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MASTER'S THESIS

THE INTERNATIONALIZATION OF SMEs: ENTERING THE SPANISH ENERGY MARKET

Ljubljana, July 2018 EDA KARADAG

AUTHORSHIP STATEMENT

The undersigned Eda Karadag, a student at the University of Ljubljana, Faculty of Economics, (hereinafter: FELU), author of this written final work of studies with the title The Internationalization of SMEs: Entering the Spanish Energy Market, prepared under supervision of doc. dr. Gregor Pfajfar.

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INTRODUCTION

The potential dynamics of global economic growth are shaped by small and medium-sized enterprises (hereinafter SMEs). SMEs dominate the European business scene, accounting for 99.8% of all businesses, employing 67% of workers and being part of the gross value added with 58%, although this contribution varies between countries and regions (Edinburgh group, 2014).

Internationalization of firms has been recognized as an increasing process by which firms gradually move towards new markets and progressively have higher commitment to international markets through a sequences of evolutionary stages. Contrary to multinational large-scale enterprises, most SMEs have a lack of sufficient capabilities, market control and other resources (Hollensen, 2011). Therefore, compared to large enterprises with high resource capabilities, the complexities of international operation are significantly more problematic for the SMEs. The success of SMEs internationalization highly depends on the choice and implementation of the precise international marketing strategy (Hollensen, 2011). Based on the available literature and researches, this thesis suggests a complementary model that outlines the existence of different models of internationalization in the case of entering into the Spanish energy market. In addition, the research of the behavioral differences and discussing strategic effects according to the firm's internationalization pathway aim to provide an optimal entry strategy.

This thesis seeks to answer the following questions: what makes Spanish energy market attractive for SMEs and why firms should consider entering it? And how and when should small and medium-sized enterprises expand their business from their current domestic markets into the Spanish Energy market? In other words, one of the most critical decisions faced by expanding SMEs currently present specially in their domestic markets is the selection of market entry mode and facing the related costs and risks. In this case, it is showed that the answer depends on the designated market specifics and on the current organization of operations of the SME.

Furthermore, it identifies the relevant decision-making factors upon which an enterprise should form its decision when seeking to enter the Spanish energy market and focuses on offering an optimal solution for SMEs. SMEs are actually the ones with the major contribution to the gross domestic product and employment of countries worldwide (Edinburgh group, 2014). Therefore, the objectives and goals of this thesis are to make a deep research of the whole SME internationalization process for understanding the associated opportunities and risks, as a way to minimize the obstacles firms may face. In this case, analysis of the Spanish energy market and of its potential for the case of SME internationalization is the vital point to provide broad perspective and insights in the decision making process.

Spain is globally well-known for its energy sector, particularly its renewable energy, where it is even considered a world leader. Increasing power generation, promising energy efficiency, supportive new energy regulations, low tariffs and direct connection with transmission market in Center and South America make the market even more attractive to new entrants (REE, 2018). In addition, the Spanish government fully supports SMEs by providing guarantees to financial intermediaries and this creates an excellent opportunity for SMEs to take an advantage of the market benefits (Eurofound, 2018). The decision making process depends on the type of a company, its expectations and market positioning. The thesis assumes the risk-averse, self-interested and wealth maximizing behavior. Nevertheless, a limitation should be issued in relation to the scope of the thesis. Namely, as it is impossible to obtain all of the exact micro-data for the Spanish energy market as well as to cover all the aspects of its decision-making process, this thesis utilizes already available micro and macro data, including several insights from existing studies.

The thesis is, therefore, structured as following. In section 1 an analysis of the SMEs' internationalization process is included, making reference to different internationalization theories and market entry modes; Section 2 includes risk in international business. Section 3 provides a detailed macro-assessment of the Spanish market and its energy market. Section 4 offers a proposed market entry strategy and a potential entry-mode decision, section 5 includes discussion and managerial implications, leading to a conclusion.

1 INTERNATIONALIZATION OF SMES

In recent years, globalization has had a significant boost leading to a decrease of barriers for investment in new markets. In long-term business plans, firms need to be aware of that internationalization is not an option, but a necessity to be competitive. Rapid globalization has taken place as an outcome of various conditions: fast-evolving technology in communication and transportation; a rising fashion towards the deregulation of foreign exchange, foreign investment and financial markets; and creating more motivations and chances for companies (Mohanty & Nandi, 2010). At the same time, it brought new competitors to the previously protected national arena for SMEs in the industrialized world. Information technology has previously reduced the barriers faced by foreign suppliers and changed customer behavior and preferences. Nevertheless, the precise and effective analytical pool of such decision-making factors and the expansion strategy methods to provide an ideal and successful entry into the foreign market are still not perfectly identified (OECD, 2009).

On the other hand, internationalization can be a challenge for SMEs, depending on different issues. For instance, they face size limitations, transaction costs, inadequate management skills, lack of brand recognition. SMEs are limited because of their size; for this reason, there may not be enough financial resources for new investments, access to high international participation and expansion. Due to resource shortage, they have to

choose an entry mode that does not have a high resource commitment. A good financing plan is the most important factor in reducing risks. The final period can be reduced by collaborations with different partners, institutes, business clubs and newly opened incubators, which are usually financed by the government. These institutions may also be useful tools for having additional information about new markets. Companies with more access to capital can gain more access to growth and investment opportunities. To reduce the risks and costs of SMEs, they have the opportunity to participate in larger companies or to form clusters with smaller domestic companies. In other words, they can increase their total economic performance by increasing their access to capital (Dalberg, 2011).

Costs of entering new markets are higher than those associated with the internal market. Entry costs are mainly micro-level costs associated with the creation of new marketing channels, more information about the bureaucratic process of the target market, and the adaptation to product specifications (Harris & Li, 2005). Following Harris and Li (2005), a large part of the entry costs includes the legal costs to prepare an agreement, the costs of participating in tender or seeking for information about possible suppliers, as well as foreign exchange buying or selling, know-how, systems, and costs of failure. For a successful entry, the transaction costs must be lower than the potential benefits over a longer period of time. When the firm faces these costs, they become sunk and it is less complicated to enter the second market, because these costs will not appear again due to the information gained (Gustafsson & Zasada, 2011).

Experience and market knowledge are very significant factors in managerial decisions. Insufficient management skills stemming from differences in managerial risk perceptions and the lack of information about the target market are one of the biggest obstacles to the internationalization of SMEs (OECD, 2009). Another important managerial decision is to select the entry mode. This strategy defines guidelines for further objectives, resources and policies to ensure sustainable growth of the company. The choice depends on the stage of the firm's lifecycle, market and strategy (Gustafsson et al., 2011).

On the other hand, there are many best practices to support SME internationalization. For example, the current Horizon 2020 SME Instrument funding program created by the European Commission to select potential businesses to help as part of the SME Instrument**.** The selected ones could receive up to 2.5 million EUR in funding, business coaching and business acceleration services (European Commission, 2016). Additionally, Spanish government is also very supportive regarding the financing of SMEs, since the Spanish market is dominated by them (REE, 2018).

1.1 Motives for Internationalization of SMEs

When firms decide to expand their business such as production, sales, R&D and other activities to foreign markets, internationalization becomes a necessity. In the case of larger

firms, internationalization might appear in a comparatively popular method, with the firm being responsible of several internationalization phases on several international projects concurrently, step by step, over a period of time (Kubickova, Votoupalova, & Toulova, 2014). Nevertheless, SMEs are involved separately and individually in their internationalization initiatives (Kubickova et al., 2014).

Following Hollensen (2011), the Table 1 below illustrates an outline of the main internationalization drives. These are divided into proactive and reactive motivations. Proactive motives mean that people who tend to follow new strategic path, based on interest or market opportunities to benefit from the firm's unique capabilities (e.g., specific technological knowledge). Reactive motives demonstrate that the firm responds to risks or pressures in the internal or external markets and adapts inactively to that kind of situations by changing their actions over time.

Table 1. Major motives for starting internationalization

Proactive motives	**Reactive motives**
Profit and growth targets	Pressures to be competitive
Managerial need	Small and saturated internal market
Technology proficiency/exclusive product	Overproduction/extra capacity
Foreign market opportunities/market information	Unsolicited foreign orders
	Extend sales of seasonal products
Economies of scale	Proximity to international clients/psychological distance
Tax benefits	

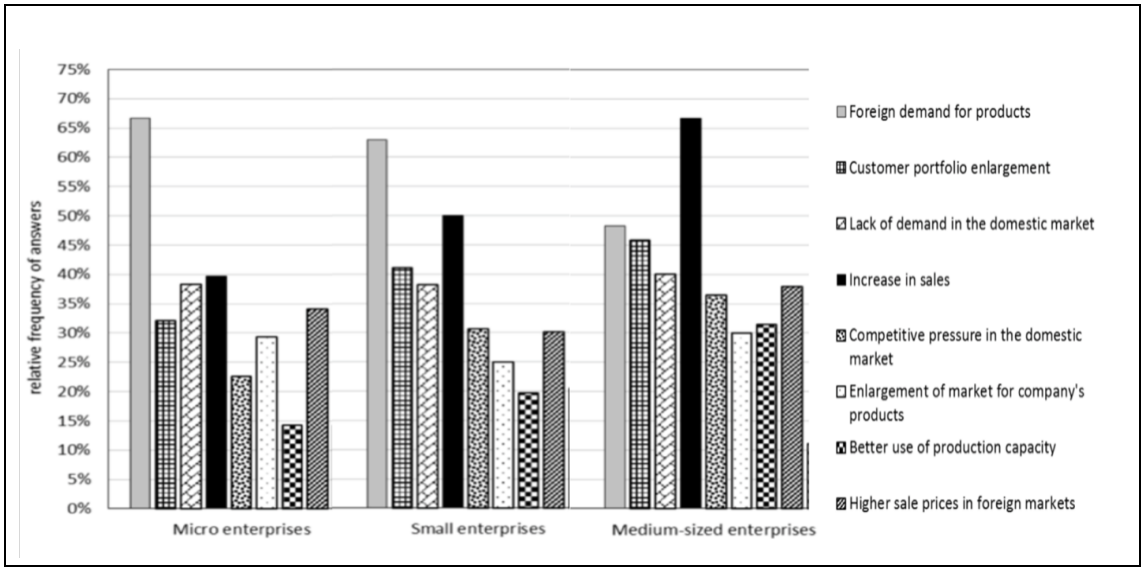
Source : S. Hollensen, *Global Marketing*, 2011, p. 51.

Many firms decide to expand their business as a response to a situation that already appeared. For instance, when companies select the market passively, they assess existing chances, which represent reactive motives. On the other hand, proactive motives mean that the firm initiates foreign activities systematically and more formalized (Battaglia, Corsaro, & Tzannis, n.d.).

Wright, Westhead, and Ucbasaran (2010) also presented that the greater the firm is, the higher the likelihood of having proactive stimuli/motives in decision making processes. The outcomes of Suárez-Ortega and Alamo-Vera (2005) show that the key incentives encouraging internationalization are in the firm and in its strengths and weaknesses of management. They have come to the conclusion that they are related to the firm, not to the external environment that mostly effects their internationalization actions, but to the pool of resources and capabilities in the firm that can be correctly merged to be successful in international markets. As a result, the intensity and the speed of internationalization can be highlighted through programs aimed at improving managers' skills and abilities. Likewise,

export incentive programs aimed at dealing with non-exporters to be interested in exporting must highlight the actions that boost managers' knowledge of export benefits (Wu, 2015).

Figure 1. Top motives for SMEs



Source: L. Kubickova, M. Votoupalová, & M. Toulová, *Key Motives for Internationalization Process of Small and Medium-sized Enterprises,* 2014, p. 326.

Figure 1 shows that the bigger the enterprise, the bigger the motivation for internationalization will be more to obtain sales and/or expanding the customer portfolio, and less the preponderance of foreign demand for products. In general, the greater the company is, the more likely it is to participate internationally with proactive motivations at the expense of reactive motives. The connection among foreign trade and previous experience levels and the motivation of SMEs in the internationalization route could not be verified just with the analysis of the prospects. The figure shows that firms in foreign trade have decided between parallel individual motives. Thus, there is no difference in their motivations.

Recent researches claim that the preliminary incentive for a company's internationalization is the desire to use and improve its resources as it helps to the firm’s short- and long-term economic targets. They believe that profit-making is the main incentive. According to the studies, specific ambitions may determine the commitment of a company to enter foreign markets (Kubickova et al., 2014). The result of Sidorjuk's (2006) study indicates that the four key motivations driving SMEs to internationalize are as follows:

• Desire of a company to use its original competencies in the big market;
• The foreign market offers opportunities for better profitability;
• If the domestic market is discerned as a very small market;

• Firms deem internationalization as exciting.

Table 2. Recent Research Findings on SME Internationalization Drives

Author	**Motive/Stimulus**	**Country**
EFIC, 2008	Grow market; Decrease cost control supply chain	Australia
Kocker and Buhl, 2007	Market position; knowledge and relationship search	Germany, Belgium, Greece, Italy, France, Netherlands, UK, Sweden, Spain
Orser et al., 2008	Growth, management capability issues, immigrant relations, R&D investment, social capital, size, experience or age of firms, inadequate domestic market	Canada
Garvey and Brennan, 2006	Knowledge resources	Ireland and India
Camara and Simoes, 2008	Social networks/ties	Portugal (Azores Islands)
Lopes, 2007	Previous international experience of managers, size/age of firms; regional location	Spain
Stoian, 2006	Previous international experience of managers, growth and profit prospects, social and business networks, and saturated or stagnated domestic market	Spain (Catalan region)
Rundh, 2007	Growth, previous international experience of managers, exclusive product or technology	Sweden
Barnes et al., 2006	Growth, profits, market size	UK
Reynolds, 2007	Growth, to decrease dependence on a single or smaller number of markets	UK
UPS, 2007	Profits	USA
Iwata, 2008, USA Today, 2008	Weak dollar, Internet global reach, immigrant relations	USA
USA Today, 2008	Global trade infrastructure	USA

Adopted from OECD 2009, *Top Barriers and Drivers to SME Internationalisation*, P.12-13.

OECD (2009) sums up the current study results on SME internationalization initiatives, summarized in Table 2 above. The OECD (2009) discovered that the motivation to grow and the motives related to knowledge were effective in ensuring the internationalization of SMEs. Factors related to growth seem to be progressively significant as they reflect the growing value of international routes for SMEs and the opportunities associated with future business growth. SMEs' sources of knowledge seem to be pushing and attracting international markets, respectively (OECD, 2009). In addition, external factors such as network and supply chain relations, social links, migrant connections, sophisticated global business infrastructure and sector and region of origin issues promote the internationalization of SMEs (OECD, 2009).

1.2 Overview of different internationalization theories

Researchers have developed theories for many years in the process of internationalization of firms. The time, origins and companies that are present in the research have influenced these theories. Physical distance is not a problem anymore, and international markets are becoming a requirement for a specialized SME when the domestic market is threatened by a global rivalry. Currently, companies are more and more into internationalization and to do it faster than before. Affected by networks or authorities, expanding the business has become easier.

Energy market access is an underlying factor of development and undertaking the role for contending poverty and addressing climate change. The United Nations (hereinafter UN) and some other organizations are providing important funds for implementing renewable energy (hereinafter RE) projects in developing world. These developing countries signify an enormous emerging market which is an attractive target for international foreign companies. However, unstable regimes and lack of regulations and institutions represent a risk in this market because that impede foreign investors (Gustafsson et al., 2011).

1.2.1 Born Global Theory

In recent years, the majority of the firms do not follow the traditional models of the internationalization process. On the contrary, they target to reach the foreign markets, or perhaps even global markets already from their birth. A born global can be described as an enterprise that pursues a vision of globalization since its inception and can rapidly become globalized without long-term internal or internationalization periods. Born globals signify an interesting example of companies working in the conditions of time and space compression, allowing them to accept a global geographic context from the beginning. This 'time-space compression' phenomenon signifies that existing infrastructure, communications and IT devices, combined with talented people, can reduce geographic processes and compress into 'here and now' trade and information exchange around the

world. The global financial market is a very suitable instance of the phenomenon. (Hollensen, 2011).

New market situations, technological progresses, and the abilities of the management team and/or entrepreneurs and international networking are factors helping companies to be international from the beginning (Masum & Fernandez, 2008). International new ventures are a result of the international consciousness of the management team or entrepreneurs about international trade, and they can link resources to meet international market demands naturally from other countries. Firms with advanced products or services and competitive advantage over their rivals assist SMEs to become internationalized from inception (Hollensen, 2011). This occurs when the market needs to have that advanced product or service in designated market. Additional description of born globals is given by Knight & Cavusgil (1996), which indicates that born globals are small firms that aim to gain technological-based competitive advantage. International New Ventures (hereinafter INVs) have flexible working procedures that allow them to respond more quickly to changing environments. In general, the CEO, owner or founder personally makes business agreements and takes decisions on the spot. Hence, in the case of INVs, international market commitments are less likely to be affected by corporate procedures and local politics than in established firms (Masum et al., 2008). Born globals are known as companies with competitive advantage and technological know-how, combined with management experience in international markets, which allows them to move easily into foreign markets. The information they have enables them to move quickly by selecting the correct entry mode to go abroad (Masum et al., 2008).

1.2.2 Stage model approach - the Uppsala model

A lot of literature can be found on the detailed research of expanding the business to international markets. According to the Lindmark and Rosen (2006), one of the most spoken is the Uppsala model or stage theory model, which outlines the gradual concentration of firms' activities in foreign markets:

- No regular export: companies have experience working in the internal market.
- Export activities: External sales should always start with infrequent export orders that become regular in time. This step is done through an independent representative.
- Independent representatives and subsidiaries: companies start to operate in foreign markets that are culturally and/or geographically close, and then progressively move to further countries.
- Establishment of production/manufacturing facilities: generally, companies start with basic foreign export/import operations to foreign markets, and then, when they have adequate knowledge, move to denser modes of such as subsidiaries, foreign production/manufacturing etc.

The Uppsala model provides a crucial experience, increases the knowledge level about the markets and assesses the possible chances and risks. For this reason, the model removes most of the difficulties that SMEs confront during the internalization process.

The literature suggests that the perceived market risk may reduce the obtained data and awareness. The Uppsala model assumes risk-aversion, which is compatible with work characteristics that the family-owned companies have. Firms go to higher commitment modes if they are confident and gain experience. Based on the latest literature, they follow slow and unstructured internationalization models with conservative strategies, which makes the Uppsala model very appropriate (Olejnik, 2014).

The stage theory model was raised in the 1970s. However, there are concerns about whether it is still fully valid for more recent companies (Ruzzier & Konečnik, 2006). An important critique of the Uppsala model is that it is very deterministic. The model is mostly used for manufacturing industries and not for services. At the same time, this model does not consider interdependencies among different country markets (Fillis, 2001).

Theoretical models are the simplest way of expanding business for SMEs at the beginning of their internationalization process, due to a better understanding of exports and market conditions. This entry mode has low risk, does not require large capital resources and is relatively easy in case of failure. Entering neighboring markets is an added advantage because they have similar business environments as the internal one. Export provides fast entry in the short-term. For further improvement, the firm needs to contact local manufacturers and establish their own facilities (Gustafsson et al., 2011).

1.2.3 Network model approach

The business network model highlights the importance of commercial, individual and conceptual relationships among its members. This model underlines that the company's structural system is a main inducement for internationalization and that companies are creating resources by cooperating with other associates. The firms of the network can be separately reliant or not reliant on resources controlled by other firms. The level of dependence rises step by step, which makes a company's resources more dependent on other companies' resources. The business networks run through exchange relationships and their necessities and capacities are arbitrated through these interactions (Battaglia et. al., n.d.).

A company's position within a network is a main notion of the network model (Hollensen, 2011). This position outlines the company's current access and control to network resources. The business network enables a firm to internationalize by following three strategies (Hollensen, 2011):

- Extension, when the company creates a network and relationships with companies in new markets.
- Penetration, when the company relies on current international networks.
- Coordination, when the company focuses and improves current relationships in different networks in different markets.

1.2.4 Transaction Cost Theory

When a company completes a transaction with a customer or supplier, it entails the transaction costs as well as the price paid for the goods or services (Wu, 2015). Legal costs involved in preparing the contracts, costs of tendering or seeking information for potential suppliers, or costs involved in hedging or currency exchange. In the 1930s, Ronald Coase noticed the importance of transaction costs for corporations' existence and argued that firms existed, helping to remove the cost of constantly making external contracts. Firms are often defined in the literature as hierarchies that are made up of different levels of decision-making and they can be distinguished from the more contemporary ones in the market contracting (Harrison, 2008). Generally, firms or hierarchies viewed as desirable to market contracting in terms of markets that are categorized by lacking information, where inadequate or asymmetric information lets firms to be more advantageous than other ones, or where devoted assets and related sunk costs are involved. In these cases, associated transaction costs and the risks of doing business can be minimized (Wu, 2015).

In the context of international trade, a foreign direct investment unit consents a multinational enterprise (hereinafter MNE) to adopt its activities and to prevent transaction costs that may be included in exports, specifically where a MNE has full ownership and control of the foreign subsidiary. Obviously, each entry mode has different initial costs, but the current transaction costs can be reduced if a multinational company’s international actions are carefully combined within the organization. The Internet enables them to export directly to international customers without the necessity for a vehicle, even on small online businesses, thereby decreasing transaction costs in agency contracts. The theory of transaction costs is perhaps the most extensively accepted description of the decision to keep ownership and control when entering abroad. Recent studies usually support this opinion (Harrison, 2008). Nevertheless, to achieve a successful international market entry strategy is not only influenced by the ability to decrease transaction costs, but also by the appropriateness of the institutional framework (especially in relation to legal restrictions) (Harrison, 2008).

1.3 Types of market entry modes

Once the decision to enter the market has been made, the firm must choose how to enter the market. An entry mode enables a firm to apply its product market strategy by only performing the marketing operations, or both production and marketing operations on its

own or with partnerships (Hollensen, 2011). This part offers different options of entry modes. Since entry mode is hard to change and has long-term effects for the company, it is important to understand in the beginning of the process how much control we want to have on the finished product, margins and marketing strategies applied in the foreign market. For this reason, findings are based on a division provided by Hollensen (2011) that evaluates three groups of entry modes:

- export entry modes (e.g. agencies, distributors),
- intermediate/contracted entry modes (e.g. licensing, joint ventures, contractual manufacturing),
- investment/hierarchical entry modes (e.g. wholly owned subsidiaries, mergers and acquisitions).

However, this thesis only includes the most related entry modes based on a general SME characteristics and designated market specifics and contributes to the literature through the review and evaluation of the existing research corpus on SME entry mode selection and through the development of a roadmap for future research. Furthermore, it focuses on SMEs and on developing the present knowledge by looking more closely at the specific characteristics of such firms.

1.3.1 Licensing

Licensing allows a firm to make foreign profits from its technological innovations, corporate identity, trademarks or other patented assets without the need for international manufacturing or marketing (De Búcca, Fletcher, & Brown, 2004). In general, it includes ‘up-front’ payment for the know-how transfer and royalty related to volume produced and sold on the international market (Hill, 2013). Despite the little resource commitment, this method of market entry offers inadequate returns, specifically in situations where the licensee does not completely improve the market potential (De Búcca et al., 2004). Another disadvantage is that the license agreements are for a certain period of time, which prevents the firm from entering the market directly (Hill, 2013). Additionally, there is a risk that if the licensee exports to another market in competition with the licensor, or if keeps manufacturing the product after the expired licensing period, it will lead to ‘cloning a competitor’ (De Búcca et al., 2004). However, as a result of the increasing number of countries that have adopted the new World Trade Organization regime on intellectual property protection, this risk has been reduced (De Búcca et al., 2004). A final problem arises when the licensee produces substandard products under the brand of the firm and when it emerges as the result of the company's global image (De Búcca et al., 2004).

Licensing holds advantages not only in terms of avoiding government regulations that forbid companies from entering, but also in terms of lower costs and of a quicker growth as there is no need to establish subsidiaries and production sites in foreign markets. However,

the disadvantages of licensing are chiefly in terms of control over the production, marketing, strategy of product development and others. Moreover, firms using this entry mode are taking the risk of generating competition, because their know-how is provided to other firms (Hill, 2013).

To conclude, licensing has many disadvantages and opportunities. First of all, license agreements provide partial market control. Because the licensor usually is not included in the license marketing program, the potential benefit of marketing may be lost. Another disadvantage is that if the licensee acquires its own know-how and starts to innovate in the field of licensed products or technology, the contract can have a short life span. Licensors, particularly those working with process technologies, may become strong competitors in the worst-case scenario, between the local market and eventually the industry leaders. The reason is that licensing allows for the borrowing (the use of resources and leverage of another company) of a corporation of its nature (Keegan & Green, 2011).

1.3.2 Exporting

Exporting occurs when companies have a wish to sell either a product/service or technology internally with the least commitment of resources (Hollensen, 2011). Exporting is divided as follows:

1.3.2.1 Indirect exporting

According to De Búcca et al. (2004), indirect exporting means that agencies are used for getting the product into the foreign market. Indirect exports can be split into export agents that obtain commissions to export goods produced by companies, and into export traders who buy the goods from the producer and export them afterwards. Additionally, firms may export their products using certain agencies established to market international products in their categories. This is often called export for cooperation purposes. Cooperative exports have long been a piece of exporting agricultural products and take the form of legal corporations established by the governments of the state, trade and producers' representatives, not just the cooperative associations. These bodies, at varying degrees, control or influence the export of the product category. One different method of indirect exporting is piggybacking, that is, an exporter without an experience uses facilities of an exporting company with an experience to enter into international markets. This can be started by the government, e.g., when a government commerce promoting agency launches a ‘foster firm’ plan for exporters who do not have an experience. It can also be stimulated by the private sector, for example, an industrial group inspires those members who are effective in international affairs to search international chances for the latest and smallest members (De Búcca et al., 2004).

1.3.2.2 Direct exporting

In this case, the company negotiates with international customers and sells them directly to the end user, or assigns the companies in the designated market as agents and/or distributors of their products (De Búcca et al., 2004). The firm organizes its own export sales establishment, which is in charge of each marketing action related to international sales. This group seeks for possible new markets opportunities and participates in the shipment of export documents and in the planning of both strategy and marketing actions in the international market (Hill, 2013). Direct export, while requiring a greater resource commitment, it allows the company to practice more power over the conditions in which they are sold. For several small and medium-sized companies, direct exports are the main method of foreign market participation. Another variant that is getting progressively critical with the initiation of the Internet is direct marketing. This proves to be a relatively beneficial entry model for small enterprises and enterprises entering a new international market at the beginning (De Búcca et al., 2004).

An advantage of exporting is that the company can get more experience and more information from the host country by entering to the foreign market. Moreover, the commitment and resources required to this entry mode are low, which makes it an attractive option for SMEs to perform. The disadvantages are high costs of transport and the different laws (e.g. tariffs) established to protect the home market (Hill, 2013).

1.3.3 Joint Venture

A joint venture is another common entry mode shaped by two or more different firms coming together for a specific investment project. The advantage of this mode is that two or more parties share all costs and risks, which is quite suitable for companies with limited resources. Establishing joint venture can mitigate the main source of uncertainty, which is high cultural distance. In addition, unfavourable business environment in the host country affect companies to enter through a joint venture (Masum et al., 2008). According to Uhlenbruck (2006), uncertainties about the role of the institutional environment and the government affect the selection of foreign entry mode, as in a joint venture the company benefits from local partner's knowledge about the culture, politics and business systems of the host country. Nevertheless, there are some disadvantages related to this entry mode. Joint ventures do not provide tight control over the subsidiaries that create conflicts and battles over the controls, especially when the two companies' strategies differ in terms of what they need to do to achieve their goals (Hill, 2013).

1.3.4 Subsidiary

Companies with international experience are more into the use of a higher control entry mode, such as subsidiaries (Wu, 2015). The positive role of government and other

government agencies is also of great importance when choosing a subsidiary that is wholly-owned as an entry mode. This reduces the institutional and legislative risks a firm may face when doing business abroad (Dikova, Sahib, & Witteloostujin, 2010). Companies with a unique know-how tend to prefer more committing entry mode, such as the establishment of a wholly-owned subsidiary. Using this entry mode, the company's protection of technology is generally better than other entry modes, because they have full control over all their operations. However, establishing a wholly-owned subsidiary is the most expensive way to go abroad and the company has to carry all the risks on its own (Hill, 2013).

1.3.5 Contract Manufacturing

Contract manufacturing arises when an international firm produces goods for the domestic firm, but does not have any control over to production. Marketing is the duty of the local firm. The goods can be made compulsory for the country of origin, for third countries or increasingly for the domestic market. Contract manufacturing is generally preferred on the ground of inexpensive labour costs and access to raw materials (De Búcca et al., 2004). The company has comparatively little risk (other than the potential for technology piracy) and no expenditure on investment capital. Contract manufacturing becomes more attractive, if the company's proficiency is in branding or marketing rather than in manufacturing. This is usually seen with footwear, textiles and clothing (Keegan et al., 2011). At the same time, it prevents the problem of unfamiliarity with the country, such as labour problems, which gives a right to the firm to say that the product is produced locally (De Búcca et al., 2004).

One of the advantages of contract manufacturing is the limited commitment of financial and managerial resources as well as the fast entry into designated markets, particularly when the target market is very small to validate significant investments. One disadvantage is that companies are exposed to public scrutiny and criticism if employees are exposed to low wage or inhuman conditions for workers in contracted factories (Keegan et al., 2011).

Relations of internationalization strategies;

Findings on relationship between entry mode, the timing of entry, and market choice:

- If the entry schedule is slow and the chosen market is close to the firm, it will select subsidiary entry mode.
- If the entry schedule is fast and the target market is distant, the firm will choose exporting entry mode.
- If the entry schedule is fast and the target market is near, the firm will prefer license entry mode.

- If the entry schedule is fast and the target market is far away, the firm will prefer common joint venture mode.
- If the entry schedule and target market is intermediate firm will choose the contract manufacturing entry mode.

1.4 Determinants of market entry mode

The selection of entry mode for a particular product/target country by a company is the clear outcome of several often inconsistent forces. The necessity to estimate the power and direction of these forces make the entry mode choice a complicated process involving a large number of counterparts between alternative entry modes. Generally speaking, the selection of entry mode should be related to the expected input of profit (Hollensen, 2011). This may be easier to say than to do, especially for the foreign markets where related information is missing (Hollensen, 2011).

1.4.1 Internal Factors

1.4.1.1 Firm size

The size is an indication of the resource accessibility of the firm; increased resource accessibility is the root for boosted international participation over time. But, SMEs tend to enter new markets with export modes and the main reason is that they do not have the resources to obtain high-level control while seeking high levels of control over international actions and facing high resource commitments in foreign markets (Hollensen, 2011). Therefore, export modes with less resource commitment may be more appropriate for SMEs (Wu, 2015).

1.4.1.2 International experience

Additional firm-specific factor that has an effect on the mode selection is the international past practice of the managers and therefore the company. The past practice of a company operating on the international scene can be gotten by going in a specific country or in the general international environment (Wu, 2015). Past international practices decrease the cost and ambiguity of serving a market and increases the likelihood that firms will allocate external resources that prefer to make direct investments in wholly-owned subsidiaries (Hollensen, 2011).

From the Dow and Larimo (2009) surveys, practitioners need to know that not all experiences are identical. Past practices from similar countries (in terms of distance) is positively connected with the selection of a high-control entry mode (e.g., such as wholly-owned subsidiary). This shows that instead of splashing from region to region, it may be appropriate to reap the benefits of each geographical area (Wu, 2015).

In development of the internationalization theory, Johanson and Vahlne (1977) argue that rather than acquiring objective knowledge, *de facto* activities (experiential knowledge) in foreign markets reduce uncertainty in international markets. They advise that it is a direct practice with international markets, which increases the probability of providing additional resources to foreign markets (Hollensen, 2011).

1.4.1.3 Product/service

The psychical features of the product or service, such as value/weight ratio, impairment and composition, are essential in the location decision of the production. Products with high value-to-weight ratios, such as deluxe watches, are used usually for direct exports, particularly where scale economies are produced in significant quantities or where management wants to hold control over production. On the contrary, in soft drinks and beer industry, companies often make licensing agreements or invest in production facilities or local bottling, because transportation costs are prohibited, especially for distant markets (Wu, 2015). The product's nature influences the selection of channels because the products vary so much in their features and usage, and the sales services can also change significantly. For example, the high complexity of a product might necessitate both pre-sales and after-sales service. In numerous foreign markets, marketing intermediaries may not be able to manage such work (Wu, 2015).

Blomstermo et al. (2006) separate the hard and soft services. Hard services are the points of production and consumption. For instance, software services can be referred to CD or other concrete environments that can be massively produced and standardized. At the same time, the customer undertakes the role of a co-producer with soft services performed in production and consumption and is not suitable for decomposition. The soft service supplier should be located abroad from the beginning of foreign activities. Blomstermo et al. (2006) argue that there are important distinctions between hard and soft services providers in selecting the market entry mode. In soft services, there is a high probability for managers to select a high-control entry mode than hard services. It is essential for soft service providers to cooperate with foreign customers; for this reason, they should choose a higher level of control that allows them to observe the co-production of services (Hollensen, 2011).

Products separated by physical differences, promoting, brand names, and after-sales services (such as warranties, repairs and replacement policies), which allows them to be chosen over another product, may enable a firm to engage in high costs in a foreign market (Wu, 2015). Advantages of product differentiation give firm a clear impetus in increasing prices in order to surpass the costs by more than normal profits (Hollensen, 2011). They enable the firm to lower the density of rivalry through the development of entry barriers that are keys to the company's market strategy, as well as to meet customer requirements

better and to strengthen its competitive position over its other rivals. Since this benefits of product differentiation signify a 'natural monopoly', firms are trying to keep their competitive advantage without spreading it through hierarchical entry modes (Wu, 2015).

1.4.2 External Factors

1.4.2.1 Socio-cultural distance between home country and host country

Similar countries in socio-cultural terms are those that have comparable commercial and industrial applications, similar or common language and similar educational levels and ethnic features. Sociocultural dissimilarities between a company's home country and the target market can form internal uncertainty for the company that affects the desired mode of entry for the firm (Hollensen, 2011).

The higher the distance among the host and the home country culturally, in economic structures and trade practices, the more likely it is that the company will not choose direct investment in favor of joint venture contracts or minimum risk entry modes agents. The reason is that the second institutional modes increase the flexibility of firms to pull themselves out of their home market if they cannot fit comfortably in a foreign environment (Wu, 2015). To sum up, when other things are equal, firms will prefer entry modes with high flexibility and comparatively low resource commitments when the distance between the home and the home country is different.

Dow and Larimo (2009) discovered that the psychic distance is considerably greater than the cultural dimensions of Hofstede. Especially language differences seem to be one of the least critical elements. Differences in industrial development, religion, democracy grade, etc. are other elements with a greater influence on the choice of entry mode (Wu, 2015).

1.4.2.2 Country risk/demand uncertainty

Foreign markets are often seeming as riskier than internal markets. The possible risk faced by the firm is not only a function of the market itself, but also a function of its participation technique (Hollensen, 2011). In addition to investing, the company brings stock and receivables risk. When planning the entry method, the firm should conduct a risk evaluation of both the market and the entry choice (Hollensen, 2011). The exchange rate risk is additional element. Furthermore, risks are not just economical; there are also political risks (Wu, 2015).

When a country has a high risk, a firm is well aware of limiting this risk exposure by restricting this particular national field resource commitment (Wu, 2015). Considering other things even, and if country risk is high, the firm prefers entry methods with comparatively little resource commitments (Hollensen, 2011). Economic and political

uncertainty of the host country can cause higher risk and unpredictable demand for the firm (Wu, 2015). This does not require firms to enter the market with entry modes that require high resource commitments, however, flexibility is very desirable (Hollensen, 2011).

1.4.2.3 Market size and growth

Country size and market growth rate are the main variables in decision of the entry mode. The larger the country and its market size, and the higher the growth rate, the more likely that the management will be to require resources for expansion and will establish a wholly-owned subsidiary or will join in a majority-owned joint venture (Hollensen, 2011). Having the control of actions delivers direct contact with the management and allows them to plan and manage market development more successfully. On the other hand, small markets are particularly geographically inaccessible and can not be effectively served from a neighboring country; it may not guarantee substantial resources. As a result, it can be best achieved through export or license agreement. This approach, which encourages market development and is unlikely to increase market penetration, paths the way for the firm to enter the market with a minimum resource commitment and releases resources for possibly lucrative markets (Wu, 2015).

1.4.2.4 Direct and indirect trade barriers

Tariffs or quotas for the import of foreign goods support the launch of local production or assembly processes. Regulations and standards for doing business, as well as choices for local suppliers, are influential in the mode of entry and operation evaluations. Choices for local suppliers or 'buy national' tendency generally stimulate a company to make joint ventures or other contract arrangements with a local company (Hollensen, 2011). The local partner provides an opportunity to improve local contacts, set up sales channels and distribution channels, and spread foreign images (Wu, 2015).

Regulations and customs procedures likewise foster modes including local companies that can deliver information about and contacts in local markets and facilitate access. In some cases, the company may start local production, assembly or finishing facilities that require significant adjustments and changes to product regulations and standards (Wu, 2015). Thus, the net effect of direct and indirect trade barriers could be a shift in the fulfillment of numerous purposes, such as preparing, producing and improving marketing plans in the local market (Hollensen, 2011).

1.4.2.5 Intensity of competition

When there is a strong competition in the target market, companies will try to prevent internationalization as much as they can, because these markets incline to be less profitable and consequently do not require high resource commitments (Wu, 2015). Thus, the bigger

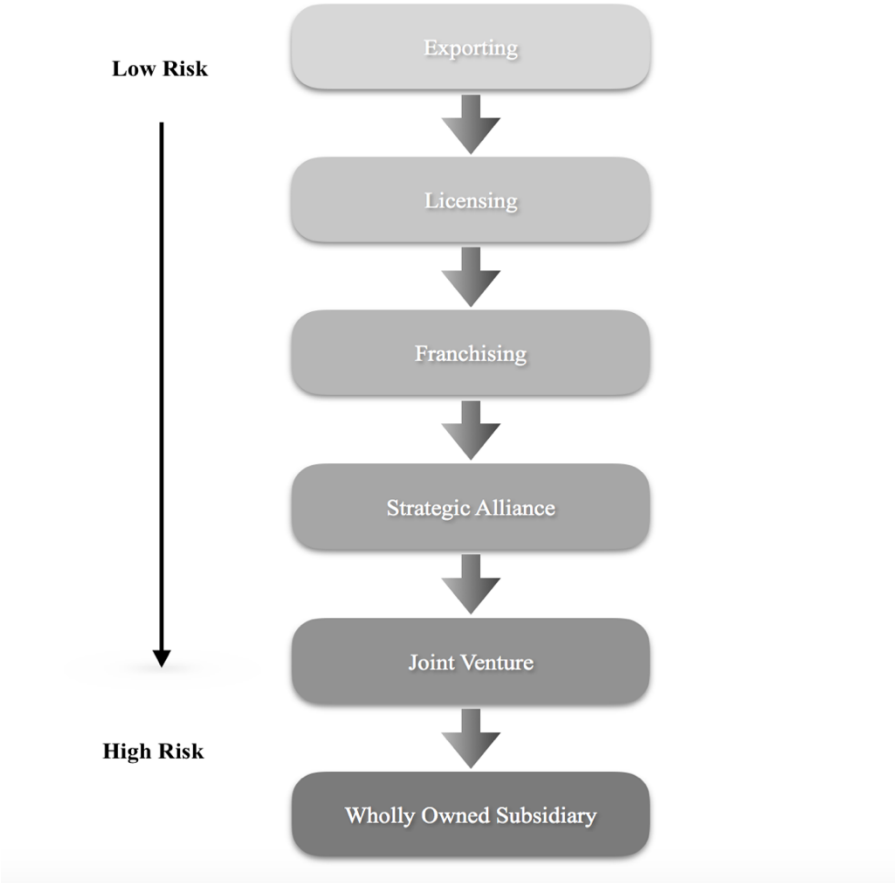
the density of competition in the host country, other things being equal, the firm will prefer entry methods involving minimum resource commitments (Hollensen, 2011).

1.4.3 Desired mode characteristics

1.4.3.1 Risk-averse

If the decision-maker are risk-averse, they will most probably choose export modes (e.g., direct or indirect export) or licensing, since they often require little level financial and management resource commitments. Negotiating and managing a joint venture often absorbs a substantial amount of management time and effort from the management and, at time same time, it offers a way to share risk, financial exposure, and the creation of local distribution networks and the costs of the operating local staff. However, entry modes involving a minimum level of resource commitment and therefore minimum risks do not support the development of international operations and can lead to a significant loss of opportunity (Wu, 2015).

Figure 2. Risk-averse degrees of different entry modes



Source: J. Wu, *SME Internationalization: Motivations to Internationalize and Influential Factors on Entry Mode Choice.* Case Study of Two Norwegian Ship Equipment Manufacturers that Have Entered Chinese Market, 2015, p. 37.

As seen in the Figure 2 above, if the SME is more risk averse, the best way to enter the market would be exporting. Exporting provides a low commitment, a low level of risk, a low control but opportunities to gather more knowledge about the market. In conclusion, the decision-making process of market entry highly depends on the type of the company and the expectations/goals linked to this entry decision (Hollensen, 2011).

1.4.3.2 Control

Entry mode decisions must also take into account the control level that the management necessitates in international market activities. The level of resource commitment is the main determinant of the control. Entry methods with little resource commitment, such as indirect exports, have minor or no control over the conditions marketed by the product or service abroad. For licensing and contract manufacturing management, it must be certain that production fulfills equity standards. Joint ventures also tie down the level of management control over international activities and may be a major cause of possible issues where the goals and objectives of partners are different (Wu, 2015). Wholly-owned subsidiaries offer maximum control, but necessitate a significant resource commitment (Hollensen, 2011).

1.4.3.3 Flexibility

The firms' management also has to consider the flexibility related to a specified entry mode. Hierarchical modes are usually the costliest but the most inflexible and the most problematic to alter in the short term (Wu, 2015). Contractual agreements and joint ventures tie down the firm's aptitude to adjust or change its strategy when market conditions change quickly (Hollensen, 2011).

1.4.4 Transaction-specific factors

1.4.4.1 Tacit nature of know-how

When the essence of the firm-specific know-how transferred is tacit, it is problematic to clearly define by definition. This causes difficulties in the drafting of a contract (to convey such a complicated accumulation of knowledge). The complications and costs related to transferring tacit know-how create an inducement for companies to choose entry modes with high control and low flexibility. Investment modes are better to simplify tacit know-how within the organization. Using a hierarchical mode, the firm can make use of the human capital that draws organizational procedures to construct the transfer problem (Hollensen, 2011). For this reason, the larger the tacit firm-specific know-how, the more hierarchical modes will be preferred (Wu, 2015).

Market entry modes perceived from the manufacturer's point of view can be separated in three groups:

- Export modes: minimum risk and control, flexibility;
- Intermediate modes (contracted modes): common risk and control, ownership is not common;
- Hierarchical modes (investment modes): maximum risk and control, less flexibility (Hollensen, 2011).

Which alternative is the best cannot be definitively stated. It should be emphasized that there are various internal and external circumstances that influence this selection and that a manufacturer who wants to be part of the global market can choose more than one of these techniques at the same time (Wu, 2015). Each can have a specific product range depending on the different input modes (Hollensen, 2011).

2 RISK IN INTERNATIONAL BUSINESS

Business risk refers to the probability of some negative changes. Uncertainty is the likelihood of loss due to the same uncertain future events. The risk of international trade can be described as the probability of harm caused by unfavorable events in international business activities. In international trade, profit and growth rates are higher and participant risk is also higher. When companies enter the international environment, differences occur in their economic systems such as cultural differences and objectives which mainly cause risks in international business (Kubickova et al., 2014).

The potential risks associated with entering a foreign country differ significantly from country to country. Political risks might contain wars, internal disturbances, terrorism and fluctuations in government policy or legislation. Economic risks vary from exposure to exchange rate risk to non-payment or financial unpredictability. In some of the developing and emerging countries, a particular problem, not only in these countries, is the issue of corruption. These are just a few examples of the potential risks that an enterprise entering to a foreign market may face (Harrison, 2008). Other possible risks may include cultural mistakes, human error and natural disasters. Some of these risks can occur also in any country, but the business type or physical environment may rise the likelihood of occurrence (Harrison, 2008).

Risk management tools are required in an internationalization route to anticipate and cope with the difficulties that may arise during the project. These tools are quite beneficial for making decisions that will decrease the impact of such risks. However, it may be necessary for a company to address these decisions (or just some of them) with a mutual point of view for all internationalization projects and to apply these decisions to all present and upcoming internationalization projects (Brummel & Macgillivray, n.d.). In this way, the

company can create homogeneity in the overall internationalization strategy by creating common policies and practices for all internationalization projects (Brummel et al., n.d.).

2.1 Sources of risk in international business

The main sources of risk in international business primarily occur from the internal factors (past practices and performance, as well as financial and management issues, interactions between global activities, competitive position, etc.), and external sources such as country risk linked to possible business nature changes that can decrease to gain profit of doing business at that location (Brummel et al., n.d.). The country's risk types are highly unified, reflecting the relationship between the local economy and the local political structure. In addition to a possible fall in the industry or a change in the relative benefit of a country, monetary and fiscal policies by government that are not robust can pose an economic risk to the investor. The political risk zone warns against possible variations in power in the country that can lead to alterations in government policies, social cohesion and other non-economic elements. This kind of risk reveals the potential of foreign firms to deal with internal and external struggles, expropriation, high taxes and tariffs, or direct foreign investment inducements. The decision on internationalization is made in uncertain environment and, for this reason, it assumes not only unmeasurable probabilities but also measurable probabilities that create risk (Harrison, 2008).

The framework of decision examination for internationalization suggests that the possibilities are allocated to a variety of nature situations that reflect external risks. The particular risk calculation reflects the deficiency of knowledge or vague conditions questioning information stability. There is ambiguity in the particular approximation of measurable variables such as estimated returns based on investment and operating costs and sales volumes. The fundamentals that determine pay outs might be partly measurable as a risk explained by a higher discount rate or lower revenues/high costs, where a level of subjectivity persists (Samii, Aliouche & Wright, 2004). Since decision theory provides high sensitivity to risk and individual predictions, it generally provides a precious structure for decision-making and internationalization choices particularly (Samii et al., 2004).

The risk companies face within international business is very different from those functioning in domestic markets. There are various types of risks connected to international business. Risks are more problematic to categorize, changes can be faster, and the effects are greater than expected. Dependency may not be really preventable in international business. Companies barely apply international business activities themselves; it is sometimes a necessity to have different types of cooperation with other companies so that they share some part of the risk with the other company (Tamk Journal, 2015).

Table 3. Top 10 Business Risks by Aon PLC and EY

Top 10 Business Risks by Forbes	Top 10 Business Risks by EY
Feeble economies	Pressure of pricing
Regulatory risks	Cutting cost and pressure of profit
Intensifying rivalry	Market risks
Damage reputation	Macroeconomic risks feebler or more unstable world growth viewpoint
Failure to attract top talent	Handling talent and skill shortages
Failure to invent	Expansion of government's role
Business disruption	Regulation and compliance
Commodity price risk	Financial strictness or debt crisis
Cash flow & liquidity risk	Developing technologies
Political risk	Political shocks

Source: Tamk journal, *Risk Management in International Business,* 2015.

Consulting companies Aon PLC and EY conducted a survey related to 10 risks that currently companies are most afraid of. As shown in Table 3, the diversity of risks was wide. The various risks presented above focuses on the types of risks that international trade currently faces. There are numerous risks that companies can handle by putting actions to remove, reduce, transfer or prevent risks. From Table 3, the risks associated with innovation, price reduction, reputation and cost reduction are instances of such risks. Companies should be aware of what risks they can tolerate and what risks they should manage and prevent in order to apply their strategies. There are many risk management practices that provide solutions and tools to apply them.

Nevertheless, Table 3 contains many risk factors that are not in control of companies. If they are willing to be effective in international business, they have to take risks. They have to understand the potential risks and their impact deeply and should apply actions which can benefit them in case of diminishing the effect of risks in the company. Good examples of such risks are feeble economies, fluctuations in regulations and political shocks and more. Available risk management practices help to classify risk and assessment. By planning and applying good movements to reduce risks, companies can avoid excessive harmful results in the realization of risks.

2.2 Types of risks in international business

2.2.1 Political risk

The modern world contains a high potential of political risks. One of the biggest risks of doing business overseas is related to the stability of a particular country. Specific political

risks include those that result in forced expropriation of foreign companies, such as war or civil disturbances, extreme ultra nationalism or populism (leading to the possibility of revolution and regime change), extreme regulation (making business more difficult or expensive), threats to national security, intervention or intrusive surveillance risk or terrorism; arrest of "political" criminals. Although the predictions and precautions can be taken to reduce the risk of terrorism, it is almost impossible to predict this kind of events in advance (De Búcca et al., 2004).

In Spain, 2017 was defined by the Catalan referendum for separation. After the "yes" vote, the region was in the control of central government in Madrid, confronting the determination of the Catalan authorities to declare their independence under the leadership of Carles Puigdemont. This exceptional covenant in the constitution of Spain caused the early regional election in spite of the main actors of the independent movement followed by legal action, the non-independents got the majority of the votes but not of the seats in the regional parliament, due to the proportional D'Hondt system. The uncertainty surrounding this political situation is expected to drop Spain's GDP down to 2.3% in 2018 and 2.1% in 2019/2020, consistent with Banco de España (Societe Generale, 2018).

2.2.2 Economic risk

Macroeconomic unpredictability is a comprehensive notion involving variations in economic prices and activities. Price fluctuations can be in the form of usual price inflation or activities in the comparative prices of inputs (labor, raw materials etc.) and consumer goods. Frequently, activities in collective production and prices are vague actions in exchange rates and interest rates (Almotairi, Alam, & Gaadar, 2013). Deviations resulting from purchasing power parity exchange rates may generate input sourcing and product pricing arbitrage chances for international corporations (Almotairi et al., 2013).

Economic and political risks may arise from existing or varying power balances between countries, such as the change from a 'Cold War' bipolar world to a unipolar world dominated by the US before 1989 and after that to a multi-polar one, where China, India, Russia and other developing countries have increasing power and influence. Globalization brings with it economic risks as the borders between countries become more accessible and the events in some parts of the world affect what happens in other parts of the world. Other economic risks include energy supply security risks and fluctuations in energy prices, as well as risks arising from computer hacking, computer viruses and other technology risks (Hollensen, 2011).

The Catalan crisis mentioned above has an effect on the Spanish economy and will continue to influence the immediate economic future of Spain. Additionally, other potential economic risks are an unbalanced national budget, public debt (social security deficits of EUR 18 billion in 2016), high fiscal deficits and a pensions fund that is

currently growing by 0.25% (which is lower than inflation). Insufficient investment insufficiency in science and R&D will continue to hamper Spain's international competitiveness (Societe Generale, 2018).

2.2.3 Social and environmental risk

Businesses deal with many kind of social risks, such as demographic changes. Changing age distribution, large-scale immigration or migration, as well as altering social standards, can have a considerable impact on the need for different goods and services, including different labor demands and claims for state services, such as pensions or other social assistance services (Almotairi et al., 2013). Environmental risks contain climate change risks, natural disasters, and water and food shortages (Almotairi et al., 2013).

2.3 Ways of managing and mitigating the risk

Since the internationalization process contains different types of risks, managing and mitigating risk is an essential objective to evaluate in an uncertain world. Scenario planning is the main step to plan for future risks, for instance, many politicians and business people are increasingly interested in developing possible future scenarios. This helps them to be more prepared and possibly to influence the likelihood of certain scenarios that arise. To do so, they will take into account warning signs, triggers, signage, up and down business risks and a number of other indicators. Another step is country risk comparisons, which is a similar practice made for specific countries, taking into account the stability of the country, risk profile and other factors. A number of indicators are now being produced to help predict these risks, such as the World Economic Forum's Global Competitiveness Ranks or the International Transparency Global Change Barometer (Brummel et al., n.d.).

Usually, managers who are responsible for political analysis consult directly with employees, local business partners and supply chain partners in a host country. The process of gaining information differs from concentration and structure, reaching from analyzing radio and newspapers to speaking to local people to high-tech communication management systems. These resources, while providing precious conventional input, may necessitate more time and money than subjective, small, possibly biased system (Elms & Low, 2013). In addition, CEOs and boards of directors request real-time, similar data on the preferences of the main competitors due to the accessibility of multiple real-time indicators and benchmarks in practical parts such as marketing, finance and HR (hereinafter human resources). This method can be successfully and consistently combined into company risk management methods and structures (Elms et al., 2013).

Firms in international environment frequently use a combined legal contracts, insurances and trading of financial tools to protect their income streams from price or currency

changes. Nevertheless, these methods do not provide enough protection against political risk. Given the complexity of establishing hedging for policy risk with contracts, insurance or financial risk management tools, foreign investors should take the duty of handling the risk by themselves. For many enterprises, this refers to revising the playbook. Rather than seeking urgent methods to increase actions, managers should go beyond fast cost-benefit analysis, where they generally get more responsibilities and think more about how they can form public debate (Henisz & Zelner, 2010). Additionally, they should learn how to engage with political difficulties either separately or as part of an alliance (Henisz et. al., 2010).

When entering new countries, companies often participate in comprehensive public relations (hereinafter PR) campaigns, more than engaging in advertisements for the brand and certain commercial projects. Instead, they have to become proficient in the political spin art. Giving a venture as "fair," "equitable," or "growth augmentation" is usually the easiest and most influential way to provide far-reaching political support from a cost-benefit evaluation. The exact meaning credited to these labels differs depending on the market position of the firms. Newcomers gather help for policies that support them over executives by exploiting monopoly power. On the contrary, leading firms address "justice" by debating that small entrepreneurs can not survive without the government's help. On the other hand, a network of associations in a society has a major impact on policy results, particularly in countries with feeble legal systems (Henisz et. al., 2010). To transform these networks into their own benefit, international investors should detect and deal with the power struggles of local politicians (Henisz et. al., 2010).

3 ANALYSIS OF THE SPANISH MARKET

Spain is one of the world's largest economic powers the fourth in the Eurozone, the fifth in the European Union and the 14th in the world by GDP (2015) with the most direct foreign investment entry at global level. Of course, the only reason why Spain is so attractive for foreign investments is not just its internal market. The possibility of accessing other markets through this country contributes to Spain's attractiveness to foreign investors. Its privileged geostrategic position, both as a member of the European Union and as a bridge to North Africa and South America, makes Spain one of the most attractive countries (Comisión Nacional de los Mercados y la Competencia, 2015). Spain's key export partners are France, Germany and United Kingdom whereas its key import partners are Germany, France and China (Eurostat, 2016).

As shown in the Table 4 below, the recession caused a huge imbalance in the Spanish economy. Nevertheless, at the beginning of 2014, economic growth was positive, the unemployment rate began to drop, and convincing exports notably reduced the structural current account deficit. In the aftermath of the crisis, Spain has also inherited one of the

highest public and private debt as well as elevated unemployment rates, which has led to an increase in inequality and poverty.

The economy of Spain grew by 3.2% in 2015. Since the economic crisis occurred, this is the highest rate of growth Spain has recorded. Although the Spanish Central Bank had a pessimistic picture of global growth in global financial markets, it based this growth on the expansion of the local economy as well as of business world investment. In another words, companies that outsourced their business in order to come out of the crisis and to increase their export performances also affected the recovery. In addition, Spain's economic growth has been influenced by structural reforms, the current low Euro rates, as well as low interest rates, low oil prices, affordable credit facilities and economic policies, which also apply to other European countries. While the growth in the Spanish economy was expected to continue in 2016, the growth rate slowed down to 2.8% that year. The year 2015 also showed a positive development for Spain in the fight against unemployment; the unemployment rate was reduced from 24.5% to 22.3% with the new employment regulations provided due to economic growth (REE, 2018). While the unemployment rate in 2016 slightly dropped to 20.4%, this fall is moderately slower than in 2015.

Table 4. European Economic Forecast Winter 2016

European Economic Forecast Winter 2016				
Forecasts for Spain	**2014**	**2015**	**2016**	**2017**
GDP growth (%, yoy)	1,4	3,2	2,8	2,5
Inflation (%, yoy)	-0,2	-0,6	0,1	1,5
Unemployment (%)	24,5	22,3	20,4	18,9
Public budget balance (% of GDP)	-5.9	-4,8	-3,6	-2,6
Gross public debt (% of GDP)	99,3	100,7	101,2	100,1
Current account balance (% of GDP)	1,0	1,5	1,4	1,3

Source: European Commission, *Spain,* 2016.

According to OECD (2014), Spain has always been very dependent on SME performance. After five years of insufficient growth, the real GDP of Spain improved by 1.4% in 2014. Domestic demand was chiefly driven by this development. The rise in consumption and investment had strong results for innovation. The comparative position of SMEs in terms of their number, employment and added value is higher in Spain than the average of the European Union. As small firms are inclined to make less innovation, the penetration of SMEs negatively influences total innovation activity. Sectorial distribution of Spanish

firms is prejudiced in favor of services. Innovations are comparatively less common in this sector, which also causes a relatively low innovation level in Spain. Following the severe losses experienced during the financial crisis, the general investment in Spain began to recover in 2014.

In 2013, SME innovation investments (intangible asset intensities) overcame the crisis and even exceeded the comparative levels of 2007. The main goal of innovation in the last few years has been the development of products. Additionally, SMEs perceived greater constraints for innovation than larger firms, cost-based. Furthermore, private sector funds for innovation present a deficit. This has an impact on the direct innovation capacities of private firms and reduces their ability to benefit from the dissemination of information elsewhere. Both internal and external R&D expenditures are rising, which is very important for competitive export sector. While SMEs constitute about one third of R&D expenditures of private companies in 2013, the contribution to their added value was about two thirds (OECD, 2014).

Table 5. The relevance of SMEs for the Spanish economy

	2008	2009	2010	2011	2012	2013	2014
Micro enterprises (< 10)	93.1%	93.8%	93.8%	94.0%	94.3%	94.4%	94.5%
Small enterprises (10 to 49)	6.0%	5.4%	5.4%	5.2%	4.9%	4.8%	4.8%
Medium enterprises (50 to 249)	0.8%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%
Large enterprises (≥ 250)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Note. * Percentage of the total number of firms that fall into a given size class.

Source: Abel-Koch, Buffalo, Fernandez, Gerstenberger, Navarro, & Thornary. *SME Investment and Innovation, France, Germany, Italy and Spain,* 2015, p.84.

More generally, the functioning of the Spanish corporate sector is very reliant on SMEs performance. The percentage of SMEs in the total number of firms has stayed fairly steady since 2008, with about 99.9%. In 2014, 2,229,582 of the 2,232,230 firms were SMEs. SMEs are mostly very small enterprises with less than 10 employees (2.109.045 in 2014) (Abel-Koch et al., 2015). During the crisis period, as shown in the Table 3 above, the share of this type of companies increased even more.

The evolution of Spanish firms is tightly linked to the overall evolution of the Spanish economy. Consequently, in recent years the total number of firms has narrowed. 2007 was the last year of net company creation with a total of 88,447 companies created.

3.1 Analysis of the Spanish Energy Market

Following the European Union (hereinafter EU) Electricity Market Directive of 1996, passed as a national law in 1997, Spain's domestic energy market was one of the first ones to undergo a liberalization process in the EU. This liberalization took place before the EU market directive agenda, such as the establishment of the National Energy Commission (hereinafter CNE), which is legally segregated, and of a sector regulator. Since 2003, consumers have chosen suppliers and opened competition; the electricity sector remains partially dominated by large domestic firms, however (BMI, 2017).

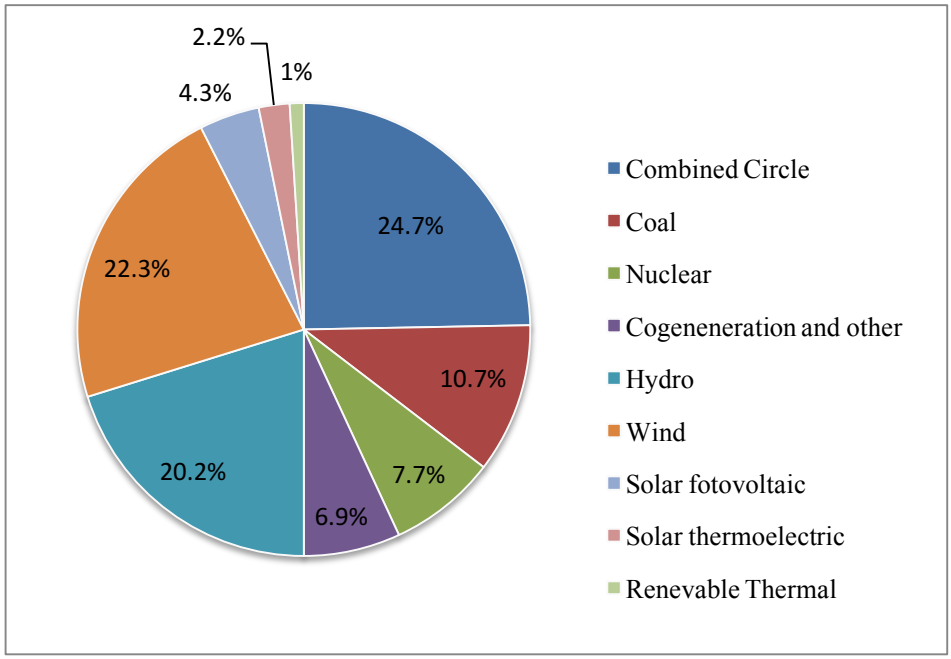
According to OECD (2014), in Spain, electricity production fell to 274 TWh in 2013, after a minor recovery in the previous year due to the ongoing decline in electricity consumption and a fall in electricity exports (37.9% lower than in 2012). Production in gas fueled closed-cycle gas turbines (hereinafter CCGT) saw its biggest decline, while production with renewable power plants increased. In 2014, Iberia's day-ahead market Iberian Electricity Market Operator (hereinafter OMIE) united with Central and Northern European markets as part of a European market-binding process. OMIE is the market operator for Portugal and Spain since mid-2007. The binding procedure led to a more efficient use of the infrastructure between Spain and France, even though the interconnection was already being used almost at full capacity. On the contrary, the interconnection between Spain and Portugal continued to decline in 2013, partly due to the decrease in interconnection capacity. The following stage will be to emphasize specifically on integrating the day-to-day market into the rest of Europe and simplifying renewable energy integration.

On March 25, 2014, the first joint auction of electricity connection capacity between Spain and Portugal was realized through a mechanism based on Financial Transfer Rights (hereinafter FTR) recognized in the Iberian Electricity Market Regulators Council (hereinafter CR MIBEL). This auction is the first European capacity distribution mechanism based on FTR. Market concentration, which has been dropping for several years with the rise in the number of companies producing smaller renewable energy has been steady in recent years. In 2012, the main generation company in Spain was responsible for 23.8% of total energy and there were five more firms that produced more than 5% (OECD, 2014).

Based on the European Commission (2014b) research, after a short-term fall in 2012, futures on the Spanish market entered into a growth process. The volume of transactions up to March 2014 (109.85 TWh) boosted by 42.2% compared to the same period in 2013.

In addition, over the counter (hereinafter OTC) volumes were 71.84 TWh, which is significantly increased (+ 95.1%) in 2013 compared to 2012 (36.82 TWh). OTC physical trade accounts for about 30% of the final energy given in daily programming. The trade in the Spanish section of the day ahead OMIE market rose to 185 TWh in 2013, which is 17% below 2008. After a steady increase in the past few years, daytime trading volumes have fallen to 36 TWh in 2013. Balancing energy has fallen even after accounting for the trade-off in energy. The average price on the day ahead market was EUR 44.26/MWh in 2013, down from EUR 47.23 in 2012 to EUR 49.93 in 2011.

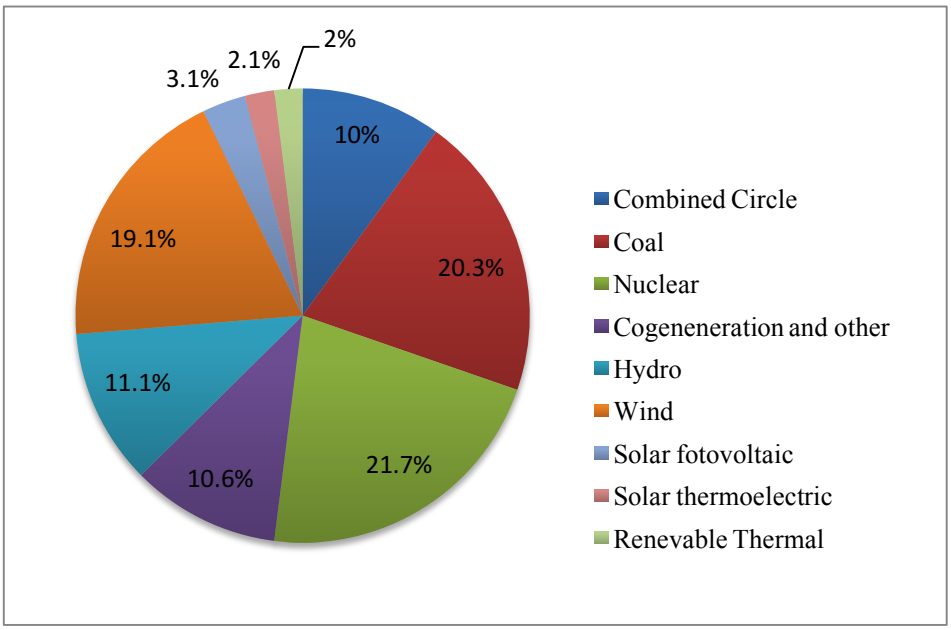
Figure 3. Installed Power Capacity, 2015



Source: REE, *Spanish Electricity System Preliminary Report,* 2015.

Installed power capacity of the Spanish peninsula has not changed much from 2014. As we can see from the Figure 3 above, variants recorded in Hydro, which was 20.2% compared to 19.5% in 2014, and in fuel-gas are not a part of the power structure anymore. Regarding demand coverage, as can be seen from the Figure 4 below, it can be noted that the coal-fired generation was in second place in the mix of generation, which would place wind energy in the third place, contributing 20.3% to the demand (16.5% in 2014). Renewable energies keep playing a prominent role in total electricity production, despite a drop of approximately 5 percentage points compared to 2014 due to the indispensability of hydro and wind energy generation, which fell by 28.2% and 5.3% in 2015, correspondingly. Notwithstanding this decline, it should be noted that wind energy is the most contributing technology to total energy production in the Spanish peninsula in recent years (REE, 2015).

Figure 4. Spanish Peninsula Electricity Demand Coverage



Source: REE, *Spanish Electricity System Preliminary Report*, 2015.

According to the Law 54/1997, electricity production is in a free competition regime within the electricity energy production market. The electricity production market consists of all commercial transactions related to the purchase and sale of energy and other services related to electricity supply. It covers future markets, intraday market, ancillary services, daily market, solution of technical constraints of the system, and management of deviations. The Spanish Royal Decree-Law 9/2015 was published on July 10th, 2015 regarding crucial measures aiming to decrease the tax burden faced by the income taxpayer and other economic measures. This lowered the unit price to finance payments for capacity and some drops on charges and costs for some low-voltage consumers who are self-consuming (Endesa, 2015).

Electricity demand in Spain is reinforcing a positive trend started in 2015 after a decline in previous years during the economic crisis. In particular, demand in 2017 reached 268,505 GWh, 1.3% increase over the previous year (0.7% increase in 2016). On the other hand, generation has shown little change with an annual growth rate of 0.2%, partly covered with the import balance of 9,220 GWh subsequent of energy exchanges with other countries. The total number of electricity generation facilities in Spain declined by 0.6% compared to the previous year, with 104,517 MW installed power capacity in 2017. This decline was mostly because of the closure of the Santa María de Garoña 455 MW nuclear plant that stayed inactive since the end of 2012. The development of the electricity transmission network in Spain in 2017 recorded an increase of 215 km of new power transmission and a transformer capacity of 1.210 MVA, which increased the reliability and the degree of the transmission network to assure supply security (REE, 2017).

3.2 Market size, structure and trends

The energy business has been engaged in four different activities, which are generation, transmission, distribution and supply approved by the Law 54/1997 of 27 November 1997, which was switched to the new Law 24/2013 of 26 December 2013 called the Electricity Act (REE, 2018). The sector has evolved from vertically integrated and regulated to gradually competitive. While generation and supply are moderately liberalized, transmission and distribution are largely regulated. Today, big corporations remain to be vertically integrated, with the need to allocate distribution activities for legal, functional, and accounting purposes (TCEB, 2016). However, there is an exception in the transmission section, which is controlled by a single transmission system operator (hereinafter TSO), Red Eléctrica de España, S.A (hereinafter REE). Spain's choice is full unbundling option of the TSO, including the adoption of measures relating to administrative separation and the right to effective decision-making (TCEB, 2016).

Two key clusters of generators can be differentiated: those functioning in the general regime and those generating electricity in a certain compensating regime (Deloitte, 2015). There are similarly two types of suppliers: liberalized suppliers, which can sell at market prices; and last resort suppliers, which have to sell a certain fixed price determined by the government to specific customers (the majority of whom are final customers) (Deloitte, 2015).

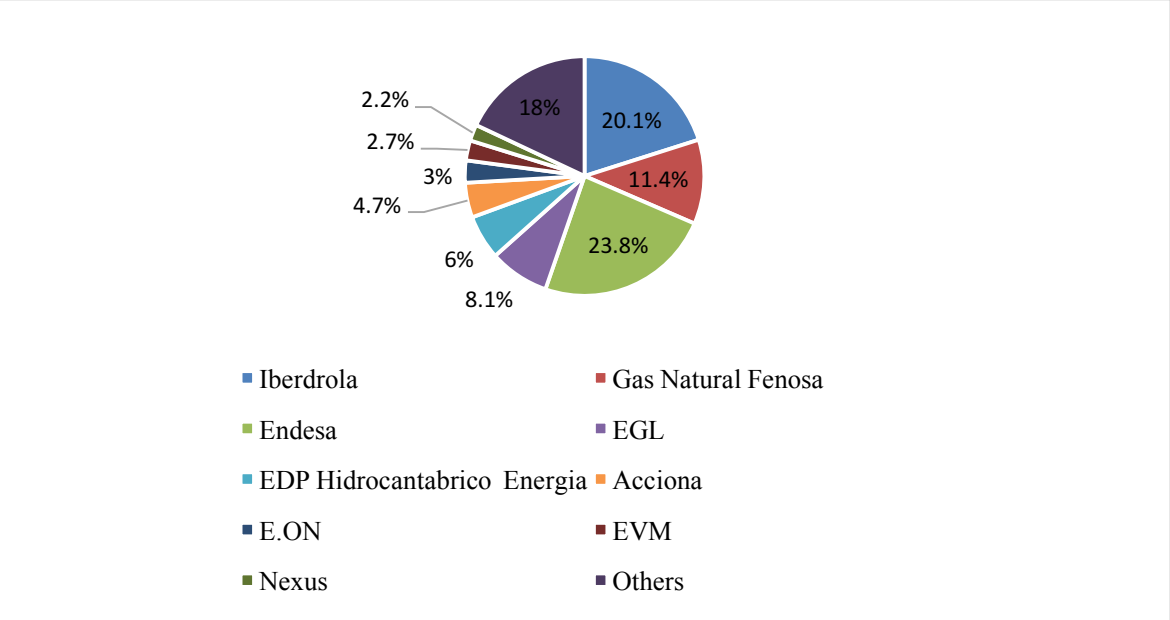
3.2.1.1 Generation

Spanish electricity generation and supply have the main leading companies, significant for their large market share; these top five companies represent 90% of electricity commercialization and 60% of electricity sale in wholesale market:

- Endesa,
- Iberdrola,
- Gas Natural Fenosa,
- EDP/Hidrocantábrico,
- E.on.

As can be seen from the Figure 5 below, the key companies and their particular market share of electricity generation are: Endesa (23.8%), Iberdrola (20.1%), Gas Natural Fenosa (11.4%), EGL (8.1%), EDP Hidrocantabrico Energia (6.0%), Acciona (4.7%), E.ON (3.0%), EVM (2.7%), and Nexus (2.2%). Small companies, nevertheless, sell around 18% of electricity. Electricity is traded in the Mercado Iberico de la Electricidad (MIBEL), which also contains Portuguese companies (Deloitte, 2015).

Figure 5. Market share of electricity generation 2012



Source: Deloitte, *European Energy Market Reform Country Profile: Spain,* 2015.

3.2.1.2 Transmission

Red Eléctrica de España (REE) plays a major role in the whole Spanish electrical system. REE is Spain's electrical system operator, the chief transmission company, and works exclusively, according to the Electricity Sector Act (hereinafter ESA). In addition, the new law 17/2013, of October 29, found that REE's main purpose would be to provide pumping services in non-mainland electricity systems when the pumping facilities' main purposes are:

- The safety of supply.
- Safety of the system.
- Integration of renewable energy unmanaged.

Transmission grid facilities:

- Overhead lines: 21,000 km (400 kV) + 20,000 KM (≤ 220 kV)
- Transformer capacity: 79,808 MVA (400 kV) + 4,300 MVA (≤ 220 kV)

The Transmission Grid of Spain includes:

- 42,000 Km of OHPL
- 5,000 Line Bays
- 85,000 MVA

• Operating voltages for Transmission are 132kV, 220kV and 400kV (islands work with 66kV and 220kV only).

The Law 17/2007, dated July 4, confirmed the status of Red Eléctrica's transmission network and attributed the function of the single transmission manager under an exclusivity regime. Under the Act, in 2010, Red Eléctrica anticipated to take over the assets of the Balearic Islands and Canary Islands and the remaining assets of the Spanish peninsula that were awaiting transfer from electric utilities. This purchase represents an absolute consolidation of this single transmission agent and operator of the electricity system (REE, 2018).

Table 6. Transmission grid (peninsular and extra-peninsular) of Red Eléctrica

Km of circuit	**2012**	**2013**	**2014**	**2015**	**2016**
400kV	20,109	20,639	21,094	21,184	21,620
220kV	18,779	19,053	19,192	19,386	19,496
150 - 132 - 110kV	272	272	272	398	523
< 110kV	2,014	2,014	2,014	2,022	2,025
Total	**41,174**	**41,978**	**42,572**	**42,989**	**43,664**

Source: REE, *Grid Manager and Transmission Agent,* 2018.

Table 7. Transformer capacity of Red Eléctrica (last 5 years)

Power (MVA)	**2012**	**2013**	**2014**	**2015**	**2016**
Total	78,629	81,289	83,939	84,544	85,144

Source: REE, *Grid Manager and Transmission Agent,* 2018.

Red Eléctrica, the manager of the transmission network, is responsible for improving and expanding the transmission of electricity between the external system and the Spanish

peninsula, managing the network and assuring third party access on equal terms to the network (European Commission, 2014a).

As can be seen from Table 6-7 above, Red Eléctrica de España's transmission network consists of high-voltage power lines from 43,000 kilometers and more than 85,000 MVA transformer capacity. These assets constitute a safe and reliable grid network that offers the highest level of service quality to the Spanish electricity system (REE, 2018).

3.2.1.3 Distribution

Electricity distribution in Spain is also conquered by companies that are playing a key role because of their large market share in generation (Deloitte, 2015). Additionally, there are several independent distribution network operators that are both owners and operators of electricity distribution networks out of the core distribution parts (Deloitte, 2015).

3.2.1.4 Supplier

Presently, the supplying for all consumers is provided by marketers. Nevertheless, a division can be made between:

- Free marketers*:* Free marketers are allowed to identify and consult the conditions of supply to consumers. Currently, 27 free traders are active in the market.
- Reference marketers: Reference traders should deliver electricity to consumers under the chosen price for the minor consumer or the last resort tariff (ESA and Royal Decree 216/2014, of 28 March), in accordance with a supply agreement determined by the central government under a public service obligation. This represents that nearly all local consumers and small enterprises have the right to be provided by reference merchants. It accounts for 25 million consumers in the Spanish market, considering the fact that they use 16 million use rights from 25 million (Borrego et al., 2014). Reference traders are now:

- Endesa Energía XXI, S.L.U.
- Iberdrola Comercialización de Último Recurso, S.A.U.
- Gas Natural S.U.R. SDG, S.A.
- E.ON Comercializadora de Último Recurso, S.L.
- E.ON Comercializadora de Último Recurso, S.A.
- Cide HC-Energía S.L.
- Empresa de alumbrado eléctrico de Ceuta, S.A.
- Gaselec diversificación, S.L. (Borrego et al., 2014).

Due to the importation of cheap electricity from France and the nature of the saturated Spanish market, the total electricity production in Spain will be stagnant during the 10-year

forecast period. Renewable electricity will be supported by wind energy projects in the next two years due to the requirements, especially solar energy, compared to the auctions (TCEB, 2016).

Spain will continue to tie up its connections with France, given the fact that French advanced base load electricity prices have fallen to normal low levels due to the nuclear facilities being back online. Since the import of cheap electricity from France will be more cost effective and faster than fulfilling the required capacity, the thermal power in Spain will be used to meet the deficits in this phase. Spain is expected to be a net importer of electricity in most of the ten years' period until 2023 (European Commission, 2014b).

While the Spanish Nuclear Security Council gave conditional approval for the restart of the 447 megawatt Garoña nuclear plant, there are disagreements over whether the facility should be reopened. Iberdrola and Endesa both own 50% of Garoña's owner Nuclenor. Despite the wish of Endesa to restart operations, Iberdrola specified that it does not prefer to restart operations. The cost of opening and dismantling the plant is estimated at 345 million EUR (to be covered by the state-run nuclear waste company Enresa), while the re-opening of the plant will be between 200 million EUR and 300 million EUR. The Spanish government was reported to make a decision in June (European Commission, 2014b).

3.3 Porter's five forces analysis

With a focus on making a comprehensive analysis of the competitive environment of the Spanish energy industry, Porter's five forces analysis is quite useful to analyze the structure of the market as it helps to determine whether the market is attractive or not for those companies that wish to enter this market. These five forces provide a full-scale strategic perspective to observe the sector, to understand its underlying structure and to determine its profitability and competition. It is structured as follows: power of suppliers and buyers, threat of new entry and substitutes and finally the core of the forces, competitive rivalry.

3.3.1 Power of Suppliers

The more concentrated the whole supplier industry, the higher the bargaining power. The intensity of the supplier industry is very reliant on the energy section (Frederiksen & Hjortso, 2009). In fact, we can perceive a highly concentrated market in the energy industry, generation, transport and commercialization activities are segregated, although the main companies have interest in the three regulated activities. The top five companies represent 90% of electricity commercialization and 60% of the wholesale electricity market share:

- Iberdrola
- Gas Natural Fenosa

- Endesa (Enel group)
- HC (EDP group)
- Viesgo (EON group)

In the wind turbine manufacturers sector, which is a moderate concentrated market, the top four companies hold for more than 40% of the market share. The first four leading companies carry more than 20% of the market share in solar panels manufacturers industry. Switching costs are heavily borne by renewable energy producers of these products (particularly in geothermal and wind power plants) and special equipment and after-sales services (Novelli, Stentella, Minicozzi, Samsa, Madella, Chabannes, & Enebish, 2012). This results the changing suppliers themselves with particularly high switching costs.

Due to well developed technology, there are no substitute products and suppliers do not have to contest with additional product to be sold to the industry. This is true just in the biomass sector, where the essence of the "biological supply" has altered a lot and suppliers can effortlessly change it (Frederiksen et al., 2009). The risk of forward integration is not exceptional due to the size concerning value and production volume of the top companies in many markets. Industrial importance of this for suppliers; Supplier assets are highly reliant on the demand of the renewable energy industry and, consequently, represent a critical role. Many other suppliers will be interested in maintaining their sustainability in reasonable pricing and assistance in practice such as R&D (Novelli et al., 2012). As a result, we can say that the supplier power is moderate, which does not signify a particular danger for the ingrained companies in the Spanish energy market.

3.3.2 Power of Buyers

In addition to tightening the profit potential of an industry as suppliers, customers can also push prices down, request better quality or more services, and play off their rivals against each other. Despite the robust demand for energy sector, the majority of market buyers in this energy market are, in general, primarily individual consumers (Novelli et al., 2012). SMEs represent a high number of the buyers in the market, that diminishes the influence of a customer losing within the market competitors and, which weakens the buying power. If products and price sensitivity are not differentiated, then buyers continuously have the opportunity to make a deal with different suppliers based on price discrimination. Moreover, energy does not have an impact on the superiority of the products or services of the buyer, so it turns out to be insignificant. Therefore, buyers are more price sensitive.

3.3.3 Threat of Entry

The importance of the entry threat mainly structured by the present complications and the reaction of the current rivals to the new entrants. The more intrusive the complications and

the stronger the retaliation expected from the leading competitors in the market, the less likely it is for newcomers to enter the market.

Economies of scale are usually one of the most critical complications in front of the market entry for the energy market. They discourage new entrants by guaranteeing that they enter the market on a broad scale or take a cost disadvantage. Companies that attend to a broad range of markets and have a high market share will frequently take advantage of the economies of scale that attain the minimum potential cost reductions per unit of energy produced and distributed (Novelli et al., 2012). This guarantees that the top companies in the market are more comfortable in any issue that can arise because of new entrants. Capital requirements in fixed facilities and in R&D are quite important financial obstacles for new entrants. Technological tools and facilities boost the threat of entering the energy industry and make unrecoverable expenditures. Reliant on the specific energetic segment, this may change in the more expensive ones (large geothermal or hydro-electric power plants) and in the less costly ones (in the case of installation of solar panels). Cost disadvantages beside the possible rivals, must also accept cost disadvantages that are not directly connected to the size of the currently functioning companies. They can take advantage of the finest raw materials or from the most promising position (for all segments of the energy sector) (Novelli et al., 2012).

On the other hand, various governments are involved in energetic policies targeted at consolidation of the whole energy industry to form profitable and sustainable future outlooks. Yet, significant part of the financial resources for energy sector investments are delivered by the private sector or companies (Novelli et al., 2012). Most of the governments, specifically, offer financial help for R&D projects. Product differentiation is very important core structure of any energy market; for this reason, energies spent on building brand identification become impractical. Thus, the concentration of customers will be to handle with mostly competitive prices. New entrants need to secure distribution for accessing distributing channels. In most cases, energy producers already have a considerable amount of distribution channels (or have particular contracts with distributors) (Frederiksen et al., 2009). For this reason, it may be possible that a new competitor has to make its own distribution channels. To conclude, the threat of new entrants is very moderate and does not indicate a specific risk for currently functioning companies in energy sector.

3.3.4 Threat of Substitutes

The threat of substitute is described as the accessibility a consumer has to a product that can replace another product of the industry (Frederiksen et al., 2009). It is hard for a company to rise prices and make more profit if there are similar substitutes and the switching costs are low. In this case, customers can choose another company or take another substitute. Nevertheless, if SMEs can create more loyal customers and have

procurement with different benefits, that can reduce the threat of substitution. While four leading companies dominate the Spanish energy market but many other companies present in the market, switching costs are low. For this reason, the substitution threat is high, because the customer can easily decide on another supplier. On the other hand, due to the nature of energy sector, companies do not prefer to switch as long as there is a differentiated offer.

3.3.5 Competitive Rivalry

Competition among competitors in the sector can affect industry profits, as well as other things such as downward force on prices, boosted innovation, improved advertising, improved service and product developments. The Spanish energy market has a fairly large and intense competition. Nevertheless, the main competitors do not really have big differences (market leaders and large-scale companies), as they have a similar price, products, quality and services. Given this situation, there is high competition in the sector and prices and quality are an important part of competition. If the competitiveness is weak, companies can raise the price, provide less products for the price, and get more profit. However, in this case, competition is strong, and it may be essential to have more product offerings in order to protect customers, and prices may drop under break-even levels.

Following a comprehensive liberalization of the market utilities in Spain since 2003, there are about 50 electricity supply companies on the market now, many of which operate locally or on a regional basis. Notwithstanding a minor improvement in the competitive environment, the dominance in the energy sector belongs to three dedicated generators and distributors that form the majority of the generation. As domestic opportunities are limited by a slow economy and a limited consumption growth, most of the leading domestic companies are turning their attention to positive growth opportunities abroad.

According to the National Energy Commission (hereinafter CNE), the three largest companies are Endesa (with 40.0% market share), Iberdrola (with a fraction below 40.0%) and Gas Natural Fenosa (with a 15.0% share). The transmission system operator is independent from the electricity companies, but it is not completely decoupled as it deals with trading activities. Other crucial players in the Spanish electricity market include the Red Eléctrica de España (REE), which is owned by the Spanish government, and the electricity companies that own and operate Spain’s electricity grid. Recently, the difficult conditions of trade in Spain have caused some firms to leave the market - Germany's E.ON stated that by the end of 2013, they would be out of the electricity market, and by the end of 2014, they sold their Spanish and Portuguese businesses for EUR 2.5 billion to Macquarie Europe Infrastructure Fund IV (BMI, 2017).

3.3.5.1 Red Eléctrica (REE)

Each of Endesa and Unión Fenosa owns 3.0% of the national transmission company REE and has a 73.0% free float. REE's basic installations cover power control systems, with consisting more than 42,000 km of high voltage transmission lines, that direct and supervise its operation, with an operating net profit of EUR 738 million in 2015. REE is working on the interconnection between France and Spain and signed a financing agreement of 175 million EUR with the European Investment Bank in June 2012. In April 2013 it was announced that work on the extension of the 8.5 kilometers tunnel linking France and Spain had been completed. In February 2015, the linking operation was completed and the interconnection capacity was increased to 2,800 MW. A second connection to the west of the Pyrenees will be developed and is expected to reach capacities of up to 5000 MW, though it is not estimated to be operational before 2020 (REE, 2015).

3.3.5.2 Unión Fenosa

Unión Fenosa is a Spanish company in the sector of gas and electricity, now part of Gas Natural Fenosa. The Group has 23 million customers on five continents and has an installed capacity of 15.4 GW. For Gas Natural Fenosa 2015, EBITDA increased from 8.64% in 2014 to 5,2 billion EUR leading to an increase in the net profit of 2.7% to 1.5 billion EUR. In March 2015, the company sold its 25.0% stake to the Kuwait Investment Authority for a capital increase of 550 million USD. Their 15.4 GW of installed capacity, accounted for 12.7 GW in Spain. They reportedly plan to invest EUR 800,000 to develop a 6.5 km distribution network to bring gas resources to Arbeca (Lleida), as part of its ongoing expansion plans, as well as to invest in the distribution network at Bossòst for EUR 500,000 (BMI, 2017).

3.3.5.3 Endesa

Endesa is the biggest power generating and distributing company in Spain with an installed capacity of 22 GW in Spain and Portugal. The company controls nearly half of the regulated electricity market and one third of the liberalized market. The greatest source of generation capacity of Endesa are the plants that work with coal, followed by nuclear energy. Endesa was bought by the massive Italian energy company Enel in 2007 and won a 40 billion EUR bid made by the German company E.ON. In spite of a threatening court order, E.ON accepted the terms with Enel and Acciona and to withdraw its bid. In contrast, E.ON got an offer 10 billion EUR, which is Endesa's energy assets within the Enel's power utility Visego in Spain, part of the Spanish generation capacity, E.ON Endesa Italia, and power generation capacity in France. By the end of 2014, Enel sold 17.0% shares in Endesa, up to 3.1 billion EUR (3.9 billion USD). This was followed by the direct acquisition from Enel of Endesa's business in Latin America (Endesa had a 60.62% share

in Enersis, Chile-based), and 8.25 billion EUR (10.67 billion USD). Although Endesa's electricity generation in Spain is mainly based on nuclear power and hydropower, the group is expanding to non-hydropower renewables, especially solar energy, which has a considerable growth potential. In August 2015, Endesa announced the completion of an electric vehicle charging network covering the whole Majorca island and extended its partnership with a local hotel chain to provide renewable energy (Enel, 2016).

Endesa currently represents a large part of Enel's international portfolio, and is part of a leading European profitable group with global aims. The new parent firm could lead to a less commitment in Spain, as well as to a loss of market share. However, Enel's greater funding capability likewise offers the opportunity to expand its production portfolio faster (Enel, 2016). Currently, representing a large part of Enel's international portfolio, Endesa is part of a leading European subsidiary with global ambitions (BMI Research, 2017).

Endesa is one of Spain's leading power companies and one of the leading companies in Portugal. The company was bought in 2007 by Italian origin Enel which sold 17% stake in Endesa rising EUR3.1 billion (3.9 billion USD), in late 2014. This was followed by the direct purchase of Endesa's Institute in Latin America (Endesa had a 60,62% share in Enersis, Chile-based), and 8.25 billion EUR (10.67 billion USD) (GlobalData, 2017a).

Endesa’s energy mix contains approximately 62.7% of hydropower and nuclear power. Their market shares are of 38.9% in Spain and Portugal for electricity generation, of 43.7% for distribution and of 35.7% (excluding regulated sales) in sales (BMI Research, 2017).

In Table 8 below, we can see that Endesa is focusing and getting stronger in the international market rather than in the Spanish market. Although it is one of the leading companies in the Spanish energy sector, it is not such a big threat for newcomers, since Endesa makes its way mostly outside of Spain.

Endesa reported during the first quarter of 2015 that lower water availability had decreased hydropower generation, leading to growing confidence in thermal power plants and therefore increasing generation costs. Thus, raising the average price of the wholesale electricity market swelled. This trend was sustained in the third quarter and for nine months, and it ended September 30, 2015. Hydroelectricity production decreased by 15.9%, coal-powered energy increased by 13.8%, nuclear energy by 6.4% and combined cycle by 172.4%. In the first nine months of 2015, the company increased its demand by 2.5% compared to the same period of 2014 and noted that demand in Spain and Portugal had grown (Endesa, 2015).

In June 2015, Endesa announced that it will be the sole buyer of the Iberian Energy Derivatives Exchange’s solar energy auction (which took place in September 2015). Endesa made a decision to buy up to 500 GWh. The company also announced the

extension of its contract with the local hotel group Meliá to present the entire hotel facility as a renewable energy source. Endesa decided at the beginning of 2015 to sell the Chira-Soria hydropower plant in Gran Canaria to Red Eléctrica de España for 11 million EUR. The company also agreed to sell its shares in Compañía Transportista de Gas Canarias to Enagas for 7 million EUR (Endesa, 2015).

Table 8. SWOT Analysis of Endesa

Strengths	**Weaknesses**
• Expanding international existence • Dominant internal generation portfolio • Combined operations • Integration into Enel group	• Compulsory divestment of assets by Enel • No more focus on Spain and Latin America • Expensive capital expenditures required
Opportunities	**Threats**
• Variety in other forms of energy • Expanding internationally • Facility expansion domestically	• Vicissitudes in national energy policy • Internal and international competition • Effects of governments' energy policies on Endesa's profit margin

Endesa achieved a net profit of EUR 1.086 billion, exceeding the targets announced in November for net profit and EBITDA for the full year of 2015. This represented a 15.6% year-on-year increase (hereinafter yoy) after tax revenue from operational activities, i.e. one-off impact of 1.764 billion EUR in Latin America operations achieved an increase of 0.623 billion EUR by sales to Enel in 2014, which contributed to the lower limit by these departments. Net financial debt reached 4.323 billion EUR, a significant improvement from EUR 5.420 billion at the end of 2014 (GlobalData, 2017a).

3.3.5.4 Iberdrola

Iberdrola is Spain's largest energy company, one of the largest utility in the world and is the world leader in wind energy. The group is currently involved in four continents with approximately 30,000 employees and 31.6 million customers in approximately 40 countries. Iberdrola's group net income declined in a way that could be attributed to harmful regulatory changes in the domestic Spanish energy market - as the Spanish government left behind a 30 billion EUR power sector deficit, as a result of keeping the

electricity tariffs at artificially low levels for years. The impact of the negative regulatory environment has resulted in a loss of 339 million EUR in domestic renewable energy subsidies and Spain's renewable business Earnings Before Interest, Taxes, Depreciation and Amortization (hereinafter EBITDA) has decreased by 37.0% to 420.6 million EUR. Along with the stabilization of the market in 2015, Iberdrola had more positive results including growth of 5.7% (3,795 million EUR) in gross operational profit in the first half of the year. The reason for this was the 20% increase in international trade, with a 6.5% decrease in Spain. At the end of 2015, the overall operating profit was 3.8 billion EUR, a decrease of 2.8% since 2014. Iberdrola's current expansion plans are focused heavily outside of Spain, especially in the US, Brazil, Mexico and UK. The group plans to invest about 4 billion EUR a year. Iberdrola's operating cash flow was 2.9 billion EUR in 2016 (GlobalData, 2017b).

As we can see in the Table 9 below, Iberdrola's biggest competitive advantage is their focus on organized network assets and on international growth of renewable markets. A stable long-term delivery in the network segment and a strong increase in wind and solar especially in Latin America, will balance the long-term weakness in Spain. Their business model is strong and its exposure to regulated assets and international renewable energy markets will continue to grow over the next decade. The full 2014 year results were effected mainly by constant fluctuations to remuneration in the Spanish regulated energy market. However, the upgraded outlook for the Spanish economy and the fact that the biggest local regulatory obstacles are now behind have given Iberdrola the potential for future earnings to the company. Many European companies are financially distressed by the collapse of margins in thermal power plants. Iberdrola, however, was more successful than its competitors at spreading business and building a sound investment strategy. This will keep investors interested in the troubled European utilities space.

Iberdrola's main power will continue to come from its regulated grid assets, especially in international markets, and on subsidized renewable energies. A strategy that will enhance not only the company's global visibility and but also its impact on regulatory assets. Subsidized renewables must help to compensate any weakness in the electricity demand in Spain and moderately isolate the company from the gloomy future outlook of thermal capacity in Europe. Cash flows from regulated assets should ensure that the company maintains an attractive dividend payment by paying debts. Recently, Iberdrola signed a contract with the Mexican Federal Electricity Commission to improve electricity and gas supply in the country by 2018 in a planned 5 billion USD investment plan (GlobalData, 2017b).

Iberdrola had a group net income reduction during the 2014 fiscal year, which can be connected to harmful regulatory changes in the local Spanish energy market, especially as the Spanish government covered 30 billion EUR power sector deficit with setting electricity tariffs at artificially low levels for years. These unwanted regulatory caused a

loss of 339 million EUR in local renewable energy subsidies and EBITDA from the Spanish renewables declined 37% to 420.6 million EUR. Despite the harsh domestic environment, comparatively stable and fixed returns for the yields of the next five years, will let investors to value the risk. The group published a report on the UK market worth about 8.3 billion EUR, which was committed until 2023. Iberdrola has a wind project under construction for 350 MW and another 100MW that started to the construction in 2015. In a different project, requires 714MW offshore wind farm (East Anglia One) EUR 2.8 billion investments. The project is expected to be over in 2019 (GlobalData, 2017b).

Table 9. SWOT Analysis of Iberdrola

Strengths	**Weaknesses**
• Markets and products diversification strategy • Difference in business model in terms of regulated, renewables and liberalized activities • Participated in emerging new network technology (smart grids, meters) • Focusing more on international renewables and network instead of domestic market	• A serious debt burden that forces the company to reduce its organic investments and implement a divestment strategy • Moderately poor performance in mature markets, particularly in the UK and Spain • Exposure to the failed Iberian market from the beginning • Significantly affected by the new regulatory framework in the Spanish market
Opportunities	**Threats**
• Accelerating economic expansion and increasing energy needs in some emerging markets, especially in Brazil and Mexico • Very low exposure to the rising coal prices	• Poor economic performance in the Eurozone and the US possibly have a negative influence on the company's performance in advanced markets • Increasing energy prices due to the dynamics of the oil and gas markets in the last few months • Effects of governments' energy policies on Iberdrola's profit margin

In the US, the company is planning an investment of 800 million EUR in Maine for the period 2015-2019, as well as 2.6 billion EUR investment in the New York State. Iberdrola was chosen by Amazon to build a 208 MW wind farm in North Carolina to control its data

centers. The company also merged with UIL Holdings and Iberdrola USA during the quarter of 2015, creating a new company called Avangrid, reporting more than 30 billion USD assets in 25 states in the US. The first proposal for the merger was rejected in June 2015, but the merger was finalized in December 2015. Iberdrola will be able to merge the existing US assets in order to enlarge the regulated base rate to around 3.1 million customers. As a result of UIL purchase, net financial debt boosted from EUR 25.6 billion at the end of 2014 to EUR 28.1 billion at the end of 2015. Net financial debt levels also rose to 29.4 billion EUR in the end of 2016 (BMI Research, 2017).

4 PROPOSED MARKET ENTRY STRATEGY

After the company has gathered information and knowledge about the target market, a question arises about the best way to get into this market. An international market entry mode requires an essential plan for the company's products, its technology and human capital to enter a foreign market. Entering to the market is very first important step for most SMEs. The problem for established companies is not the way they enter new markets, but how they take advantage of opportunities more successfully within the current international activities. However, we cannot say in general which is the ultimate market entry strategy, because different market entry techniques can be accepted by different firms going to the same market or by the same firm going to different markets.

Choosing a market entry strategy is a main component when expanding the business. First of all, it is possible that various patterns will cause different rivalry conditions to develop over time in different markets. For instance, rapid growth in new markets categorized by short product lifecycles can form obstacles to participants and lead to gain higher profit. On the other hand, choosing a relatively small number of markets for more concentrated expansion can form higher market shares, which in turn means stronger competitive positions.

The entry strategies to the market include a series of decisions. Once the target market selected, objectives and goals of the target market should be assessed, the most suitable entry mode should be chosen, and a marketing plan and a control system should be established to observe and revise if needed the performance in the target market, if needed. Nevertheless, the object of a market entry strategy is, in fact, cooperating with a response cycles. For instance, the assessment of different entry modes may push a company to examine its designated market objectives or goals and may even start to pursuit a new target market.

SMEs use internal market opportunities to create company resources that can be beneficial in international markets. The company strategy for expanding a business should be focused on that product-market segment where the core competencies of the firm has a competitive advantage. On the other hand, taking into consideration the nature of the energy sector and

the Spanish energy market specifics, exporting would be the easiest way for SMEs to enter the new market, as exports provide fast entry into the market and allow the market to gain knowledge and practice, which in turn reduces the risk of entry.

4.1 Pricing

Pricing is a vital component in any marketing strategy, but it cannot be evaluated individually from other strategic elements. Pricing evaluation should begin with an exact description of the marketing objectives of the macro segmentation strategy (Kotler, 2002). In these sections, market potential should be designated and the connection between industry price levels and the demand level in these segments should be wisely assessed. The specialist should then advance the firm's product positioning in these segments and plan a total product presentation and a steady marketing combination with that positioning (Kotler, 2002).

The following step should be to estimate all related costs, assuming both production and marketing costs, assuming a certain level of demand and production. The competitive environment should be observed in detail for each segment, not just the competition of the vendors, but also the competition among firms in the macro-segment tendency, including their businesses, cost structures and market demands they are dealing with. Since it is particularly relevant to direct pricing and antitrust concerns, it should also be assessed in relevant legal and regulatory matters. When all these aspects have been defined, the marketer can identify specific pricing targets that are consistent with production and legal requirements, as well as with the overall marketing objectives in the segments. The significance of good market information between both customers and competitors cannot be exaggerated in the progress of a robust pricing strategy (Kotler, 2002).

4.2 Distribution

Global marketers face a complicated problem when designing globally coordinated channels for product marketing. When the global expansion advances further, the distributors and agents used for the beginning of the entry may not suit anymore. Which are the alternative available vehicles and which are their functions vary according to different local markets. Channel strategies that succeed at home are usually not effective abroad - or are even not possible. Global logistics of product transportation among various countries increases the speed and flexibility, but at the same time, it is becoming increasingly difficult to manage with the shifting gray trade, which creates problems for producers as well as for local distributors. Global marketing faced with the challenge of rationalizing global distribution and creating synergies and cost savings (Hollensen, 2011).

4.3 Promotion

Global advertising is probably the most noticeable promotional activity. Global communication and developments in the opening of new markets pave the way for global promotions, and for public relations and publicity to become more powerful promotional tools. Finally, it also allows for participation in international trade fairs, in direct marketing and personal sales, which is very typical method, but still important (Jonasson, 2003).

For this reason, the company needs to take into account a number of factors in price decisions. Five factors are supposed to be essential in affecting the international pricing decision: the quality of the product and the sector, the facility location, the distribution system, the foreign market environment and foreign exchange differences (Bradley, 2002). Promotional or, more generally, industrial marketing communication is a combination of personal and non-personal communications targeting the industrial customer. It includes personal sales, advertising, catalogues, product literature, publicity, direct mail, fairs, public relations, and promotional innovations and gifts. The influence of these instruments results in the purpose of the interaction with the others with an explicit role to play in engaging the potential client, which increases the awareness and moves various stages of the decision-making process of buying into the buying action directly (Kalsi, 2004). Industrial marketing communication strategies generally deal with personal sales as a major factor (Kalsi, 2004).

The influence of industrial marketing communication is synergetic (in other words, interaction methods cooperate with each other and create an outcome that is more than a basic sum of individual outcomes) and become cumulative over time. If a customer or potential customer makes interaction with a sales representative of a company, it is highly possible that the impressions created based on these interactions are the main determinant of the client's opinion of the supplier firm (Bradley, 2002). However, if there is no this kind of direct contact, the client or company will be based on a general image of the company's perception, oral communication, public relations, publicity and media advertising, as well as other sources of information (Kalsi, 2004).

4.4 Proposed market entry mode

Many factors should be taken into account when determining the suitable market entry mode. These factors differ according to situation of the market and the questions companies have when considering to expand their business. Firms should take into account the goals and objectives of the target market such as policies and resource allocations, key parameter indicators to monitor the performance and the selection of the entry mode to enter the market. Globalization and the harmonization of world markets have made it easier, more direct and faster for firms to enter foreign markets. Entry modes are one of the most searched fields for international expansion of companies. This thesis underlines the

importance of entry modes, the performance implications of entry mode selection and the relationship between entry modes and the company's international strategy.

Theoretical models argue that exporting is the most straightforward way of expanding the business for SMEs at the beginning of their internationalization, as it is easier to gain knowledge of the market situation. This entry mode is low-risk, it does not require large capital resources and the exit in case of failure is relatively easy. If the company is risk-averse and has limited financial resources, exporting is the most applicable option for them, since it increases the level of knowledge about the market, evaluates the potential opportunities and threats, while eliminating the majority of disadvantages that SMEs face in the process of internationalization. Additionally, when we evaluate the Spanish energy market, considering the risks, cultural differences, language barriers and non-tariff regulations, exporting becomes the strongest entry mode as an initial step.

When deciding for an entry mode, geographical distance also plays an important role. If the company desires to have more control over the market and, for example, sets a distance limits in terms of kilometers considering the transportation costs. If the Spanish market is way too distant for its location, therefore, exporting may not be the most applicable entry mode for such a company. For this kind of companies, wholly-owned subsidiaries or joint ventures are the most viable options. The initial step would be to develop a business network in Spain by cooperating with their domestic institutions or companies present in the Spanish market and afterwards making detailed research to identify the most suitable partner for joint venture or to gather information from local consultancies.

There are many studies about external factors, largely focusing on how target market and target country have influenced the foreign market entry mode of a company. We can easily say that firms are more tend to be the part of new markets when the designated market size is large, tariff/non-tariff barriers are high and language difference is low. Moreover, when production factors are given positively to the external market, firms tend to choose foreign production as an entry mode instead of exporting. These product factors are raw input materials, labor, and local technology. Furthermore, when the company has a high competitive level, then it is necessary to choose an assertive market entry strategy. Assertive foreign direct entry strategy has been implemented when local firms have created a substantial competitive entry barrier. The assertive entry strategy opens the doors more to the outer market.

Overall, due to the nature of the energy sector and based on recent researches, exporting delivers significant benefits for SMEs, as exporting allows companies to access markets with lower risks and allows to learn new skills that help to gain experience and increase their efficiency. For example, considering the Slovenian SMEs in the energy sector, most of the firms expanded their business into the Spanish energy market by choosing export mode, such as Kolektor Etra, Korona Power Engineering, Eki, Aka PCB, Belektron, Elvez,

etc. (Sloexport, 2017). Therefore, considering that these companies how they run their business smoothly in Spain with the decision of an export entry mode, and with all the general features of the energy sector and all the relevant steps evaluated, we can easily confirm that exporting would be the most appropriate entry mode for SMEs to enter the Spanish energy market.

5 DISCUSSION

Throughout the research process of this thesis, the internationalization process has been observed with the aim to new information of the specific research area of interest. During the process, some approaches were discussed and most appropriate options were presented and evaluated. While evaluating the affects in the decision-making process in the area of foreign market entry, studies show that the characteristics of the company and the level of risk taking among the managers plays a key role when choosing the strategy methods. Therefore, a firm should evaluate the pros and cons in order to observe if it can satisfy its expectations with such a decision. Preliminary findings indicate that competitive factors can be observed, in spite of economic crisis in Spain, the globalization of markets, the well-developed infrastructure and decent business strategies. Consistent with the researches, Spain's business environment looks very promising and corporate financial information is accessible and consistent. In this case, SMEs can pave their way to expand their business into the Spanish energy market.

5.1 Managerial Implications

When a company decides to enter the Spanish energy market, managerial implications plays a significant role. Firstly, the company should set the goals and expectations of this entry decision. What do they want to do, how do they want to position themselves in the market and what do they expect to gain? Plans should be made according to the vision and mission of the company and a comparison of detailed examinations of the market should take place in order to see whether the firm can reach its target and whether it is on the right path. In addition, it is important for managers to decide which factors are critical when choosing the foreign market entry mode, and decide which is their level of importance, once they decide to take advantage of the foreign market. Furthermore, managers must also be well aware of the advantages and disadvantages of each entry mode. A combination of the motives for internationalization, the factors that have a high impact on entry modes and advantages/disadvantages can lead to have a successful strategic plan on the foreign market entry mode process. Lastly, they should take into consideration the trading mechanism and then the demand and market trends that may affect the company's foreign market entry mode. In the first stages of internationalization, the performance usually falls because the firm needs time to handle with alienation. However, it will increase slowly with new knowledge and skills, as competitiveness will increase and the firm's market opportunities will be captured by investment activities in the designated market.

5.2 Research Limitations

Research limitations of the findings on this topic can not be stated for and from all countries. There are many different specific factors that have a specific impact on the process of SME internationalization. However, taking into account the limitations related to the amount of empirical data, this study provides a broader perspective of the SME internationalization within a specific country and its industry.

CONCLUSION

Since the SMEs have a magnitude impact on the global economy, entering to new markets is a necessity as a result of recent robust competitive rivalry. SMEs are limited by their size, which can cause financial issues. That is the main reason why it is very important for SMEs to understand, to specify and evaluate each step during the internationalization process. Therefore, the focus on a complementary model outlining the existence of different ways of internationalization when entering the Spanish energy market, the research of the behavioral differences and a discussion on the strategic effects according to the firm's internationalization pathway aimed to help companies to create the best market entry strategy.

Spanish market and its energy sector is one of the biggest market in Europe and has a great potential for new entrants. First of all, Spain is a member of European Union and World Trade Organization which means that European companies are exempt from import/export duties. Additionally, household disposable income, investment in machinery, equipment and R&D and international collaborations significantly increased and enhanced tax reforms strongly support business-making in Spain. The local market is reactivating and growing again and, on the other hand, it has a direct connection with transmission markets in Center and South America, as well as lower tariffs. In addition, its highly efficient transportation system, make the market more attractive for potential market seekers. With the great support of the European Commission for SMEs, financial barriers can be decreased, and expanding the business become a necessity for ambitious SMEs. Additionally, the Spanish government is also highly supportive for SMEs, which represents a great opportunity especially for the ones having limited financial sources. Economic benefits are one of the main factors why companies implement such strategies and decide to expand their business internationally. To assure long-term business, any company needs to pick carefully responsible strategies aligned to their goals, and should be associated with the firm self-interests.

In the light of the stage-theory model and following the given examples of the Slovenian energy companies already present in the Spanish market, the most appropriate strategy for

SMEs' would be exporting**,** which is the most risk-averse, low cost strategy and paving the way to gain more information and experience in the market. However, due to the nature of energy companies' services and products such a strategy would be viable for the beginning and mid-term period. This strategy would ensure SMEs with a rapid access to foreign markets, devoting a small amount of capital investment, but presenting however the opportunity to gain beneficial international experience. Continuous evaluations of performance, a constant strive for innovation and fast learning will assure company's success in its future steps. As a result, by combining each influential element in the correct manner, SMEs can get the opportunity of leaving its footprint on the Spanish energy business map.

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APPENDIX

APPENDIX: List of abbreviation

The following table describes the significance of various abbreviations and acronyms used throughout the thesis. Nonstandard acronyms that are used to abbreviate the names of certain white matter structures are also in Table 1.

Table 1. Abbreviations

Abbreviation	Meaning
MVA	Megavolt Amper
km	Kilometer
TWh	Terrawatt hour
MWh	Megawatt hour
MW	Megawatt
GWh	Gigawatt hour
GW	Gigawatt
EUR	Euros
USD	United States Dollars
IT	Information Technology
R&D	Research and Development