship and knowledge access may not always develop the way it is supposed to (Johanson & Vahlne, 2006 p168).

Relationships & Networks

A relationship might be formed because of an unplanned event but could also be systematically searched for in order to suit the company's agenda. A relationship is according to Johanson and Vahlne characterized by "... *mutual existence of interdependence, trust and knowledge about each other in many dimensions such as capabilities, needs and routines*" (2006 p169). Although one should be aware of that it takes time to build relationships and sometimes the relationship does not result in what the company expects. However; because of the time and the efforts spent on building a relationship works well, it should be regarded as an asset for the company (Johanson & Vahlne, 2006 p169).

One of the main reasons for involving oneself in a relationship is to learn from each other and create new knowledge (Johanson & Vahlne, 2006 p170). Some of the knowledge is easy to acquire by simply just take part of the information meanwhile some knowledge can only be obtained by experience (Penrose, 1959).

We have so far spoken of relationships as existing between two partners and how that can generate knowledge. It is important to realize though that each partner have their own set of relationships. When a company involves in a relationship with a new partner, it engages in an even wider network of relationships. These networks are crucial for getting access to more extensive knowledge and to create new opportunities (Johanson & Vahlne, 2006).

Network or partner commitment is of great importance, not only for uncertainty reduction, but also for opportunity development. A company engaged in a network of business relationships is involved in some way with customers, customers' customers, suppliers, distributors, agents and public agencies and so on. Industries can in the same way be regarded as networks of businesses and can involve partners from around the globe. Business relationships and industrial networks are subtle in nature and difficult for someone from the outside, for example a potential entrant, to observe –inside experience is the only way to gain market knowledge. The IP model is because of this an inter-organizational process involving external companies in the company's internationalization process, and not just an intra-organizational process where the company on its own creates opportunities outside its domestic market (Johanson & Vahlne, 1990 pp18-19).

The network view argues that an exporting company first of all engage themselves in domestic networks that eventually can bridge to international business relationships. Since there is normally no legal connection between the companies involved in these networks, social and cognitive ties play an important role. Personal influence on a business relationship is expected to be of most importance in the early stages, followed by routines and systems later on in the process (Johanson & Vahlne, 1990 p20).

Opportunity Development

We know that the IP model has been questioned for its incremental and planned internationalization process. Researchers (Kirzner, 1973; Denrell et al. 2003) have argued that many international companies' actions are the result of a serendipitous strategy, where some efforts as well as luck combined with a natural alertness and flexibility create opportunities for international activities.

Although serendipity has an impact on every aspect in life, a serendipitous internationalization strategy can be argued though; Shane (2000) has found that prior information have a strong impact on who discovers entrepreneurial opportunities and suggest that the company should look for opportunities in areas they are familiar with, (and have experience in) rather than doing what seems to be popular at the moment.

Based on this, Johanson and Vahlne (2006) conclude that a connection can be made between privileged knowledge derived from good relations with a partner, and created opportunities on the market. They withhold that the process is the same as for the IP model and relationship development.

2.1.5 Theoretical Limitations

Internationalization theories involve many different fields of research and focus and the Internationalization Process Model is only one of them. I therefore feel obliged to mention theories I have come across, but for various reasons decided to neglect.

The Eclectic Theory

The eclectic theory was presented by Dunning in the 1950's and explains the scope, form and pattern of international production (Dunning, 2001). We know by now that international production is in accordance with the final step of internationalization in the IP model. However this might not be such a natural move for small, born global firms to make, which is the main reason for not exploring this theory further in our thesis.

Transaction Costs Theory

The concept was first introduced to economic analysis by Ronald Coase (1937) who argued that transaction costs (costs involved when making an economic exchange) appear for companies going international when for example searching for information, finding partners, negotiating contracts and so forth. When the transaction costs reach a certain number, it might be more profitable to internalize, i.e. set up own sales organization in a specific country.

The Innovation-Related Internationalization Model

This model, presented by Bilkey and Tesar (1977) describes the very same incremental process as the IP model, however with an innovation-related perspective stating that internationalization decisions are considered an innovation for the firm. The model is behavioral-oriented and considers internationalization to occur in a number of steps with export as the first. (Andersen, 1993) Because of the similarities between the models we have chosen to focus on the IP model only, partly because this model seems to be the most accepted one in the research field of internationalization but also because the IP model is much more developed and have made more attempts to approach today's business climate.

2.3 Case Companies

In this chapter a general presentation of the companies investigated will be given. All companies are Lebanese companies and are in the same line of business as ITec solely devoted to ERP & Business solutions.

2.3.1 Hyperlinks

Founded in 1998, Hyperlinks vision was to build an IT services company capable of delivering excellent services to clients throughout the Middle East and Africa. The strategy was to pull together unique experienced people and to deliver uncompromising services. Hyperlinks now have strong management teams, strong services and technology partnerships with a broad base of long term clients.

Hyperlink, differentiates itself by its proven, reliable delivery of innovative and creative solutions provided to each client's individual business and technological needs. Its framework allows to execute rapid, reliable, and measurable solutions that stimulate organizational change while successfully managing what can be a very daunting process.

The company provides expertise in Oracle E-Business Suite, E-Commerce solutions, and IT Business Strategy. With projects all over the Middle East, the Gulf Area and Africa, we have overcome the barriers of language, culture and geography to provide consulting services worldwide.

Today, Hyperlink is considered as one of the fastest growing consulting companies in the Middle East and Levant regions with major plans underway to expand geographically in Europe and neighboring countries. The company has grown by a quantum leap for the past year and is expected to grow at an equal pace in the years to come.

Hyperlink's first geographical expansion in 2000 comes through the inauguration of its new office based in Dubai, Hyperlink's expansion to Dubai is a clear result of its development and improvement in the Market. The Resource Development Centre (Hyperlink UAE), gave the opportunity to business experts and fresh graduates to join a team of professional business consultants and hence learn from them and take a step towards business consultancy expertise.

Table 1: Foreign countries entered by hyperlinks

Date	Country
Jun-00	Dubai

Sep-02	Jordan
Oct-04	Egypt
Jan-06	Qatar

2.3.2 Astrolabe

Astrolabe IT s.a.l. was established in 1997 as a total Solution Provider & Systems Integrator for the markets of the Middle East and North Africa. Over the years, working with different clients in different markets, Astrolabe IT developed various products and services for the private and public sectors ranging from General ICT consulting services, to software business solutions.

"Our employees are our most valuable asset"

Astrolabe management has invested in the development and maintenance of a highly advanced technology infrastructure in order to enable the delivery of state of the art accurate products & services to our customers in the shortest time span. From sales delivery to service delivery, all members of the Astrolabe team understand the importance of the Client-Centric approach to the market.

Astrolabe has mainly emphasized PR when entering a new country, trying to get as much attention in the media as possible. They use a PR-model (Karlberg -1999) that they call "the stairway to heaven" in order to get attention from their stakeholders and steer customers to the shopping site. Astrolabe contact the IT business, and local investors to gain credibility for its concept before launching. The main idea with the PR-model is to build trust throughout the whole chain, which should lead to that journalists and media getting a positive picture when they are doing research back in the chain.

Table 2: Foreign countries entered by Astrolab

Date	Country
Jun-00	Dubai
Sep-02	Egypt
Oct-04	KSA
Jan-06	Nigeria

2.3.3 Chain of Internationalization

The Uppsala researchers are suggesting a chain of internationalization steps, a sequential establishment to a new market. The establishment chain starts with a small internationalization initiative that gradually increases over time.

2.3.4 How our case companies acted

Astrolabe entered each country with help from the PR-model, which means that the company tried to find local investors and partners in order to gain credibility for the business concept. Normally, one person or a project-team from Astrolabe first travels to the country in question and starts to search for local investors. In phase two the idea is presented to the IT business. In phase three the idea is introduced to local key persons within the industry. Finally, Astrolabe starts to spread information about the company's intentions for the market and journalists and media are contacted.

To have a local presence in all its foreign markets is central in Astrolabe's expansion strategy. Astrolabe has built its network and established local branches or subsidiaries in each market. The organizations in each country are small units focused on developing sales in their specific markets led by a domestic manager with staff for handling customer service and marketing. Each local office typically has five to ten employees.

Hyperlinks also built an organization based on its presence on each individual market. So far three persons, a country manager, a market manager, and a sales manager, work at the domestic subsidiaries setting out from a central business model. In Lebanon the situation has called for additional manpower, though. About 50 percent of the employees are placed in foreign countries. The customer service management and support team are based locally, in Lebanon.

As (Johanson and Vahlne) suggested, Companies should enter a country gradually starting with a small initiative due to uncertainty about the market and the more the company learns about the country in question, the more resources the company should commit.

We notice that the case companies investigated (Astrolabe, Hyperlinks) followed the same pattern recommended by (Johanson and Vahlne) in the Uppsala Model. Both companies took small steps, due to uncertainty and lack of knowledge and experience, in order to reach a desired larger position.

Each of the case companies have used the same establishment mode in every country, i.e. they have set up almost exactly the same operation in every market. They have entered several countries successively. The pace of internationalization and the fact that they have entered every country similarly imply that there has been much time to evaluate the mode of establishment between the entrances

2.3.3 Psychic Distance

The Uppsala researchers are suggesting that firms would enter new markets with successively greater psychic distance, meaning that their internationalization should start by going to markets they could easily understand in order to lower uncertainty.

2.3.4 How our case companies acted

Below it will be described which countries each company have entered and in which order, followed by a discussion concerning the psychic distance as a factor influencing the choice of countries.

Hyperlinks quickly gained market acceptance in Dubai after the opening in June 2000, and the decision was made to expand to other geographic location, Two years after the Dubai launch Hyperlinks made its first attempt to expand to a other foreign market, and the choice fell on Jordan. On the 20th. of September 2002 Hyperlinks started its business development in Jordan by searching for a local partner or a representative capable of building a scalable foundation. Two years later and after the stabilization of Jordan operation they declared the opening of a new office in Egypt, on the 27th. of October 2004, Hyperlinks inaugurated its new offices in Egypt.

Finally, the last country entered lately was Qatar, On January 2006 Hyperlinks decided to follow the boom of a newly developed market and open a new office there following several customers and acting proactively.
After its establishment in Lebanon in 1997 Astrolabes decided to expand to other countries in the near future. A couple of years after its establishment in June 2000, Astrolabes made its first attempt to expand to a foreign market, and as a first initiative they entered Dubai. Dubai

was the first country outside Lebanon where Astrolabes established operations. Several months later, Astrolabe management decided to penetrate other countries to expand their operation in the middle east, They created a plan for the coming five years and created a team "Roll-Out-Team" to handle the expansion.
The earlier mentioned "roll-out-team" is started to study markets and open branches and subsidiaries in Egypt, KSA, and Nigeria. The plan is also to start businesses in Qatar in January year 2008, and in several other countries respectively.

Have the case companies followed the ranking-list of psychic distance?
Considering the order in which the companies have established their businesses in foreign markets, they have all started their internationalization by going to the neighboring countries, Jordan, Dubai, and Egypt, which goes well together with the ranking list. They have chosen to enter these countries in a different order, though.

For obvious reasons the words psychic distance were not something that was explicitly stated by the persons interviewed. Some comments though, could be seen as signs of the psychic distance influencing the choice of countries entered.

> *"Dubai and Qatar are the most attractive countries nowadays, but it is all about the cultural distance of Qatar and similar countries. It was not a coincidence that we entered Dubai in the first place. It is so much easier, you understand the country and they are open to the west as we are. One could say that if all factors were the same both in Doha and Dubai, we would still have entered Dubai first. The reason I guess, was that the market potential is huge and close at hand."(Hyperlinks, General Manager)*

> *"The UAE & Jordan market are very similar, a lot of potential and opportunities are there especially after the war with Iraq. In Jordan It is easy to understand the customers, there are no big obstacles or cultural clashes."(Astrolabes, General Manager)*

Besides psychic distance several other factors have been discovered as important for development across countries and we have sorted them into three different categories; Internet related, market potential, and company specific factors. Those three categories can be looked upon as being of a more rational character.

2.3.5 Observed Patterns

Below we illustrate the answers to our question regarding what factors are important when choosing which countries should be entered.

- **Communication & Internet**

Different communication and Internet related issues seem to be the most important factors for the companies when choosing between countries. That the communication infrastructure and the Internet exists is a precondition for our companies, because they are only selling their products on the Internet. Therefore the companies in general distinguished the Internet penetration as being the most crucial Internet related factor for entering a specific market. This might explain why the case companies all went to the Dubai first, since it has a state of the art infrastructure and the highest Internet penetration.

- **Market Potential**

Factors associated with market potential seem almost as important as the Infrastructure related factors mentioned above. Within the market potential almost everything can be discussed, it seems to be a rather wide concept. The factors that we have met when talking to the interviewees were mainly associated to the size of the industry and its growth within the country in question, but also the size of the target segment and the potential of this segment. This also might explain why the case companies went to the countries having a very high GDP growth rate, like Dubai and Qatar.

- **Company-specific**

The company-specific factors have to a large extent to do with the products that the different companies are selling. Both Syria & Iran have, due to cultural-political reasons, product restrictions on US Products (Oracle Products). Those restrictions were the most important factor for case companies choosing the other countries as the first countries to enter.

Chapter.3. Procedures & Methodology

This third chapter will explain the choice of subject, my preconceptions and the effect that it might have on the research. Finally, the scientific approach and the choice of an Internationalization Process model theory.

3.1 Selection of Research Method

The theoretical framework for this thesis is mainly collected from an empirically well tested theory about the internationalization process of a firm, the Uppsala-model. The question that

should be answered is how companies are internationalizing into new markets, and why they are doing it in a certain way. A study of two companies has been conducted with the Uppsala model as a framework for investigating and analyzing the empirical material. Thus, the theory provides a tool for what is to be observed and what information is to be collected.
I selected a mixture of *qualitative & Quantitave as a research* method to. *Qualitative*, normally aims to analyze “soft data” in forms of words rather than figures from questionnaires (Bryman, 2006 p 249). Babbie (1983), for example, has defined qualitative analysis as "the no numerical examination and interpretation of observation for the purpose of discovering underlying meanings and patterns of relationships", This method is used in the first chapters of the research, in the model and the empirical findings. However, *Quantitave* method was adopted in the remaining of the research due to numerical representation and manipulation of observations and for the purpose of describing and explaining the phenomena that those observations reflect.

3.2 Data Collection

I looked in to Yin (1994) to find out if a case study was the appropriate research strategy for us to conduct. “In general, case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events and when the focus is on contemporary phenomenon within some real-life context.” (Yin, 1994, p. 1) Due to the type of questions I have asked ourselves in the problem statement, how companies internationalizes, How ITec is going to internationalize and why it does it in a certain way, I considered a case study to be most suitable. Also the fact that I needed to focus on a continuously on-going event, the internationalization process, a real-life phenomenon hard to distinguish from its context, made the choice fall on a case study. The Companies I entertained with and interviewed are two Lebanese Companies in similar line of business (Business Solutions). Hyperlink, Astrolabes

3.3 Primary and Secondary Data

As much information about a few case companies was to be collected, I decided to gather primary data in a qualitative manner. A structured interview guide with open overall questions, where the theory has worked as a source of inspiration, was used. The interview guide is found in Appendix 1. The purpose for this choice of interview technique was that I neither wanted to steer the respondent too much with the risk of loosing valuable information,

nor to make it too informal as it was necessary to be able to analyze the answers against theory (Jacobsen, 1993). This approach also gave me the possibility to follow up with additional questions to gain a deeper understanding or to clear up eventual misunderstandings. During the research process the interview guide was slightly developed as I discovered some additional questions that were appropriate to ask. The intention was to interview more than one person at top management level familiar with the internationalization of the company. Due to an extremely tight time schedule though, the companies had no possibility to
take on my requests. The interviews have varied between one and two hours in length and with every company a few follow-up questions were asked over telephone. The interviewees all had positions in the top management, which I thought was necessary as the questions to which we wanted answers were more or less of a strategic character.
Before I did the interviews, I had been reading about the companies to be prepared and trying to make the interview process as smooth as possible. Each interview with the case companies was carried out in a similar way. I introduced myself and described the purpose of my study. First, I asked the interviewees to briefly describe the company, e.g. marketing, logistics, organizational structure, goals and visions etc. The second part of the interview focused on the companies' expansion to different countries and the establishment procedure in new foreign countries. Finally, I asked the interviewee some overall questions about the internationalization process. The questions overlapped each other as the interviews had more of a discussion character. To the greatest possible extent I have used company material to confirm and complement the results from the interviews.

My secondary data has been collected through extensive literature search in libraries and databases. Books, web pages, journals, newspapers, magazines, company material they have all been under our magnifying glass.

3.4 Method for Analysis

Throughout the working process I have tried to act as proactively as possible. I have been working on all parts of the thesis simultaneously. Along the way I have tried to see what consequences the result of the interviews would have on future analysis and which possible conclusions could be drawn. A previously developed theory, the Uppsala-model and its operationalizations, is used as a template with which I compare the empirical results of the

case study (Yin, 1994). I have related the data gathered from every case to some of the theory's proposals about the
internationalization process of a firm.

3.5 Validity of Data and Analysis

I have tried to make our study as trustworthy as possible, although I have not actually measured its validity and reliability. Before building the interview guide and formulating the questions within it, I made sure that both of us had reached an understanding concerning our theoretical framework. A result of this was that the interview guide covered all parts of our theory used. Moreover, it also made us more flexible when carrying out the interviews, meaning that during the interviews I could understand how the answers would affect our analysis and in addition to that I could ask complementary questions. I also had our supervisor and tutors to comment upon the interview guide before I carried out the interviews. As mentioned earlier I wanted to interview more than one person at management level at each company, which would have increased the validity of the data collected. Due to time aspects this was however not possible.

3.6 Preconceptions

The work of a researcher is affected by his experience, social background, attitudes and education. As a result, it is important to make sure that the reader is aware of these external influences for being able to criticize the study (Johansson-Lindfors, 1993; Bryman, 2006).

My preconceptions originate mainly from the fact that I am an MBA-MIB student at NDU. My education has had an international focus from the start since I have chosen to do a *Masters of Science in International Business.* This is where I gained my theoretical preconceptions within the field of Business. Furthermore, I gained a broad, international experience during my work since I travel a lot as a business consultant. My theoretical and practical preconceptions have given me the understanding how companies should act to succeed on an international market, which strategies they should utilize and how they should gain competitive advantage over others.

Because of my theoretical preconceptions and the need of an Exit Strategy for ITec to sustain growth, I have chosen the topic of my research to be about the company I have been working with and need to go international.

So what was the result of my preconceptions? I believe that my experiences and previous knowledge will show in my thesis but my understanding is that it has not limited me in any way of it and I have been open minded towards new knowledge and experiences both in the theoretical and empirical matters.

3.7 Choice of Literature

Apart from the scientific approach it is important for you as a reader to understand what criteria we have had when selecting theories and literature sources.
As recommended (Saunders, Lewis & Thornhill, 2007) we obtained an overview of chosen subject for our master thesis by reading newspapers, searching the internet and studying current internationalization books and scientific articles. Furthermore, discussed the theories and researchers that we found appropriate, interesting and relevant for our topic. studied the researchers and their work but also their references in order to get hold of the primary source in each theory. Our main aim during our thesis work has been to, as far as it is possible; avoid

using secondary sources since we wish to interpret each source on our own. However; when the original author/article was not found, the secondary source have been used.

Some of the search words we used as a start, to find relevant theories were; Going *international, the internationalization process* and *Going Global.* Quite early in the search process we found Johanson and Vahlne and their "Uppsala model" being a reoccurring topic in the internationalization theories. The model as it was presented in 1977 was examined, criticised and developed in articles by the same authors as well as others within the same field of research. The more current theories concerning today's companies and their way of working the market was discussed and the concept *born globals* or *born global firms* came in to light and was then searched for. After realizing the importance of networks, we searched for additional theories using search words such as *networks* and *relationships* in combination with the words above.

The search for relevant articles has been carried at NDU library's homepage, Harvard Business Review, Google databases for Business mainly. we searched for articles in Executive magazine, when finding primary sources from the articles we read, we had to step away from the peer-reviewed criteria in some cases, in order to find the specific article.

3.8 Critical Review of Literature

We consider it necessary to direct some criticism towards our selection of theories in order to see if the material provides the reader with a correct picture of what our research aim for.

As previous mentioned when searching for literature our aim was to go deep and use only primary sources. Hence, we went deeper and searched for the initial sources in books and articles. This is of importance since the more referenced a primary source is, the more credibility can be applied to the statement. However, some of the theories in their original form might be understood as a bit out of date. We therefore presented the original theories, criticism directed to them and then improvements and more current research, this way we tried to balance old theories with new updated research on the topic to see how the research field developed.

we mention briefly other internationalization theories and these could of course had been developed further and actually involved and tested on our focus company. Here we have to say that lack of time restrained us from performing an even broader study of internationalization theories in relation to born global companies.

Chapter.4. Going International

In this Chapter there will first be a short presentation of the company ITec, followed by the decision to expand to a new geographical location and the choice of Dubai to be the first country to enter. A Study of the Market potential, The industry and sector targeted the mode of entry and the perceived risks is elaborated. The significant findings will then eventually be discussed in our analysis and further generalized in our conclusions.

4. 1 ITEC

Founded in 2000, Information Technology engineering and consulting (ITec) started as a small company providing IT services focusing on the implementation of Integrated systems. ITec became Oracle Channel Partner for Lebanon and had essentially one product JDEdwards.

ITec is a highly specialized consulting company for Financials, Supply Chain Management, Customer Relationship Management (CRM), Human Resource Management Systems (HRMS) and payroll applications and has been successful in securing a place among the Lebanese market within just a few years.

ITec concept is based on a well-defined business model that is fundamentally different from conventional consulting. We do not design systems for the short term. Instead, we implement complex, functioning, economically sound business solutions that deliver a cutting edge with which companies can face the competition of tomorrow with confidence.

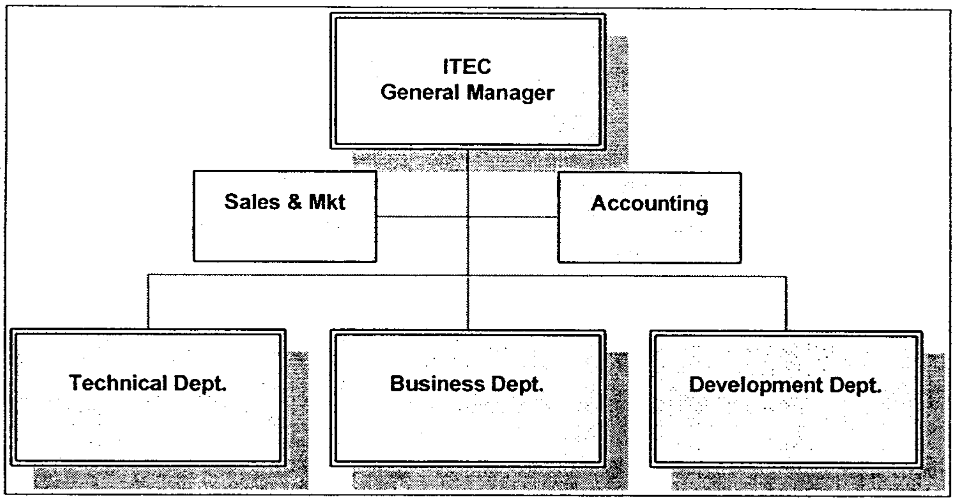
ITec had developed a deep understanding of the Lebanese businesses requirements and customized the product to meet their request. This helped in reducing the time required for implementation—it is much shorter than that required for ERP solutions from MNC companies.

Table 3 : Yearly Revenue

	Yearly Revenue				
	2002	**2003**	**2004**	**2005**	**2006**
Revenue	$1,100,000	$1,700,000	$2,000,000	$2,100,000	$2,000,000
EBIT	$330,000	$510,000	$600,000	$630,000	$600,000

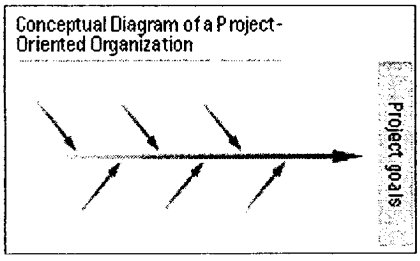
Structure

Figure 4 - Hierarchy-Orientated Organization



ITec Maintains Hierarchy oriented organization structure the objective is to organize principles and processes and to unify the organization by a adopting a departmental format with hierarchical relationships between members so that corporate policy spreads throughout the company and moves in the same direction. However, Projects in the company are approached differently, in order to act efficiently and effectively ITec functions without regard to hierarchical organization class it follows a project oriented organization structure and new business strategies are executed. ITec returns to being a normal organizational member when a project is declared as completed.

Figure 5 - Project-Oriented Organization



4.1.1 Product

JD Edwards is an integrated applications suite of comprehensive ERP software that combines business value, standards-based technology, and deep industry experience into a business solution with a low total cost of ownership (TCO). JD Edwards offers a choice of databases, operating systems, and hardware so you can build and expand your IT solution to meet your business requirements. As you grow, your investment scales to meet new marketplace and operational demands.

There are over 80 JD Edwards applications modules that cover a broad and extensive footprint that supports a diverse set of business operations.

Table 4 : JD Edwards Modules

JD Edwards Modules	
• Analytics • Capital Asset Management • Customer Relationship Management (CRM) • Financial Management • Food & Beverage Producers • Human Capital Management (HCM) • Manufacturing	• Order Management • Project Management • Real Estate & Home Construction • Supply Chain Planning • Supply Chain Execution (Logistics) • Supply Management (Procurement) • Tools & Technology

It was in the early 1996 that the integrated systems concept referred to ERP became strongly needed In Lebanon for big organizations to become globally competitive. Few ERP vendors were available at that time operating remotely with no local presence.

4.1.2 Price

A JDEdwards implementation cost is divided into one-time cost and ongoing annual cost. One-time cost is segmented into License fees of the software and estimated man days needed per module. In Addition to the License, a yearly maintenance fee is paid to cover any update or upgrade for the system.

- License Fees
  - Depends on The Modules needed by the customer and the number of users accessing the system license is calculated.

Table 5 : License Fees

Modules	Foundation	10,000 $
	Financial, G/L, A/R, A/P, F/A	20,000 $
	Supply Chain Management	25,000 $
Users	10 Concurrent users@ 1,400$	14,000 $
	Total License Fees	**69,000 $**

➢ Implementation

- An estimated budget is made showing the breakdown in terms of man days required to implement the system, based on the breakdown the implementation cost is calculated.

Table 6 : Implementation Fees

Daily rate	
- Technical consultant	**400$**
- Business Consultant	**500$**
- Developer Consultant	**500$**
- Project Manager	**700$**

➢ Maintenance

Maintenance is paid on a yearly basis and is around 22% of the license fees.

4.1.3 Customers

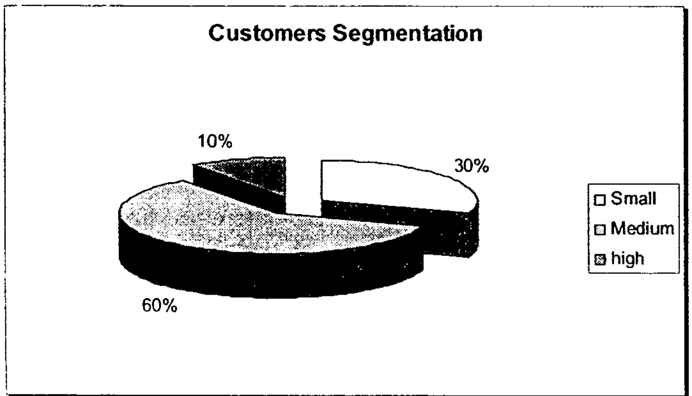
Lebanon's mid-sized corporate market is comprised of firms with a turnover between $10 million at the lower end and $50 million at the upper end. In terms of IT needs, this represents a client size of 50 users at the low end and 400 to 500 concurrent users as max. After conducting a market analysis ITec noticed a phenomenal growth in this segment due to the opening up of the Lebanese economy.

ITec focused on SMEs (Small Medium Enterprises) because they present a large potential and are around 30% of the Lebanese corporate clientele. ITec also have some very big and well-known enterprise customers. Some of the names of repute include Solidere, Sanita, Matelec, Bank Audi etc.. So, whenever there was a requirement for an enterprise ERP implementation we had the product and the offer for that segment.

- **SME segment:** Companies having a turnover less than USD 200 million

- **About 30% of the Lebanese corporate clientele are in this segment**
- **Key areas of focus:**
  - Proven package configuration and implementation

Figure 6 - Customers segmentation



4.1.4 Competitors

There are various ERP vendors available today. Out of more than 100 ERP providers worldwide, SAP-AG, Oracle, J.D. Edwards, PeopleSoft, and Baan--collectively called the "Big Five" of ERP software--control approximately 70 percent of the ERP market share. These vendors offer slightly differing features in their products; still the major modules are same in all of the products and cover almost any business.

Today SAP is considered the most exhaustive ERP system. SAP allows connectivity to Internet and business through it for the mobile and distantly located users. Other vendors also provide more or less similar functionality in their bundle of product.

In Lebanon as a distributor and business partner to Oracle, ITec anticipated the emergence of a large number of small competitors in the ERP Business as the market develops. The market for this type of service is not large enough to support dozens of small niche players. The only competitive companies were the international ones, those who have the technology and resources and have built their know how across the years, but none of these companies had the incentive to enter the market.

Lately couple of Indian companies has opened a small office in Lebanon trying to approach our existing customers and aiming to win some of them. After a lot of effort, they were able to establish contact with one of them offering him a competitive price and services, but couldn't succeed the implementation due to lot of factors.

Culture & communication barriers as well as political instability of the country played a major role in their decision. They decided to cut their investment short and avoided the market entry with minimal damage.

Table 7 : ERP Market Share

System	Mkt Share
JD Edwards	21%
Oracle	21%
PeopleSoft	25%
SAP	33%
Total	**100%**

4.1.5 SWOT Analysis

- **Strength**
  - 10 years of Experience in ERP Business
  - Highly qualified Resources based in Lebanon.
  - High quality of services
  - Low cost compared to UAE
  - Specialized and Modular Product
  - Knowledge of the culture (GCC, Levant)
  - In-depth understanding of various industry verticals enabling TCS to provide innovative solutions
  - Built a strong relationships based on technological expertise, business understanding and service excellence.
  - Created a knowledge capital culminating meaningful experiences, understanding of pertinent industry issues and challenges

- **Weakness**
  - Localization of the Product for new Market
  - Penetrating markets outside Lebanon is difficult.
  - Getting big clients in consultancy, who can help plough back the investments, will take years.

- Good on technology & solution however not many are aware about solution centric success stories.
- High Attrition rate due to unsatisfied employees and law suits by ex-employees for unethical practices
- Controversial policies like having it's own Provident Fund against Government rules
- Cultural resistance

- **Opportunities**
  - Increasing acceptance of outsourcing as a relevant business strategy
  - Clients are more comfortable to collaborate with large global players with scale and with uniform high quality and security processes across the enterprise.
  - Clients are considering Lebanese companies for IT Services.
  - High rate for international competitor
  - Local competitions is minimal
  - Clients are demanding delivery excellence from distributed business units using uniform processes globally to deliver a high quality of service

- **Threat**
  - Global IT service and consulting companies are expanding operations in the GCC.
  - Increased competitive pressures including higher costs as a result of wage inflation due to the intense competition for skilled human resources.
  - Pricing pressures due to heightened competition from global and Indian IT companies
  - Increasing customer demand for consultants is forcing Company to invest increasingly higher amounts in equipment, facilities and training of its personnel.
  - The risk of one or more geographic markets collapsing because of unforeseen general macro-economic factors and political disorder less knowledge

4.2 Development across countries

Traditional companies normally starts expanding internationally by doing services to similar or nearby countries (Sharma & Blomstermo, 2003) this is according to Johanson and Vahlne (1990) because of the impact of psychological distance where the flow of information is disturbed by differences in language, culture, political systems etc. This factor is less visible in markets and countries geographically and psychologically close to the home market (Dow, 2000; Brewer, 2007). As earlier mentioned, Astrolabes and hyperlinks chose nearby countries (Dubai, Jordan) as their first countries taking into consideration the influence of psychic distance.

ITec found that the solution for diversification is to expand into a new geographic location with very similar market characteristics, resource profile requirements, and the knowledge of the local environment plays an important role in the literature of the expansion. ITec decided to invest overseas in a nearby country because it has resources whose services are valuable in the foreign market, but are not easily transferred using an arms-length transaction.

4.2.1Opportunity in Dubai

Some of the major reasons that helped ITec to decide in favor of shifting to Dubai/UAE are as follows:

- Free Trade Zones - Dubai has many free trade zones, and while operating a business through any of these free trade zones, the company is exempted from both corporate and income taxes, as well as ownership requirements.

- Massive Oil wealth would increase the GDP per capita, thereby increasing the access to modern technology.

- Ideal location, which is accessible from east as well as west provide Dubai with an added advantage to quickly become a premier location for exporting technology in 21st century.

- Absence of Trade Barriers - No significant trade barriers to software or hardware market, thereby giving easy entry for Software and Service Providers.

- Incredible Government Support towards IT and Telecommunications - Recognizing the critical role that IT and Telecommunication plays in economic well-being of the country, government has been pouring in lot of money for developing and expanding local infrastructures. Fiber networks and wireless telephony has found its way into the country, and there exists a huge demand for telecom service providers, who would be able to bank on the technological advancements, and provide the latest telecom solutions.

- 700 percent increase in spending on Information Systems, with services related to hosted infrastructure increasing by more than 69 percent.

Dubai is the center of Middle East economy and has emerged as a commercial hub with state-of-the-art infrastructure and a world-class business environment. Dubai has proved to be a winning combination of traditional Arab business practices and international trends. It comes as a package of unique and comprehensive platform with lots of value additions.

Today, Dubai has grown as one of the fastest growing metropolises in the world, with diverse opportunities in varied sectors. Its excellent living standards and multi-cultural society has endeared it to growing fraternity of global managers. With no corporate taxes and strong business sentiment shown by Dubai Government, it is one of the most attractive places to do business.

4.2.2 Market Study

In the 1990s the three fastest growing cities in the world were Dublin, Las Vegas and Dubai. This has accelerated in the 21st century with 23% population growth in Dubai in the past four years. The boom is obvious enough, particularly in the Jebel Ali-Dubai corridor. Today Dubai is the trading, business and increasingly financial hub of the Middle East, and for parts of Africa, the CIS and even the Indian subcontinent. It's a vast hinterland for such a small place.
To step back in time a little, the success of Dubai has been very much a part of the success of the UAE. Under the leadership of Sheikh Zayed the development of the country since independence in 1971 has been peaceful, proactive and well administered. Some statistics about the UAE will reveal a 25% increase in 2005 in the nominal GDP hitting the 490 bn dhs. The real GDP increase was around 9%, 325 bn dhs

approximately. The GDP expectations for 2006 are the utmost of 600bn dhs increasing with it the revenues the capital income, the consumption, hence the GDP and this way the cycle of success will continue in the UAE. But until when?
In fact, this is what specialists and economists argue about; some point to 13 years of rapid growth, with just a small dip in 1998 as a sign that today we must be fairly close to the top. Yet all the economic fundamentals suggest the economy has not even begun to warm up.

4.2.3 Industry & Sector

ITec studied the UAE Market and find out that the IT sector is a key element of the Emirates government's economic development strategy, a number of major initiatives together with regional economic and trade liberalization ensured a strong growth for the coming period. The market has been built on a series of reforms over recent years, the most notable being the establishment of Dubai Internet City, and a US$1.3bn extension project which was expected to be completed by the end of the year. The government also encouraging the development of 'smart cities' another regional hot point. BMI (Business Monitor International) expects the total size of the UAE IT market to increase from US$1.3bn in 2005 to around US$2.6bn in 2010, with the buoyant IT services sector at the forefront of growth. It also estimates that the UAE's software spending will boom from US$236mn in 2005 to US$471mn in 2010.

ERP Growth in the UAE was estimated at around 34% in 2005 and will reach 1 Billion in 2006, far above the MENA average, reflecting the Emirates' status as one of the most advanced IT countries in the region.

The central geographic areas for the software industry are Dubai, Abu Dhabi, with global software companies drawn to the UAE's free trade zones for tax-free, relatively unhindered competition. Outside of the free trade zones, however, the software market is modest. The market will have a (CAGR) Compound annual growth rate CAGR of 15% from 2005 to 2010, with the UAE being one of the region's fastest growing ERP markets, as more businesses realize the benefits of efficient management of resources within their internal processes.

4.2.3 Demography

Dubai is unique in the sense that its national citizens make up only 25 percent of its total population. Expatriates from all across the globe, especially India and Pakistan, represent a majority out of the remaining 75 percent. This gives Dubai an added advantage as the exposure is very high, due to people from across the globe working at the same place.

IT Services require skilled workforce, which has been one of the major reasons behind Lebanese's success in the recent past. Mentioned below are few statistics on primary and technical education in Dubai, which can give an indication about the quality and quantity of workforce present in Dubai.

The country has one of the highest application participation rates across the globe. 95 percent of the females and 80 percent of males, who are enrolled in final year of secondary schools, apply for admission to higher education.

Dubai has very high percentage (76.8 percent) of female literacy rate with an overall literacy rate of above 80 percent. Higher Colleges of Technology in Dubai have been witnessing a growth in student applications of 30 percent on yearly basis.

Asians make up 80.59 percent of the workforce in Dubai, and hence, this skilled workforce is also readily available from countries like Pakistan, India, etc.

4.2.4 Growth Areas

According to the (DED) Department of Economic Development, Dubai GDP grew AED98.1 billion in 2004, up from AED84.1 billion in 2003, AED62.3 billion in 2000 and AED41.2 billion for the year 1995.

The accumulated annual growth of Dubai's economy in the last decade comes to 10 per cent, the highest rate of growth in the world.

The factors that contributed to the phenomenal performance included government's unlimited support for the private sector coupled with dramatic increase in local spending, the constant growth of non-oil sectors and the sustained high oil prices.

The performance indicators also reflect the success of its economic diversification policy and the maturity and vitality of the economy to resist unforeseen circumstances faced by one or other sectors.

Although oil contribution to the GDP grew 10.9 per cent in 2004, the corresponding growth of 17 per cent in the contribution of non-oil sectors enabled Dubai's GDP to reduce its dependency on oil to 6 per cent in 2004 down from 7 per cent in 2003.

The contribution of non-oil sectors to the emirate's GDP has increased from AED 78.22 billion representing 93.4 per cent in 2003, to AED 91.5 billion representing 94.3 per cent in 2004. This is a significant increase when compared to AED 55.9 billion in 2000 and AED 34 billion in 1995.

The positive growth in 2004 was clearly reflected in the continuous inflow of foreign capital - a trend that s expected to be maintained with the prevailing lucrative return on investment in key sectors.

In addition, the aggressive initiatives by the government and large companies have helped local and international interest rates to stabilize at low levels, encouraging private investments and offering opportunities for a wide spectrum of segments.

Economic indicators showed a quantum leap in the construction sector for the third year in line, making it one of the key elements of growth besides trade, tourism and aviation.

The growth in cross sector relations has further vitalized these sectors with the increase in tourist numbers having a positive impact on trade and services, tourism and trade benefiting from the continuous growth in the services sector and the exceptional growth of the construction sector creating similar positive impact on trade, services and banking.

The construction sector achieved the highest growth rate among Dubai's GDP components for 2004, registering 29 per cent growth and lifting its contribution to AED11.1 billion up from AED 8.6 billion in 2003. When compared to the sector's contribution of AED5 billion in 2000 and AED3.4 billion in 1995, the figures offer a clear indication of the increasing number of quality real estate developments by public and private sectors.

The real estate sector itself achieved the second highest growth rate, with 22 per cent growth in returns, which increased to AED10.3 billion in 2004 compared to AED 8.4 billion in 2003. Comparative figures for 2000 and 1995 stand at AED 6 billion in and AED 4.3 billion, respectively.

The record 16.6 per cent growth rate in the industrial sector, with its contribution to the GDP increasing to AED 15 billion compared to AED 12.9 billion in the year 2003, make it the second largest individual contributor. The industrial sector's contribution to Dubai's GDP had been AED10 billion in 2000 and AED4.6 billion in 1995.

Telecommunications, transport, travel and freight sector succeeded in enhancing its lead position as the largest contributor to the emirate's GDP, growing by 19.3 per cent to AED16.24 billion in 2004 from AED13.6 billion in 2003. The Trade sector alone grew by 14.7 per cent from AED12.9 billion in 2003 to AED14.8 billion in 2004.

The contribution of the financial sector increased to AED9.8 billion in 2004 from AED8.6 billion in 2003, a growth rate of 13 per cent. In the tourism sector the hospitality and catering alone achieved 16.4 per cent growth in 2004 to AED4.4 billion from AED3.7 billion in 2003, while the governmental services sector contribution grew four per cent from AED7.2 billion to AED7.5 billion.

The year also recorded 20.2 per cent growth in passengers at the state-of-the-art Dubai International Airport. A total of 21.7 million passengers passed through the airport last year as compared to 18.06 in 2003.

Cargo movement registered 18.26% growth with total freight movement of 1,111,647 tonnes in 2004 as compared to 939,966 tonnes in 2003.Aircraft movement has also shown growth of 16.21% with 195,620 movements as compared to 168,511 movements in 2003.

The continuous growth at Dubai International Airport verifies the fact that Dubai is now the business and leisure destination of the region. Over the years, the Department of Civil Aviation has continuously stressed on maintaining a very high standard for all the services and facilities provided and this has paid off. Dubai has continuously attracted new airlines and can truly be regarded as a hub with 106 airlines and 160 destinations.

In 2005, the department expects around 25 million passengers using the airport. Bearing in mind the general growth of Dubai and specially Emirates airline, according to projections by 2010, the airport will witness passenger throughput of 60 million. Peak passenger movement was in the month of August with 2.05 million passengers.

Dubai Ports Authority has reported 24% growth in its handling operations and set a cargo traffic record of 6.4 million containers for the year.

Dubai's port facilities rank the city as the world's 11th largest port operator. More than 100 shipping lines are served by DPA. Dubai's ports will expand their cargo-handling capacity further through an ongoing four-phase, AED4.6 billion expansion project.

The plan includes the construction of docking areas, new wharfs, container yards and extension and deepening of the present docks to be able to handle largest ships. The plan is to be implemented in four phases.

After completion, Dubai should be able to handle 21.8 million containers a year by 2020.

The Dubai Financial Market's (DFM) capitalization increased more than 100 percent in 2004 compared with the last year.

The DFM's market capitalization rose from $14.3 billion in 2003 to $28.6 billion this year. On the hand, trading volumes have also witnessed phenomenal growth in the last three years, rising from $267 million in 2001 to more than $9.6 billion.

Another indicator of increasing global confidence in Dubai is the mounting number of companies coming to the Dubai Media City, strengthening its position further as a regional media hub and one of the leading international media centers, a position that it has succeeded in attaining in four years since its launch.

Presently, the DMC hosts over 860 companies, including 80 television and radio stations, 140 magazines besides the Head Quarters for media production companies and over 12,000 professionals working in them.

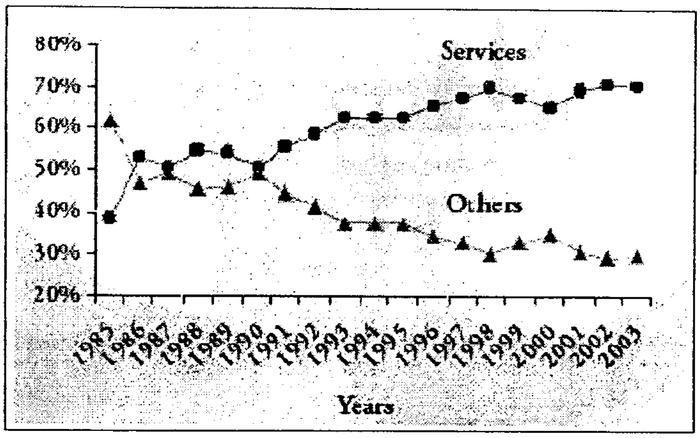
The Dubai Technology and Media Free Zone (TECOM) will witness huge expansions to include 8 million sq ft in the coming four years through the 30 towers which are to be built for offices and accommodation.

The expansion will also include International Media Production Zone (IMPZ) which adopted the same idea as DMC by creating the first dedicated trade zone created in the region for media-related production. The first production cluster in IMPZ will focus on the printing industry.

Against the backdrop of Dubai's phenomenal successes in different domains, especially tourism industry, and taking into account the ambitious projects that are taking shape or planned for completion by the end of this decade, the DTCM has set in motion the process for producing strategy plan for the 2005-2010 period.

ITec noticed that Growth in Software Development & ERP is largely related to Services Sector. Dubai Services Sector includes several sub sectors like hotels, transport, real estate, properties, storage and communications. Services Sector has been able to grow at an annual growth rate of about 16 percent, with the share of services sector growing from 38 percent in 1985 to 71 percent in 2003, which gives an annual share growth of 3.5 percent. At present, more than two-thirds of Output in Organization of Economic Cooperation and development (OECD) countries and up to four fifth of employment is now in services sector. Thus, the growth in services activities is bound to increase the demand for software development and solutions for corporate in Dubai.

Figure 7 – Growth in Service sector



Over the next 3 years, Dubai's IT Services market is expected to grow at a CAGR of 11.7 percent to reach $ 408.1 million by 2008 with major areas being IT training & education and application consulting. Rising dependence on IT for businesses has created higher incentives for local and MNC IT Solution and Service Providers to invest much more heavily than the past.

4.2.5 Legal Issues

51% participation by UAE nationals is the general requirement for all UAE established companies. In the past, each emirate followed its own procedures governing the operations of foreign business interests. In practice, however, Dubai and the other emirates followed the same general system, whereby foreign companies operated in one of three ways:

- Local Sponsor
- Partnership with UAE national
- Private limited company incorporated by ruler's decree

The Federal Law stipulates a total local equity of not less than 51% in any commercial company and defines five categories of business organization, which can be established in the UAE. It sets out the requirements in terms of shareholders, directors, minimum capital levels and incorporation procedures. It further lays down provisions governing conversion, merger and dissolution of companies.

The seven categories of business organization defined by the law are:

- General partnership company
- Joint venture company
- Public shareholding company

- Private shareholding company
- Limited liability company

Venture & Partnership are considered contractual agreements between a foreign party and a local party licensed to engage in the desired activity. The local equity participation in the joint venture must be at least 51%, but the profit and loss distribution can be prescribed. There is no need to license the joint venture or publish the agreement. The foreign partner deals with third parties under the name of the local partner who - unless the agreement is publicized - bears all liability.

4.3 Mode of Entry

After deciding to develop into a new geographic market, ITec studied two generic strategies.

4.3.1 Foreign Direct Investment

Established firms entering new or established markets, generally by internal growth or acquisition usually adopt FDI Entry Strategy. This is as risky approach that needs resources and financial commitment, ITec cannot adopt this strategy since it wants to move quickly and penetrate the market.

4.3.2 Partnership or Ventures

Partnership or ventures are separate legal entities set up by more than one established firm, each of which generally has a financial interest and board membership. In a sense, ventures are new companies that established firms set up when entering markets.

ITec understood that on its own, it could not master local business practices, meet regulatory requirements, hire and manage local personnel and gain introductions to potential customers. ITec needs to collaborate with local distributors to benefit from their unique expertise and knowledge of their own market.

ITec found that this approach is the most convenient one since it minimizes risk and increases growth.

4.3.3 Networks & Channels Options

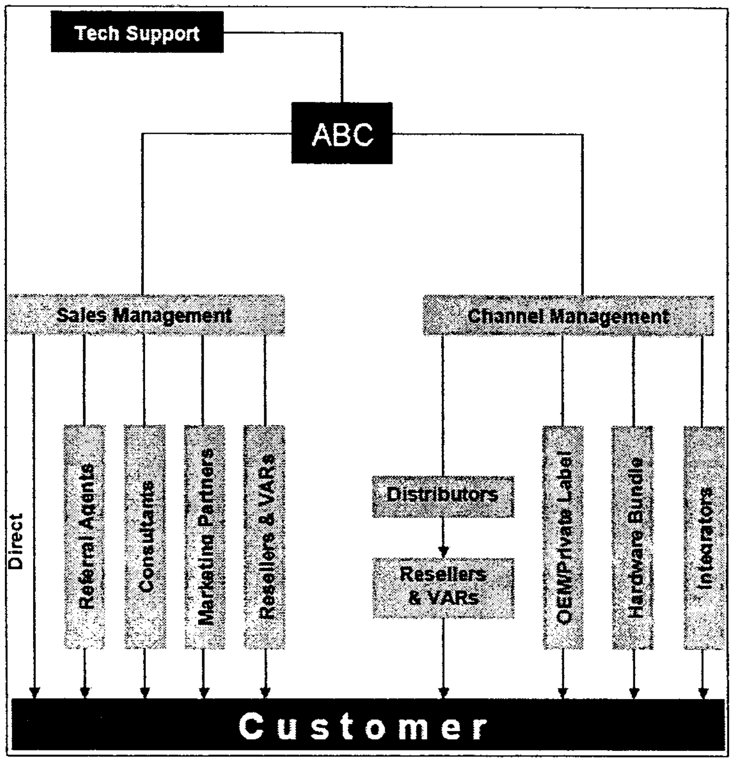
We know by now that relationships are formed continuously (Anderson et al., 1994) and when combining a set of relationships it can be described as a network (Fornbrun, 1982). We argue that networks in many ways could be seen as the key for companies to succeed, something that can be confirmed in our theoretical framework where Sharma and Blomstermo (2003) state that the internationalization process for companies is heavily influenced by networks of relations, but also of great importance for small, exporting companies (Ghuari et al., 2003). These relations provide companies with knowledge of markets and clients abroad and therefore reduce the risks with international operations (Sharma & Blomstermo, 2003).

Welch & Welch (1996) also argue that careful management is required to make sure that formal planning involves these clearly defined policies and strategic planners within the company, they must be well aware of important company relationships and be able to identify these. The complexity involved in network mapping is that those people trying to identify networks are often outsiders to the very network they are trying to map. This is the case particularly in international markets where geographical and cultural distance accentuates the differences. This emphasize the importance of building strong linkages to key actors within the company so that those separated from day to day operations still have access to the networks a company takes part in. Another way for management to actively take part in important relationships and networks is to visit foreign market and strengthen important network connections.

Accordingly, ITec decided to have at least two people in contact with key foreign networks in order to avoid loosing access or information because of a single person's withdrawal or disappearance and even reliance on people for visits etc. ITec will accomplish this through staff rotation, job sharing or alternating staff. These kinds of policies help monitoring and protecting networks as well as assist knowledge development (Welch & Welch, 1996).

Moreover, there are a number of different strategies that fall under this category. None of them are exclusive of the other. In fact, all can co-exist quite well as long as the developer pays close attention to the issues that will create channel conflict. Conflicts only occur when one sales organization takes away another sales organization's sale as the result of inequitable developer pricing or other forms of unfair terms or conditions in the relationship.

Figure 8 : Channel & Network



The Channel Management category relates to sales being made where the developer has little or no direct control over the process. Rather than managing sales to end-users, the developer must focus on managing and serving the organizations that are making the sales.

Resellers can also be a part of Channel Management, but rather than having a direct relationship with the developer, the reseller has their relationship and buys their product from a distributor. This becomes common when a developer has so many resellers that it becomes too costly to deal with them directly.

Generally, distributors will look to a developer for at least 50% margin plus additional funds to help in the marketing and promotion of a product. Distributors will usually not take on a product unless:

- There is a significant existing or potential market
- Resellers are already aware of the technology and have a desire to buy
- The product offers features that substantially differentiate it from the competition.
- There is an effective marketing program in place

The difference between resellers and VARs is based primarily on the level of services provided with a sale. Resellers tend to be product-oriented, and VARs tend to be solutions-oriented. Resellers are expected to market specific products, be they hardware or software, while VARs will include those products in an overall solution that they are selling to their clients. VARs will rarely advertise or market specific brands, so they do not represent a direct conflict with traditional resellers.

According to (Johanson and Vahlne) companies should enter a country gradually starting with a small initiative. A firm is supposed to enter a new market in this way due to uncertainty about the market. The more the company learns about the country in question, the more resources the company is willing to commit.

ITec will enter UAE market through (VAR) Values Added Resellers adopting a low-risk, fast growth strategy, ITec will focus first on identifying Distributors and Resellers having already local presence and local expertise in their own market and capable of developing it, rather than those with a few customers contacts.

The choice of Value Added Reseller (VAR) and the terms of the relationships should serve ITec long terms goals, building vertical integration with them and having access to their resources. ITec will look for partners distributed in the seven Emirates with the best "market fit" meaning those already serving major customer prospects with similar product lines.
These partners can be hardware or software provider companies like IBM, HP, Dell etc. mainly companies in the IT Business searching for diversification.

4.3.4 Marketing

During the first phase of its operation, rather than targeting leading UAE companies, ITec will focus on the companies, which have UAE operations and are already ITec customers in Lebanon by "picking the low hanging fruit". ITec will also target multinational companies having JDEdwards implemented and are not satisfied from the service provider.

During the second phase of its operation, ITec will start targeting companies in the construction, project management and property management sector, were it has already a huge experience and reputable customers.

ITec will employ a number of different marketing tactics to reach prospects. It will adapt a B2B marketing Strategy inviting each industry sector separately to a prepared and customized event, presenting the functionality and scalability of JDE system and highlighting the success stories of its reference customers. Moreover, web conferences and online shows will be used to reach interested prospects in the suburbs.

Given the relatively tight nature of this business community, positive word of mouth will spread quickly. ITec will also conduct a large amount of direct marketing campaigns from search engine marketing to cold calling of target sales prospects.

4.3.5 Resources & Commitment

Resources commitment concept is according to Johanson and Vahlne composed of two factors – the amount of resources committed and the degree of commitment. The first factor, resources committed, could be described as the size of investment in the market, including investment in marketing, organization, personnel, and other areas. The other factor, the degree of commitment, is not that easy to grasp, but could be explained as the difficulty of finding an alternative use for the resources and transferring them to this other alternative. The more specialized the resources are to the specific market, the greater the degree of commitment.

ITec will adapt the ethnocentric Mind-Set for its venture thus supplying functional consultant (Technical, Developer and Business consultants) except for the Sales and marketing departments; company believes that the values, practices, and behaviors of the home country are intrinsically superior to those in other nations.

ITec also believes that successful business practices at home need not change when transferred to foreign market. ITec is confident that if the business design has already proven successful at home, then it will work anywhere in the world.

However, ITec will try to benefit from the partner resources for the sales and marketing department, the choice was taken to enable Venture to match their existing resources and eliminate the expense of acquiring new ones and accept the importance of adapting to differences. Similarly, local managers should perform better sooner, given that they have the mind-set to make sense of their local colleagues, customers, markets, and institutions.

As an example Microsoft when operating outside the United States, tries to hire foreign nationals rather than use expatriates. "You want people who know the local situation, its value system, the way work gets done, the way people use technology in that particular country, and who they competitors are ..."

4.3.6 Target

ITec decided to Target Construction & Real Estate industry when it looked at the sums committed to Dubai projects and realized that a boom is going to start. There is some $30-50 billion committed to projects actually underway or in progress.

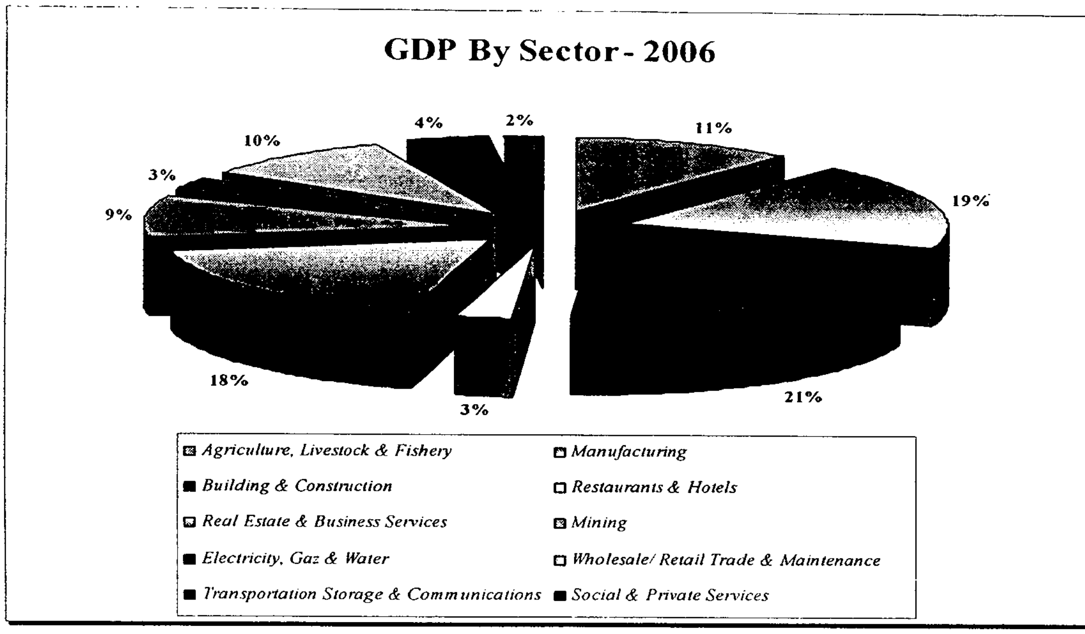
- $4.5 billion new airport
- 60-70 residential towers at the Dubai Marina
- Dubai International Financial Center (Bigger than London's Canary Wharf)
- Burj Dubai and the Residences next door the tallest building in the world
- Dubai International City
- Dubai Healthcare City
- Dubai Festival City;
- Dubai land theme park, a desert Disneyland ($5 billion).

Two Palm Islands, one with 47 hotels including the largest leisure project in the Middle East; and an offshore archipelago of individual islands shaped like a map of the world.

ITec discovered that one of the key non-oil sectors driving the economy is real estate; this sector has experienced a massive investment boom in the past five years, which is likely to be the single largest industry vertical in terms of IT investments over the forecast period. This is set to continue, with the National Bank of Dubai projecting at least $50bn outlays in property development in the emirate until 2010, and there should be significant opportunities for vendors in this vertical.

ITec experience in Real Estate and specifically in Property management business started in 2000 with Solidere, considered at that time as one of the biggest companies in the Middle East handling the biggest construction and real estate project in the region. Than in 2003 ITec approached Abdali and Saraya in Jordan, two similar projects in real restate and property management having almost same shareholders as Solidere in Lebanon.

Figure 9 – GDP By Sector



4.4 Potential Risks

4.4.1 Inflation

The foreign workforce in Dubai accounts for 80 or 90% of the population, the country's 75 % population growth between the last census in 1995 and end of 2005 relied greatly on inflow of foreigners, and the trend is estimated to have only accelerated since. According to Global investment house, a regional financial firm estimated that the UAE population numbered 4.7 million in 2006 and will be above 5 million at the end of this year, suggesting a further increases in the percentage of expatriates.

The combination of high economic growth, the influx of new people, and extra liquidity from oil revenues in the GCC has taken an unavoidable expression in inflationary pressures that put a strong dash of vinegar into the lemonade of the UAE labor market. According to Bayt, the UAE in 2006 was the region's "worst affected country in terms of erosion of consumer purchasing power with salaries being outpaced by cost of living increases to the tune of over 13%" . This assumption is based on an estimate or perception that consumer price inflation in Dubai was 28% in 2006, based on responses by polled persons.

4.4.2 Cost of living

Table 8 : Annual Comparative cost of living

	Beirut	**Dubai**
Rent	12,000	50,000
School	7,000	12,000
Childcare	3,600	3,600
Transportation	960	2,400
Bills	6,000	6,000
Income Tax	10%	0%
Total	**29,560**	**74,000**

Cost of housing is the main new burden on Per Month 2,463 6,167 foreigners. Gulf talent's survey produced responses saying that rents in Dubai increased by 60% in the space of 24 months. Also, the saving rate among expatriate workers has gone down, an informer sign that financially, the stay in the GCC and especially in Dubai is less attractive than it was 10 or five years ago.

Another obstacle to balanced social development is the stratification of the workforce into nationalities, where citizens of some origins are automatically paid better than those of others, a factor that may be decreasing but is far from having disappeared.
These societal and socioeconomic imbalances apparently have led already to higher rates of social unrest, sexual abuse and other crimes, disease and suicide, evidenced daily by media reports.

4.4.3 Competition

Competition intensified among IT services vendors in the UAE. Local players dominated the scene, constituting the top three vendors and seven of the top ten. The leading vendors included Mideast Data Systems, Emirates Computers, Computer Network Systems, Mercator, and GBM. However, no one vendor controlled the market, with the top ten only accounting for 54.2% of total revenue.

"Things have really heated up between the main IT services providers this last year and are going to get hotter this year," says Philip van Heerden. "Government-owned firms have entered the fray, often winning key government contracts and reducing the available business for private vendors. The time is ripe for consolidation."

ERP Applications consulting and customization was the largest single IT services segment in the UAE in 2005. Hardware support and installation was a close second and systems integration third. These foundation markets together made up just over half of the total IT services revenue last year. Of these three, systems integration grew the fastest, with revenue jumping up by more than 18% last year.

"But the real barometer of maturity is the outsourcing segment," says van Heerden. "And outsourcing was the sweet spot last year in terms of growth. To take advantage of this, providers will need to re-invent themselves almost continuously, demonstrating clear specializations that appeal to potential clients. While larger firms may aim to be one-stop shops, smaller firms will are better off finding a niche in which they can excel."

4.4.4 Culture

Having mentioned that Asians especially Indian and Pakistan make up 80.59 percent of the workforce in Dubai, this culture left its stamp on the country's business life. Finding yourself doing business in Dubai sometimes you might need an interpreter.

In negotiations, the important question is who you are dealing with. Some younger managers have been educated in India some have worked in subsidiaries of western companies and can communicate and negotiate. It is a different matter if you are negotiating with Indian business partners who are old and have spent most of their working life in their home country. Such a negotiating partner will probably be well educated and possess great technical expertise. Yet, you may face difficulties in dealing with commercial and business subjects, such as accounting standards. You should spend time explaining complex commercial issues clearly, so your partner understands you.

When you communicate with Indian business partner you usually communicate in English. Although his grasp of foreign language might seem quite advanced, it is easy to overestimate someone's fluency. Even if your business partner speaks English, this does not necessarily mean he will understand complex issues, especially commercial implications, or be able to express problems and interests properly. As a rule , you should assume the average Indian manager will have insufficient command of language to conduct a negotiation satisfactorily.

Source: 'Cultural barriers: Sergey Frank'

4.4.5 Geopolitical risk

Regional tensions are a potential source of instability, but the economy rode out well the recent overthrow of Saddam Hussein and its growth is likely to accelerate this year from last.

Defense treaties with America and membership of the Gulf Co-operation Council give the UAE a high measure of protection. The UAE have a long-running territorial dispute with Iran over the islands of Abu Musa and Great and Lesser Tunb. But there are also close links between Dubai and Iran, and the dispute is unlikely to escalate to armed conflict.

4.4.6 Political instability

According to the Economist Intelligence Unit (EIU), 'Succession issues within the ruling family raise a small risk of instability. The most controversial succession issue is who will succeed Sheikh Khalifa as crown prince of Abu Dhabi, when he succeeds his father, the present President of the UAE (Sheikh Zayed bin Sultan al-Nahayan) who is approaching 90. Although the issue is likely to be resolved peacefully, there is some risk of a dispute among the contenders for the crown prince position although any disruption this caused would be short-lived. There is virtually no political opposition, and none is expected to develop in the near term. The government has made it clear to the large expatriate community, where the greatest threat lies, that it will not tolerate political activity of any kind. In light of the increased regional tensions over the past 18 months, the UAE has strengthened its watch over internal security. The size of the expatriate population, however, precludes a fully effective monitoring system.'

Chapter.5. Feasibility study

In this Chapter, ITec conduct a small feasibility study to identify the problems and opportunities, to assess the range of costs and benefits and to define a successful outcome. The purpose of this feasibility is to support our decision based on a cost benefit analysis of the actual business and to prove the project viability.

5.1 Resources

Table 9 : Resources

Partners	*Functional*	Y	Y+1	Y+2	Y+3	Y+4
ITec	Project Manager	1	2	2	3	4
	Snr. Application Consultant	1	2	4	4	6
	Snr. Technical Consultant	1	1	2	3	3
	Snr. Developer Consultant	1	1	1	3	3
Partner 1	Sales Manager	1	1	1	2	2
	Snr. Administrative Manager	1	1	1	2	2
	Junior Developer	1	1	2	3	5
	Junior Technical	0	1	2	3	5
	Total	**7**	**10**	**15**	**23**	**26**

5.2 Salaries

According to Lebanon Opportunities published January 2004, the average monthly salary of consultants in Lebanon in Software industry is as following:

Table 10: Salary comparison in USD

Functional	Years of Experience	Lebanon Monthly Salaries	Dubai Monthly Salaries
Beginner	0-1	750	1,500
Junior	0-3	1,250	2,500
Senior	3 – 5	2,000	4,000
Manager	8+	2,500	5,000
Senior Manager	8+	3,500	7,000

5.3 Budget Projections

Inspired from the following numbers our budgetary monthly Salaries figures will be

Table 11 : Budget Projections

		Year		**Year + 1**		**Year + 2**		**Year + 3**		**Year + 4**	
	Functional	**Emp**	**Amount**	**Emp**	**Amount**	**Emp**	**Amount**	**Emp**	**Amount**	**Emp**	**Amount**
in Lebanon	Project Manager	1	30,000	2	60,000	2	60,000	3	90,000	3	90,000
in Lebanon	Snr. Application Consultant	1	24,000	2	48,000	4	96,000	4	96,000	5	120,000
in Lebanon	Snr. Technical Consultant	1	24,000	1	24,000	2	48,000	3	72,000	3	72,000
in Lebanon	Snr. Developer Consultant	1	24,000	1	24,000	1	24,000	3	72,000	3	72,000
in Dubai	Sales Manager	1	60,000	1	60,000	1	60,000	2	120,000	2	120,000
in Dubai	Snr. Manager	1	84,000	1	84,000	1	84,000	2	168,000	2	168,000
in Dubai	Bginner Developer	1	18,000	1	18,000	2	36,000	3	54,000	4	72,000
in Dubai	Beginner Technical	0	18,000	1	18,000	2	36,000	3	54,000	4	72,000
	Salaries	**7**	**282,000**	**10**	**336,000**	**15**	**444,000**	**23**	**726,000**	**26**	**786,000**

	Year	**Year + 1**	**Year + 2**	**Year + 3**	**Year + 4**
Transportation	2,250	2,500	4,250	5,375	5,375
Rent	36,000	36,000	38,000	38,000	38,000
Office expenses	2,500	2,500	3,875	3,875	4,219
Telephone Expenses	6,000	6,000	8,000	8,000	10,000
Electricity	4,800	4,800	5,600	5,600	5,600
Building Charges	4,500	4,500	5,750	5,750	8,438
Other Expenses	12,000	12,000	12,000	12,000	12,000
Accounting	4,800	4,800	4,800	4,800	4,800
Lawyer	18,000	18,000	18,000	18,000	18,000
Office Equipment	6,000	6,000	6,000	6,000	6,000
General Expenses	**96,850**	**97,100**	**106,275**	**107,400**	**112,432**
Total Charges	**378,850**	**433,100**	**550,275**	**833,400**	**898,432**

5.4 Forecast Projections

Based on ITec analysis the venture is supposed to sign at least two contracts in the first year of its operation and a projected forecast for the following 5 years.

Table 12 : Forecast Projections

Revenue	**Year**	**Year + 1**	**Year + 2**	**Year + 3**	**Year + 4**
License	$200,000	400,000	500,000	600,000	750,000
Implementation	$200,000	350,000	525,000	650,000	800,000
Yearly Maintenance	$44,000	$132,000	$242,000	$374,000	$5,000
Total Revenue	**$344,000**	**$682,000**	**$1,017,000**	**$1,324,000**	**$1,714,000**

5.5 P&L Projections

Table 13 : P&L Projections

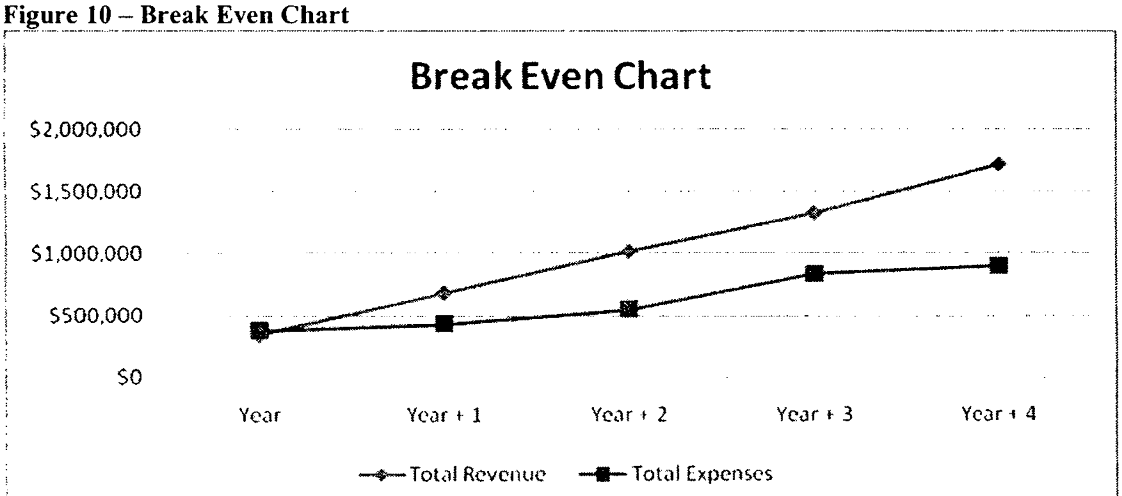
P&L	Year	Year + 1	Year + 2	Year + 3	Year + 4
Total Revenue	$344,000	$682,000	$1,017,000	$1,324,000	$1,714,000
Total Expenses	$378,850	$433,100	$550,275	$833,400	$898,432
Taxes in UAE	$0	$0	$0	$0	$0
Net Profit	($34,850)	$248,900	$466,725	$490,600	$815,568

5.6 Break-Even Analysis

Break-even analysis is a technique widely used by management. It is based on categorising costs between those which are "variable" (costs that change when the business increases and the output changes) and those that are "fixed" (costs not directly related to the volume of business).

Total variable and fixed costs are compared with sales revenue in order to determine the level of sales volume, or sales value at which the business makes neither a profit nor a loss (the "break-even point").

Figure 10 – Break Even Chart



The Break-Even Chart

In its simplest form, the break-even chart is a graphical representation of costs (fixed + variable) at various levels of activity (5 years projection) shown on the same chart as the variation of income (or sales, revenue) with the same variation in activity. The point at which neither profit nor loss is made is known as the "break-even point" and is represented by the intersection of the two lines. We notice that as of the second year the income becomes higher than the cost.

5.7 Payback

The Payback Period is defined as the length of time required to recover an initial investment through cash flows generated by the investment. The Payback Period lets us see the level of profitability of an investment in relation to time. The shorter the time period the better the investment opportunity:

$$\text{Payback Period} = \frac{\text{investment}}{\text{cash flow (year)}}$$

ITec initial investment is the first year of its operation in UAE, referring to our previous numbers the business development will cost $378,850 and will generate a loss of $34 thousand in first year of operation than an annual savings or profit in remaining four years (the project duration):

Table 14: Payback

Initial **Investment**	Loss **Year**	Profit **Year + 1**	Profit **Year + 2**	Profit **Year + 3**	Profit **Year + 4**
$378,850	**($34,850)**	**$248,900**	**$466,725**	**$490,600**	**$815,568**

Using the formula above, the payback is calculated by looking at the cash flows of the five years and establishing the year the investment is paid off. We notice that at the beginning of Year 2, the company has recovered $214,050 of the initial investment. At the end of Year 3, the remaining $164,800 is recovered with the cash flow of $466,725 earned during this period and a saving of $301,925 is registered. The payback period is then 2+ a very short time period it is a good investment.

Chapter.6. Conclusion & Recommendations

My thesis was initiated to plan for ITec expansion. The questions that were raised were how to Solve ITec Problem, Is the U-Model alone enough, which country to enter first, what are the recommendations.

In this final chapter we would like to highlight the most important findings of our thesis.

6.1 Uppsala-Model

Our overall conclusion after having conducted this study is that the Uppsala-model is of great importance and can be adopted for going international in some cases. The Model cannot *alone* describe and explain the internationalization process of all the companies. Nowadays technology and communication plays a major role in the expansion and Internationalization process, for some it appears to be more important to internationalize rapidly and adjust mistakes along the way, than to move gradually and gain knowledge in order to conduct a faultless expansion from the beginning.

Nowadays, e-commerce companies turn global over night. According to our study the answer to that question is no. Of course the Internet provides the possibility to become global over night, meaning that a company can reach customers all over the world as long as they have Internet access. From our case study though, it can be concluded that it is possible to become a global player fast on the Internet, but the local adaptation to the host countries is of uttermost importance.

6.2 Dubai

The structure of Dubai's economy has changed drastically over the last 20 years. This is a result of Dubai Government's efforts in diversification, and policies to steer economy from that of oil-based to non-oil economic activities. This change has surely favored services sector, thereby leading to higher revenue margins and growth opportunities. Favorable external factors, hi-tech infrastructure and supporting government, have acted as a catalyst speeding the growth of Dubai's economy.

6.3 Recommendations

First, Build an understanding that international markets are not merely an extension of the local market. Whether a company is establishing subsidiaries, developing an indirect channel, selling direct over the Web or negotiating OEM agreements, it is critical to make an effort to work with and support their foreign partners and clients to maximize the likelihood of success.

Second, a commitment to a long term program. Companies are often short term in their thinking, and have a reputation for pulling out if things don't work out as they had hoped. As a result, international end users and prospective business partners are often skeptical about new technologies coming from the U.S., and will take a wait and see approach unless they are convinced that the company is serious.

6.4 Feasibility Study

The feasibility study made in Chapter 5 gave us a clear picture of the budget that need to be allocated to establish an operation in Dubai, several hidden costs can emerge and are unable to identify ahead of time. Budget can vary dramatically based on how a company plans to enter a market. If a company wants to open up a small office in a market, the first year costs could easily exceed US$1 million.

On the other hand, a comprehensive channel program can be implemented for $60-70,000 per country. During the channel recruitment program the first few months will require relatively little outgo, but there will be some costs to modify marketing materials, cover legal fees for trademark registration and a reseller agreement, phone bills, shipping, perhaps some direct marketing efforts to create awareness, etc. As the recruitment effort builds there will be some travel involved to meet with prospects, and once the channel is in place a company should anticipate at least one overseas trip per year to visit with partners in order to get to know them on their home turf.

Of course, by spending more money (wisely), international efforts could see an accelerated growth curve. Nonetheless, we would recommend a cautious approach

Finally, All the above factors and figures illustrated throughout the paper, proves that moving to Dubai would be a profitable and sustainable move, not only for IT Companies but also for further development of Dubai's Economy

Bibliography

Books

Nordström, K. A. (1991) *The Internationalization Process of the Firm* – Institute of International Business, Stockholm: Stockholm School of Economics.

Ansoff, I. (1965) *Corporate Strategy,* An analytic approach to business policy for growth and expansion, New York: McGraw-Hill.

Articles

Johanson, J. and Vahlne, J-E. (1977) The Internationalization Process of the Firm – A Model of Knowledge Development and Increasing Foreign Market Commitments, *Journal of International Business Studies*, pp. 23-32

Johansson, J. and Vahlne, J-E. (1990) The Mechanism of Internationalization, *International Marketing Review*, pp. 11-24

Aldrich, D. (1997) The New Value Chain, *Information week*, pp. 16-17

Andersen, O. (1993) On the Internationalization Process of Firms: A Critical Analysis, *Journal of International Business Studies*, Second Quarter, pp. 209-32

Andersen, O. (1997) Internationalization and Market Entry Mode: A Review of Theories and Conceptual Frameworks, *Management International Review*, pp. 347-363

Anderson, E. and Gatignon, H. (1986) Modes of Foreign Entry: A Transaction Cost Analysis and Propositions, *Journal of International Business Studies,* pp.1-26

Internet

Williamson, O. E., (1985), "Markets and Hierarchies: Analysis and Anti-trust implications" Article retrieved June 16, 2007 from http://www.government.ae/gov/en/business/environ.jsp

Waters, M. (1995), "Globalization" Retrieved January 12, 2007 from UAE government: http://www.government.ae/gov/en/gov/projects/government_projects.jsp

Solberg, C. A. (1997), "A framework for analysis of strategy development in globalizing markets" Extracted May 21, 2007 from World bank: http://web.worldbank.org/wbsite/external/coutries/uae_growth.jsp

Interviews

- ITec, October 2007
- http://www.itec.com.lb

- Astrolabes, June 2007
- http://www.astrolabeit.com

- Hyperlinks, August 2007
- http://www.hyperlink-me.com

APPENDIX -A-

INTERVIEW GUIDE CASE COMPANIES

The following questions should be seen as a framework and a discussion guide. We are aware of the fact that some questions are alike, but the purpose is to create a discussion that treats our problem from different perspectives.

Company-specific Questions

- Please tell us a little about your company. (Organization, products, marketing)
- What are your goals and visions?
- In what way is the internationalization process a part of your total strategy?

Development across Countries

- What factors do you take into consideration when choosing countries that are interesting to you?
- Why did you choose to expand to new markets?
- In which countries have you established your company?
- Describe your internationalization in chronological order?
- Why did you choose to establish yourself in this specific order?
- Why did you go to country 1 first?
- How did you prepare yourself?
- What problems have you run into?
- Could you have done anything better?
- If you had the possibility to re-start your internationalization process, what would you have done differently

Overall Internationalization Questions

- Was it decided from the beginning that you should expand to other countries?
- What is most important to think about when it comes to internationalization?
- How is the internationalization process influenced by the fact that the internationalization takes place on the Internet?
- What factors have influenced your internationalization? Which role do the investors/owners have in your internationalization?
- What are the advantages with this form of internationalization?

Thanks!