Master thesis

SMEs modes of entering in China

A Multiple Case Study of Swedish firms entering in China

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We are pleased to finally have finished our Master’s thesis. Researching this area has given us a great amount of new and interesting knowledge about external and internal factors influencing the entry mode. We hope that this new knowledge can be of use in our further carriers. During this time period there has been a lot of hard work. There have been a lot of people involved and without their encouragement this thesis would not have been possible to complete. Our greatest appreciation goes to our Prof. Anders Pehrsson and tutor Dr. Mosad Zineldin at the Linnaeus University who have provided valuable feedback and inputs during the whole process of this study as well as our family and friends.

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Abstract

Purpose - The purpose of this research is to investigate market entry modes selection of Swedish SMEs concerning their entry in Chinese market. The information we extracted from various Swedish SMEs may to some extent functional to other Swedish SMEs as well while seeking to enter in the foreign market.

Design/methodology/approach - The authors employ multiple case studies. The data was collected with telephone interviews with managers and directors.

Findings - The study indicates that numerous internal and external factors are driving the SMEs to choose a specific entry mode while internationalizing their business in a foreign market.

Research limitations/implications - The study and the findings are based on four cases. Therefore the results can only be considered tentative. Additionally, the retrospective nature of the research design is challenging, as it puts weight on the respondents’ memory and ability to identify change.

Practical implications – The information can be utilized for managers in SMEs to understand the factors that influence them while they are choosing an appropriate entry mode.

Original/value – In contrast with previous research we focused on how the internal and external factors drive the firms to choose a specific entry mode in a foreign market. This information will may have some functional for other SMEs while entering in foreign markets.

Keywords - Small and Medium Enterprises (SMEs), Entry mode, Market entry, China, External and Internal Factors

Paper type - Research paper
# Table of Content

1. **INTRODUCTION** ........................................................................................................... 7  
   1.1 Background .................................................................................................................. 7  
   1.2 Problem Discussion ..................................................................................................... 8  
   1.3 Research Question ...................................................................................................... 10  
   1.4 Purpose ...................................................................................................................... 11  
   1.5 Delimitations ............................................................................................................. 11  
   1.6 Report Structure ........................................................................................................ 12  

2. **LITERATURE REVIEW** ................................................................................................ 13  
   2.1 Resource Based View (RBV) ..................................................................................... 13  
   2.2 Transaction Cost Analysis (TCA) ............................................................................. 14  
   2.3 Institutional Theory .................................................................................................... 16  
   2.4 Eclectic Framework ................................................................................................... 16  
   2.5 Uppsala Model .......................................................................................................... 17  
   2.6 External and Internal Factors .................................................................................... 18  
   2.7 SMEs Reasons for Internationalization ..................................................................... 21  
   2.8 Entry Modes and Selection Approach ....................................................................... 22  
   2.9 Cultural Distance ....................................................................................................... 27  
   2.10 Conceptual Framework and Analysis Model ........................................................... 28  

3. **METHODOLOGY** ....................................................................................................... 31  
   3.1 Research Purpose ....................................................................................................... 31  
   3.2 Research Approach .................................................................................................... 31  
   3.3 Deductive Research .................................................................................................... 32  
   3.4 Research Design ......................................................................................................... 33  
   3.5 Research Strategy ....................................................................................................... 33  
   3.6 Data Collection Instrument ...................................................................................... 34  
   3.7 Sample Selection ....................................................................................................... 34  
   3.8 Operationalization ...................................................................................................... 35  
   3.9 Interview Guide ......................................................................................................... 36  
   3.10 Data Analysis Model ............................................................................................... 36  
   3.11 Quality Criteria ........................................................................................................ 38  

4. **EMPIRICAL STUDIES** ................................................................................................. 40
List of Figures

Figure 1: Report Structure ...........................................................................................................................................12

Figure 2: Description, advantages and disadvantages of the mode of entry into a foreign market, 
.............................................................................................................................................................................26

Adopted from Miller (1998) ........................................................................................................................................26

Figure 3: Level of investment and risk as well as ownership and control of foreign operations 
adopted from Datta, Herrmann and Rasheed (2002).................................................................................................27

Figure 4: Influencing factors in entry mode selections, own interpretation. Adapted from Bruhno 
and Schilt (2001); Hollensen (1998); Root (1994). ........................................................................................................28

Figure 5: Schematic Presentation adopted from Foster (1998) ..................................................................................31

Figure 6: Data Reduction adopted from Miles and Huberman (1994) ........................................................................37

Figure 7: Entry Mode Choice in a foreign market, the four companies from the case studies ...66

Figure 8: External Factors that influenced the company’s choice of entry mode in new 
international market ........................................................................................................................................67

Figure 9: Internal Factors that influenced the company’s choice of entry mode in new 
international market ........................................................................................................................................67
1. INTRODUCTION

In the following chapter, the research question and the purpose of this study were presented based on an introduction and a discussion of the problem under investigation. It ends up with a discussion of the study’s delimitations as well the report structure.

1.1 Background

The greatest challenge we face today is to ensure that globalization becomes a positive force in the term of creating global business environment and business relationships for all the world’s people (Czinkota & Ronkainen, 2007). The international environment is getting changed rapidly and majority of the firms, individuals, and policymakers are influenced by these changes (ibid). Globalization is often judged as the strategic attempt to treat the entire world as a single market in which to do business (Tallman & Fladmoe-Lindquist, 2002). Today the companies think globally and may learn new ways of organizing, rewarding, and communicating to conduct their operation in foreign or international market (ibid). Companies may enter international markets for several reasons regarding to Root (2004). Some companies go abroad because the home markets are stagnant or the foreign markets are growing faster. Greater sales volume or strengthening their competitiveness can be other reasons why companies go to a foreign market (ibid).

Over the past forty years, numbers of small firms operations in foreign markets have been growing (Nummela et al., 2006; Fletcher, 2001). During the last decade small and medium-sized enterprises (SMEs) have been the object of increasing interest and are considered as a significant source of wealth and employment among the politicians, governmental bodies and academics (Nummela & Bell, 2006). SMEs have gained opportunities to enter in foreign markets through globalization (ibid). The SMEs definition is “fundamental issue” whilst “there is no single uniformly accepted definition of small firm”, the annual small business survey 2008/2009 defines SMEs “businesses with zero to 249 employees” (Sullivan-Taylor & Branicki, 2011), whilst Australian Bureau of statistics argues that a small firm employing between five to 19 worker and a medium firm as having 20 and 199 workers (Kotey & Folker, 2007). Many have stated that small and large firms are basically different, and SMEs may share a common
characteristic, such as resources scarcity, which make them separate from large organizations (Sullivan-Taylor & Branicki, 2011). Zacharakis (1997) also shares the same opinion, which argues that SMEs differ from their large competitors, and their mode choice may differ. Since SMEs have few financial and managerial resources (Zacharakis, 1997; Kirby & Kaiser, 2003; Lu & Beamish, 2006). Limited resources may lead them to very different international strategic choices in comparison to larger firms, and they may use low investment non-equity modes of entry, modes such as exporting and licensing (ibid). Yap and Souder (1994) state that SMEs may be able to service small niche markets. Through that reducing the investment risks and encouraging the use of more investment-intensive, equity-based entry modes, like Joint Ventures and wholly owned subsidiaries (ibid).

Rasheed (2005) demonstrated the foreign entry mode as an institutional arrangement that allows a firm to use their product or service in a country exchange (Calof, 1993; Holtbrügge and Baron (2013) or institutional arrangement that makes possible the entry of a company product, technology, human skills and management or other resources in a foreign country. Furthermore, in order to reduce institutional pressures and to compensate for institutional weaknesses, foreign firms have to select adequate modes of market entry (ibid). For instance Malhotra et al., (2003) stated that the process of entry mode includes several aspects. These are exporting, contractual arrangement, such as licensing, franchising, Joint Venture strategic alliance, wholly owned foreign investment including Greenfield investment and merger and acquisitions.

1.2 Problem Discussion

The selection of foreign markets and entry modes lies at the very heart of any international strategy (Koch, 2001). The entry mode decision considered such an important strategic decision and the “success of SMEs under globalization depend on large parts of the formulation and implementation of strategy” (Lopez-Navarro et al., 2013). According to Lee and Lieberman (2010), the decision a firm takes when they want to go abroad is not only concerned what market they want to enter but also about how to enter. Entry mode refers to the institutional arrangements under which the companies carry out their operations in the foreign market (Pehrsson, 2008). The consequences from the choice of entry mode can have strong effect on the survival of the firm (Root, 1994; Ekeledo & Sivakumar, 2004).
The globalization of SMEs has often remained less researched even when these enterprises contribute a significant amount to the total volume of international business of developed industrialized countries (Dhingra, 1991). There is a role for smaller firm in the international market and “it is just that opportunities for smaller firms are different than those for large, multinational firms” (ibid).

The decision-making process in foreign market entry mode selection or choices is an important strategic process Quan, (2012). Additionally, it is a critical strategic decision in international strategy (Lu, 2002; Erramilli & Rao, 1993; Burgel and Murray, 2000). If the firm’s comes up with unsuitable selection of entry mode it can influence their business activities (Brouthers & Hennart, 2007; Kumar, 2000; Hollensen, 1998). Managers need to make assumptions about their company’s entry mode and systematic comparisons of alternative entry modes in searching for the right mode (Root, 1994).

“A precise and careful analysis is necessary before entering a new market” (Albaum & Duerr, 2008). Therefore the manager or authority in the power must need to decide about the desirability and potential of flexibility, risk and control on a foreign market (Bradley, 2005; Hollensen, 2001). For instance Sharma and Erramilli (2004, p.2) argue that entry mode refer to “a structural agreement that allows a firm to implement its product market strategy in host country either by carrying out only the marketing operations”. (Agarwal & Ramaswami, 2014; Deepak, Herrmann & Rasheed, 2002) numerous choice are available to firms seeking to enter foreign market but the most common choice are (i.e., via export modes), or both production and marketing operation there by itself or in partnership with others (contractual modes, Joint Ventures, wholly owned operation).

In internationalization process, (SMEs) have limited of resources in sense of finance, information and management capacity Hollenstein (2005). Collate with multinational cooperation, SMEs also have to face external barriers such as laws and regulations because they do not have the power to negotiate and influence the government, therefore it is much difficult for them to set up internationalization (ibid). Which reflect that firms need to be very careful about the choice of
entry mode? According to Hollensen (1998) in beginning of internationalization process if the firm makes inappropriate selection of the entry mode it will have a negative effect on their future business activities. However there are several choices regarding to entry mode selection, the selection can be different from one firm to another (ibid).

So Selection of an appropriate entry mode is an indispensable decision a firm has to make when investing overseas (Anderson & Gatignon, 1986; Root, 1987; Pan & Tse, 2000). Whilst choosing entry mode is complex process and extensive range of aspects must be taken into an account before coming up with final decision (Young et al., 1989). According to Root (1994) all the companies are established their self for growth and profit, “To say that a company cannot afford to plan an entry strategy is to say that it cannot afford to think systematically about it future in world market” (Root, 1994 p.3). While the previous research has been addressed the topic of entry mode selection, but the impact of a company internal and external factors on the entry mode selection has not been discussed clearly (Hollensen 1998). The entry mode selection is influenced by numerous factors and can be categorize in internal factor and external factors (Root, 1994; Pehrsson, 2008). According to Root and Hollensen internal factors emphasis on the company's product and resource and commitment factor whereas external factors include comprise target country market and the home country factors (Root, 1994; Hollensen 1998).

According to Brouthers and Nakos (2004) stated that previous research on entry mode choice has tended to concentrate on large firms. Additionally most studies on entry mode choices focus on the experience of large multinational corporations (Kumar & Subramaniam, 1977; Fillis, 2001) but for the SME the factor are still not quite clearly described, especially for those of Swedish SMEs, there are very few researches discuss about their internationalization in foreign market. This leads us that there might be some unique, different problem and challenges. So it is a research gap for the author to fill in.

1.3 Research Question

*RQ1: What factors drive a foreign SME choice of a mode of entering in a foreign market?*
1.4 Purpose

The main focus in this research study is on Swedish SMEs. The information that we will extract from various Swedish SMEs will may to some extent functional to other Swedish SMEs as well in near future while seeking to enter in foreign market. Hence the purpose of this research works to investigate market entry modes selection of Swedish SMEs concerning their entry in Chinese market.

1.5 Delimitations

The major delimitation of this research study is that it does not cover all the industry in which Swedish SMEs conduct their operation in Chinese market. The core focus will be to conduct interviews with companies that have been entered in China with different entry modes. The major goal is to find four different companies with different entry mode selections regarding their entry in Chinese market. The delimitations of this study mainly comes from the empirical setting, since only SMEs in following investigated industry can not fully stands for all the SMEs, and also these four companies can not cover the whole industry either. Only four interviewees in these four companies make the situation may not be completely clear. By aware of that, this study just wants to act as the descriptive guidance and contribute for further research, it is not a comprehensive study.
1.6 Report Structure

![Report Structure Diagram]

*Figure 1: Report Structure*

The introduction provides background and problem information of the topic. Chapter two presents the literature concerning the research field. Chapter three describes the methodology used when obtaining the data for this thesis. Fourth section provides the empirical data and fifth sections are the analysis, finally we come to discussion (chapter six), conclusion (chapter seven) as well as implications, limitations and further research (chapter eight).
2. LITERATURE REVIEW

This chapter outlines the key theories. Initially an introduction of the theories Resources Based View, Transactions Cost Analysis, Institutional Theory, Eclectic Framework, Uppsala Model was presented followed by the External and Internal Factors was discussed. Thereafter, theory regarding Reasons for Internationalization and Entry Mode Selections was presented. In the end Cultural Distance was discussed as well as our analysis model.

Doing business in international markets is a tricky task for any firm (Klein et al., 1990). Agarwal and Ramaswami (2014) discusses that it is significant strategic decision for the firm to figure out what entry mode to use while internationalize their operations. However a numerous number of theories have been presented to enlighten the entry mode decision (ibid). Brouthers and Hennart (2007) stress that the most generally functional theories are the Resource-based View (RBV), Transaction Cost Analysis (TCA), Institutional Theory and Dunning Eclectic Framework.

2.1 Resource Based View (RBV)

Since the 1980s has the resource-based view (RBV) become one of the most important theories in strategy (Sun & Tse, 2009; Grant, 1991; Wernerfelt, 1984). According to Sun & Tse (2009) and the RBV, a firm can be seen as a bundle of collected resources, in form of tangible and intangible. Grant (1991) suggested five different categories of resources, physical, financial, human, technological and reputation. Broughers and Hennart, (2007) propose that firms build up unique resources that they can utilize in foreign markets or exploit foreign markets as source for obtaining or developing new resource based advantages. Firm resources consist of all assets, capabilities, organizational, firm attributes, information, knowledge; etc. controlled on these resources makes the firm enable to improve its efficiency and effectiveness (Barney, 1991). Regarding to entry mode selection, the RBV approach includes the main concept of strategic management and this concept clarifies that a firm can well compete when there is a fit between the firm’s resources and the external opportunities (Conner, 1991).

Basically entry mode choice depend on the firm experience and scholar suggests that over time the firm achieve experience in foreign market and therefore move from straightforward exporting
operation to more complex organizational structures such as JVs and WOSs (Barney, 1991). Erramilli (1991) suggested that both the length and scope of international experience and how this experience influenced international entry mode choice. Additionally author stress that low level of and experience and greater experience lead to the use of full control modes, whereas middle levels of experience were related to market-based modes (ibid). One of the most successful applications of the RBV can be found in the literature examining patterns of diversification (Lockett & Thompson, 2001). They state that diversification is not a random process, driven by managerial decisions, but instead follows a pattern consistent with the exploitation of existing identifiable resources (ibid). The RBV considers the company as a set of resources and capabilities.

This approach can help to explain entry mode choice, insofar as diversification may imply the need to develop new resources (Wernerfelt, 1989). Additionally, the firm’s level of diversification is a function of its resource stock (ibid). Nevertheless, the diversification decision may reveal a shortage of certain resources and capabilities the company needs in order to undertake the strategy, which in turn can determine the entry mode (ibid). Faced with this situation, the company has three options to obtain the resources and capabilities required (Barney, 1991; Das and Teng, 2000): (1) Developing them itself (internal growth); (2) Acquiring a company which owns those resources and capabilities (external growth); or (3) Cooperating with other companies, which have them (intermediate or cooperative growth).

2.2 Transaction Cost Analysis (TCA)

Transaction cost analysis is most commonly used theoretical perspective entry mode research (Williamson 1985). TCA stress that manager go through from bounded rationality whereas potential actors are assumed to be opportunistic (i.e. having a tendency to cheat other parties) if given the chance (Brouthers & Hennart, 2007; Klein et al., 1990). Bounded rationality is the idea that decision maker have limited information and that is impossible for the decision maker to comprehended and analyze all of the potentially relevant information in making choices (ibid). In TCA framework three factors are put forward to influences decision: asset specificity, uncertainty and frequency (ibid).
Asset specificity is a vital descriptive variable in most of the studies (Brouthers & Hennart, 2007). Numerous studies have found that high asset specificity is associated to the use of high control modes (WOS) (ibid). It is unclear that Asset specificity has always been applied in entry mode literature or not (ibid). However, Williamson (1985) developed this concept to explain vertical investments. Asset specificity takes place when suppliers or customers made investment that is specific to the buyer (ibid). Once made, these investments expose them to having the other party alter the price of the product, a situation called holdup (ibid). To stay away from holdup situation, the parties will draft a contract that specifies the price of the product for the useful life of transaction-specific investments (ibid). Despite focus on vertical investments, many entry modes scholar have used this concept of asset specificity to explain horizontal investments (Williamson, 1985). That is, investments make use of market knowledge or reputation developed in another (Brouthers & Hennart, 2007). In the case of knowledge the choice is between licensing and integration (ibid). Licensing is chosen when asset specificity is low and integration is chosen when it is high (ibid).

The second main TCA variable, uncertainty, it is categorized into external and internal uncertainty. External uncertainty makes it tricky to identify in advance all possible incidents in a contract, whilst internal uncertainty makes it hard to confirm performance later (Williamson, 1985). External uncertainty is created due to market specific factors such as country risk and cultural distance and is measured by using i.e. country risk index (ibid). Zhao et al., (2004) argues that country risk and cultural distance are the two most common constructs for external uncertainty. Internal uncertainty that examine issues of perceived difficulty in partner selection and perceived ability to enforce, monitor, and control contractual agreements (Brouthers & Hennart, 2007).

The third aspect is the frequency, which is affecting firm boundary decisions and it refers to the choice between using market contracting and integrating transactions within the firm (Brouthers & Hennart, 2007). Although contracts use pre-existing enforcement mechanisms, such as the courts, integration requires firms to craft their own enforcement mechanisms (ibid). However Brouthers and Hennart (2007) argues that in spite of enormous number of studies still there is room to improve the knowledge and application of TCA to the entry mode choice decision.
According to Hennart (2009) TCA provides several reasons why WOS might perform better than JV under certain conditions. First, the foreign parent may transfer more intangible resources, such as more sophisticated technology or brands, to WOS than they do to JV because they are more concerned about local JV partners appropriating their intangible resources. Second, the performance of a JV depends not only on the congruence of the partner’s goal but also on whether opportunism by partners can be contained. When a firm uses a WOS, it does not have such concerns. Additionally, TCA suggest that a JV might be preferable when a local partner offers complementary knowledge, such as access to distribution channels and natural resources which cannot be easily purchased on the market or a deep understanding of local markets (ibid).

2.3 Institutional Theory

According to Brouthers and Hennart (2007), Institutional theory asserts that country institutional environment can strongly affect the firm boundary choices. They point out five types of risks of uncertainty: product, government policy, macroeconomic, materials and competition. Additionally the study shows that each of these risk or uncertainty types were significant determinants of entry mode choice (ibid). Institutional theory differs from transaction-cost theory in two important areas. First, it pays more attention to contextual variations in institutional environments. Second, key determinants considered to have an impact on the choice of organizational structure differ between transaction-cost and institutional theories (Williamson 1991). Moreover the previous studies suggest that host country industry structure as a barrier, affecting entry mode choice (Brouthers & Hennart, 2007). The study assists to understand the distinction in institutional environments between home and host countries, and assists how these differences may influence the entry mode decision (ibid).

2.4 Eclectic Framework

According to Dunning’s (1993) eclectic or OLI (Ownership, location, internalization) framework is also commonly used in international entry mode choice studies. Dunning’s framework consist of three components these are: ownership or firm-specific advantages, location advantages, and internalization advantages. Dunning’s framework can be used as tool that merges insights from resources-based (firm-specific), institutional (location), and transaction cost (internalization)
Theories (ibid). The components of Dunning’s framework, such as ownership, location, and internalization advantages all affected the mode firms used. Dunning’s (1993) eclectic framework of foreign direct investment as applied to entry mode choice suggests that firms select their entry mode strategy by considering three different types of advantage. First ownership advantages are concerned with control issue, the costs and benefits of inter-firm relationships and transactions. Secondly, location advantages are concerned with resource commitment issue, the availability and cost of resources. Thirdly, the internalization advantages are concerned with reducing transaction and coordination costs (ibid). Dunning (1988) argue that a firm that possesses strong OLI advantages will tend to employ equity modes in its international expansion. Brouthers and Nakos (2004) stated that a firm with superior ownership advantages would be likely to adopt equity-based modes. This because these modes are not only enables the firm to efficiently transfer and exploit such firm-specific advantages but also offer the firm high degrees of control and protection over these economic rent-generating assets.

2.5 Uppsala Model

The Uppsala model has illustrated that the internationalization of a firm as process of experiential learning and incremental which leads to an evolutionary development in a foreign market. Based on four case studies of Swedish firms, Johanson and Wiedersheim (1975) distinguished four successive steps in the international expansion process of the firm. These stages are:

1. No regular export activities
2. Export via Independent representatives
3. Sales subsidiary
4. Overseas production/manufacturing

Johanson and Wiedersheim (1975) assert that these stages are significant since they are different with concerning to the degree of involvement of the firm in a market. One of the basic assumptions of the model is that “the lack of knowledge and commitment is an important obstacles to the development of international operations” (Johanson & Vahlne, 1977). Market knowledge (particularly experiential knowledge) and commitment is assumed to be directly related – better knowledge leads to stronger commitment to the foreign market (ibid). Hence increased market knowledge and commitment will translate into commitment decisions to
increased business activities in the foreign market (ibid). According to Ojala (2008) stresses that the Uppsala model suggests that indirect entry modes increase firm’s knowledge about the host country and make the firm familiar how to deal with the customer in host country. Once the firm has become familiar in the target country than it’s easy to carry out direct operations (ibid). The expansion of the firm across many foreign markets, according to the Uppsala model, is associated to psychic distance (ibid). Psychic distance is defined as the sum of factors preventing the flow of information between firm and market. Examples are differences in language, education, business practices, culture, and industrial development (Johanson & Vahlne, 1977). Psychic distance is often associated with geographic distance and its changes because of the development of the communication system, trade and other kind of social exchange (ibid).

2.6 External and Internal Factors

The entry mode choice is influenced by numerous factors that can broadly be classified as internal and external factors to the firms (Hollensen, 1998). Hollensen (1998) and Root (1994) have identified some internal and external factors that can influence on decision to entry mode selection in the foreign market. For a company to go international relies more on its resources, companies having huge resources have higher possibility of going international (Hollensen, 1998; Bruhno and Schilt, 2001). Likewise companies having small setups or limited resources should follow up the entry mode that requires smaller number of resources (Root, 1994). For smaller companies (SMEs) it has always been desirable to choose the option of “Export” as a strategy for entering the international markets. Although SMEs have always desired to have more control in their foreign operations but this happens in seldom situations as most often it requires a lot of resources to control and operate in an international market which SME’s cannot afford (Hollensen, 1998). The smaller size structure of SMEs gives them an advantage on freely selecting the international market entry mode (ibid).

Smaller companies generally have fewer market servicing options, as their very limited own resources may simply not allow, or discourage from, some market entry modes (Koch, 2001). Small companies regarding Koch (2001) may not have enough management potential and special skills to enter foreign market through establishing international Joint Ventures or wholly owned foreign-based subsidiaries. For example establishing a Wholly Owned Subsidiary often involves
very large investment and correspondingly high risk levels (ibid). Moreover, company’s past foreign experiences in the international markets also give it an advantage on how to act when entering a new international market (Hollensen, 1998). Companies can derive these former experiences while operating in a particular country or through general international experience, which implies that how much a company has been involved in international operations (ibid). Due to these experiences companies can reduce the cost of and uncertainty associated with entering the foreign market and the possibility to commit more resources increases (Hollensen, 1998).

Having the highly differentiated products can give companies the advantage of setting up the price more liberally (Root, 1994). Companies having differentiated products/services are more inclined to choose export as their foreign market entry mode (ibid). Companies get most help from having the distinguished products/services, brand name, after sales service and other factors which could help the company to cope up with higher costs in foreign market (ibid). Having this differentiation assists the companies in balancing the cost and benefit by increasing the product prices (ibid). In addition to that company can create entry barriers for their rivals and make their position in the market strong while satisfying the customers’ needs (Hollensen, 1998). Due to the socio-cultural closeness between the countries, they have similar business, industrial practices, language and cultural characteristics (ibid).

When there is a large difference between the home market and target market, it results in high internal uncertainty (ibid). These conditions highly influence the decision of selecting the mode of entry (ibid). Entering a new foreign market is always considered more risky for a company than to operate in the domestic market (ibid). There are several risks attached to it like economical and political risk (ibid). As mentioned earlier if the risk to enter a new market is high, companies would always prefer to choose “export” as their mode of entry since it requires less resource compared (ibid). Moreover, if the target country has a huge market and growth rate is high then company would be willing to utilize its more resources and if the former conditions are less favorable than export is more suitable strategy (ibid) Hollensen (2001) proclaims that the larger the market and the higher the market growth rate, the more likely companies commit resources for this particular market and consider establishing Wholly Owned Subsidiary or Joint
Venture. According to Fredrick & Webster (1992) the different types of relationships that a company can have, with its supplier and customer is highly connected with selection of particular foreign entry mode. Usually, the more complex the type of entry mode is the deeper and closer the relationships, commitment, trust and adaptation will be.

Bruhno and Schilt (2001) described the internal and external factors that influence a company choice of entry mode. Internal and external factors have high significance for the firms while seeking to enter in the foreign market. These factors are: 

-Motive. The motive is basically gives the answer to few question such as: What motive drive the company to go abroad? For examples small home market or a strong competitive product. What motives influence the firm choice of entry mode? For examples, temporary contacts with a companies outside of the home country.

-Goals. What are the basic goals to establish business internationally? Does the company have any long/term or short-term goals? According to Douglas and Craig (1995) the company goals and objectives determine the motive for foreign market entry as well as the required level of control to achieve a firm's objectives in the foreign market. Furthermore, firms with limited goals favor entry modes involving minimal commitment of resources, while firms with aggressive goals and objectives favor entry modes that involve substantial resource commitment and control over the foreign subsidiary (ibid).

-Product. What qualities or characteristic the product have that will be exported? According to Armstrong and Kotler (2011) a product is anything that can be offered to a market for attention, acquisition, use or consumption that, satisfy a want or need. Product also includes service, which is a form of product that consists of activities, banking consultancy, wireless communication. Today, as product and service become more commoditized, many companies are moving to a new level in creating value for their customer (ibid). According to Bruhno and Schilt (2001) Company’s financial, human and technological resources are important to take in consideration while choosing the entry mode. Likewise, plays the management a critical role, how great are the management’s engagement? What competencies are demanded in the international activity? Does the management develop these competencies? What language skills are there amongst the management? All these questions are essential to reflect over. Additionally, networks plays
always a vital role for a companies as well as companies relationship with theirs customer (Bruhno & Schilt, 2001).

The international networks are of strategic importance to firms for identifying international opportunities and foreign exchange partners, acquiring foreign market knowledge, and gaining access to other strategic resources (Evers, Andersson, & Hannibal, 2012). Giblin and Ryan (2012) the local networks tend to play a central role for small firms relation with internationalization. Local network seems to play the most important role; because the local network can handle the issues with the language (Amal & Filho, 2010). Do the firms face any business obstacles or law and regulation that limit the choice of entry in the foreign market? How many competitors does the firm will compete in the target market? Does the competition influence the market entry choice in the target market? These question influence the choice of entry mode selection when the company decide to enter in foreign market. However, the choice of each entry mode may be motivated by different set of factors as entry modes involve different levels of control, ownership and consequently different resources commitment (Nisar et al., 2012). Likewise, several choices are available to firms seeking to enter foreign markets (ibid). The most often-used entry mode includes exporting, licensing, Joint Venture, and strategic alliance as well Wholly Owned Subsidiary (Datta, Herrmann & Rasheed, 2002).

2.7 SMEs Reasons for Internationalization

Hollensen (1998) proclaims that generally it has to be someone inside or outside in the company that begin the implementation of the internationalization process. Hollensen (1998) and Root (1994) stated if the companies have unique and superior product (have high demand) unique resources (such as management skills and expertise, technology etc. and strong commitment toward his worked often drives them into international market. Hollensen stress that the unique product could help the company to raise the product price and gain more profit. Moreover, Chen and Messner (2009) stresses that internationally growing opportunities and resources limitations in the domestic market often drive SMEs to invest in international markets. Hollensen (1998) stated that if the international market grows, a demand for certain products could be created. A few motives, that often drives the companies to go to international markets, when the demand for their product increased internationally. Burca, Fletcher and Brown (2004) stated that
a declining domestic market or when the larger amount of customer placed a demand for their product is another motive to push the companies and their product to internationalization.

2.8 Entry Modes and Selection Approach

A substantial amount of literature has been addressed the entry mode choice or selection. “Entry modes refer to the institutional arrangements under which companies operate” (Pehrsson, 2008). Foreign market entry mode choice signifies one of the most important strategic decisions for a firm seeking to internationalize its operations (Datta, Herrmann & Rasheed, 2002). Wild et al., (2010 p.10) stress “An entry mode is the institutional arrangement by which a firm gets its product, technologies, human skills, or other resource into a market”. Root (1994) discusses entry strategy for international markets are an extensive plan. It decides the firm objective, goals resources and policies and also shows way to companies in international business operation that what to choose to reach sustainable growth in foreign market (ibid). According to Wild et al., (2010) what mode to select depends on several reasons including, experience in a market, amount of control manager, desire, and how market size is. Agarwal and Ramaswami (2014) discusses that it is significant strategic decision for the firm to figure out which entry mode to use while internationalize its operation. Luo’s (2001) pointed out that when the companies desire to enter into a growing market, the majority of them prefer the Joint Venture or wholly-owned entry mode. However several choices are available to firm seeking to enter in those emerging markets. Those other entry modes involve strategic alliances, licensing, and exporting (Johnson & Tellis, 2008). However the significant difference exists between these options, specifically in the term of extent of control, risk, and ownership.

2.8.1 Export

Johnsson and Tellis (2008) defined export as firm’s sales of goods and service produced in the home market and then sold in the host country through an entity in the host country. Exporting is the simplest way of going international, since the level of commitment and risk is reduced when the level of investments are low (Bradley, 1995; Brouthers, 2002; Johnson & Tellis, 2008). Export can be divided into direct, whereas is when companies are selling directly to the foreign buyers, and indirect export, which can be performed through selling to intermediaries, e.g. export agents (Brassington & Pettitt, 2000). According to Ekeledo and Sivakumar (1998) exporting of service is somewhat different from goods because services are intangible. Furthermore,
exporting of goods refers to an physical object to be shifted to the target market while exporting of a service requires embodying the service in a storage medium, e.g. books, and exporting the service-embedded object or using a vehicle, e.g. telephone wires to export the service to customers in foreign locations (ibid). Additionally, hard services (e.g., music cassette) prefer exporting while soft services (inseparable services; e.g., project management) are more likely to prefer franchising or contract as entry mode (Erramilli 1990).

2.8.2 Licensing
Licensing may be defined as an agreement between two parties, where one party has proprietary rights over some information, process, or technology protected by a patent, trade, copyright. This agreement, takes place in form of contract, and the user has require the licensee to pay a royalty or some other particular sum to the holder of the proprietary rights in return for permission to copy the patent, trademark, or copyright (Hisrich, Peters, & Shepherd, 2005). Luostarinen and Welch (1990) define licensing as a contractual transaction in which the holder of particular knowledge, assets, or industrial property, gives the right to another organization or individual to use their assets under certain defined condition. Furthermore when a company buys the license contract from another company or individual for a product, technology or knowledge resource the buyer gain the right to use it as defined in the license contract (Yi, 1999). This gives notion that the company that is selling the right to use a specific assets technology still has the right to keep the patent and make sure that the other company used the provided information as defined as in the license contract (ibid).

According to Chen & Messner (2009 p.20) “licensing provides a method for profiting from a foreign market without committing sizable funds and taking rampant international construction risks”. This means that licensing is a significant option for the firms to increase revenues, without the risk and costly start up investment and it also a safe way to minimize risk, and expand a business (ibid). However, as collate to Joint Venture and Wholly Owned Subsidiary entry mode, one of the widespread disadvantages with licensing is that the original company, outside of the contract, has very low level of control and high level of knowledge dissemination (ibid). This means that host government can influence the actions or operation of a subsidiary (Chen & Messner, 2009).
2.8.3 Joint Venture
The expression of Joint Ventures can be defined as “Two or more organization reaching a commercial agreement to co-operate in achieving a common goal” (López-Navarro, 2013 p.31). According to López-Navarro (2013) is the international Joint Venture, a form of strategic alliance, an important means of international expansion. Kirby and Kaiser (2003) stress that Joint Venture can be perceived first and foremost as a tool to achieve entrance to resources embedded in other organizations. According to Munns and Aloquili (2000), “As far as the broader sense this could be taken to include any commercial agreement between two parties, because a degree of cooperation must be exist along with a common goal” (ibid). Furthermore, according to Gomes- Casseres Joint Venture is a way of obtaining local management expertise and connection in order to facilitate fast entry into new markets (Kirby & Kaiser, 2003).

Lu and Beamish (2006) argued that a Joint Venture is an entity that is created when two or more firms pool a portion of their resources to create a separate jointly owned organization. Moreover, Lu and Beamish (2006) say that an international Joint Venture is an arrangement or group of agreement linking at least two parties from two countries, who come up with decision to combine assets, finance, talent, property, core competence, capabilities and share risks, to create a business for their mutual benefit. The term Joint Venture is essence of the formation of joint business between two partners whereas both parties control 50% of the business and share the revenues, expenses and assets (Gong et al., 2005). According to Kirby and Kaiser (2003) Joint Ventures can be seen as successful entry mode, particularly for small medium sized companies with limited knowledge about the new foreign market. A Steier (2001) stress that one of threat associated with Joint Venture is the lack of control. The lack of control can be face when one partner or firm manage their way and do not continue cooperation with their Joint Venture partner (ibid).

2.8.4 Strategic Alliance
Strategic alliance is defined as “a managerial tie-up with multiple companies in a variety of forms which involve contractual or cooperative relationships between companies including Joint Ventures, license agreements, information exchange agreements, sharing minority equity ownership, and holding joint research and development programs with a wide range of partners including foreign client’s suppliers and competitor” (Dhingra, 1991). This mean that strategic
alliance will make it possible for the companies to build up corporate strategies in a global perspective, offer a full line of goods, and provide more inclusive service to customer across the world (ibid). “A strategic alliance can help entrants to reducing cost, investment risks, share technology, improve efficiency, enhance global mobility, and strengthen global competitiveness” (Tse, 1997). This means that strategic alliance would be more helpful in keeping the cost low and emphasizing on technology tie-ups and cooperative dealings in research and development areas (ibid). However, its execution cannot take place directly and this gives the meaning that strategic alliance is often exploited in combination with at least one other entry mode (Chen & Messner, 2009).

2.8.5 Wholly Owned Subsidiary
According to Chen and Messner, (2009) Wholly-owned subsidiary entry mode, offers international contractors increased flexibility and control to set up and protect their own processes and procedures and expand as quickly as they want without the risk of teaming up with partner that do not share the same vision. This means that Wholly Owned Subsidiary offers manager the utmost level of control and the opportunity to make their own decisions (ibid). Collate with Joint Venture entry mode, when there is weak control of property right protection the companies often want to select the wholly owned entry mode (Luo, 2001). Additionally wholly owned entry mode can also be seen in an open economic choice, which leads to achieve long term-profitability when the asset strength of a country is high (ibid).

Whenever the firms trying to enhance its unique resources or core competences, and enters into a changing emerging market, the wholly owned entry mode will favored, since its protected the resource or core competence from leakage to competitors (Luo, 2001). However, to set a Wholly Owned Subsidiary is complex, expensive and takes more time. The main disadvantages are that this mode requires large investment and a high and long-term commitment (ibid). According to Philippe and Léo (2011) involve early international decisions simpler and lower-risk entry modes such as exporting or licensing. As firms gain expertise and greater confidence in the international markets, they learn how to control particular conditions and barriers that they might face and are more likely to invest in WOS, especially as their brands become better known and their customer base grows (ibid).
<table>
<thead>
<tr>
<th>Mode</th>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantage</th>
</tr>
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<tbody>
<tr>
<td>Exporting</td>
<td>- Transfer of goods or services across national boundaries</td>
<td>- Ability to realize location and experience curve economies                                         - High transport cost</td>
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<td></td>
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<td>- Avoid the cost of establishing manufacturing operations in the host country                        - Unpredictability of trade barriers</td>
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<td>- Low risk                                                                                           - Problem with local marketing agents</td>
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<tr>
<td>Licensing</td>
<td>- Foreign licensee buys the rights to produce a company’s product in the licensee’s country for a negotiated fee</td>
<td>- Low costs of development of foreign markets and risk                                               - Difficult to realize location and experience curve economies &amp; to engage in global strategic coordination</td>
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<td></td>
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<td>- Quick growth possible                                                                              - Difficult to have control over technology</td>
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<tr>
<td>Joint Venture/Strategic Alliance</td>
<td>- Sharing of ownership stake and operating control by both parent companies</td>
<td>- Access to local partner’s knowledge                                                                  - Difficult to engage in global strategic coordination and to realize location and experience curve economies</td>
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<td>- Shared development cost and risk                                                                    - Risk of giving away technological know-how and market access to alliance partner for a small return</td>
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<td>- Easier political acceptability                                                                     - Facilitate the transfer of complementary skills</td>
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<td></td>
<td>- Facilitate the transfer of complementary skills                                                    - Risk of giving a way technological know-how and market access to alliance partner for a small return</td>
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<tr>
<td>Wholly owned subsidiary</td>
<td>- Parent company owns 100 percent of the subsidiary’s stock</td>
<td>- Protection of technology                                                                             - High cost and risk</td>
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<tr>
<td></td>
<td></td>
<td>- Ability to engage in global strategic coordination and to realize location and experience curve economies</td>
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</table>

**Figure 2**: Description, advantages and disadvantages of the mode of entry into a foreign market, Adopted from Miller (1998)
2.9 Cultural Distance

Cultural distance is the perceived differences between the manager’s own and the destination culture (Albaum & Dueer, 2008). Furthermore, Kogut and Singh (1988) argue that the culture affects not only the underlying behavior of customer in a market but also the execution and implementation of marketing and management strategies. Cultural distance has a direct impact on the effectiveness of the entry (Johnsson & Tellis, 2008). Leclerc (1994) argue that evidence of failures caused by insensitivity to cultural differences abounds. Euro Disney provides an example of how Disney executives failed to adjust for the cultural differences between the U.S. and Europe. Cultural differences affect several aspect of consumer (ibid). Firms tend to start their international activities in countries with similar condition to their own, this is an example of how culture influence market entry regarding to Czinkota (1982). Firms begin with internationalizing with countries that are culturally close to them. Davidsson (1980) found some patterns:

- Firms will more likely invest where their competitors in the same industry have invested before
- Countries which have similar cultures are a preferred target of investment.
2.10 Conceptual Framework and Analysis Model

According to Miles and Huberman (1994) is conceptual framework the explanation of the most important elements to be studied in a thesis. The purpose of this chapter is to empirically examine firm various factors that can affect their foreign market mode choice. The framework model comprised the main aspects of the study and their influence on the entry mode choice. The authors have developed the framework model which guiding this research work and the presented theories clearly describe their influence on entry mode selection. First, we review and
examine the empirical literature on the five most commonly employed theoretical perspectives on entry mode selection: Transaction cost, resource-based view, institutional theory, and Dunning’s eclectic framework. The aspects of the mention theories have high influence on the firm entry mode decision but the theory, which is highly influencing the entry mode choice in the foreign market, is resources based view.

The transaction cost analysis is basically comprised that the manager or decision maker often act rationally, because of their limited information and communication ability, such notion of the manager or decision maker influenced the entry modes selection in the foreign market. Therefore the transaction cost analysis emphasized that the decision maker should need to paid attention to assets specificity and uncertainty, while making choice in foreign market. The assets specificity are basically unique assets, they must be safeguarded to minimize the risk of opportunistic exploitation. The external and external uncertainty is mainly represents the early and later possible incident in the contract which can affect the entry mode selection in foreign market. The resource-based view is basically guiding the firm that what sort of resource plays critical rules while entering in foreign market. The theory suggests that the unique resources and experience of the firm have often driving the firm, from straightforward choice to more high extensive level of entry mode selection. The institutional theory identifies all the possible risks of the host country, which can influence the entry mode choice in the market. Moreover, the Eclectic framework guiding the manager or decision maker while making the choice in the foreign market. The framework mergers the insights from the above mention theories expect Uppsala model and its components such as ownership, location and internalization influenced the entry mode selection of the firm in foreign market. The Uppsala model is comprised the important aspects of the entry mode selection in the foreign market. The model demonstrated that aspects, which negatively influence the entry mode selection, are the lack of knowledge and commitment. Before entering in the foreign market the firm should need to increase market knowledge and commitment led the firm to increase business activities in to foreign market.

This research will be mostly based on resource-based theory but it will also cover some aspects of the other presented theories as well. The element which make the company enable to be successful their entry in the foreign market is the company resources. The company with unique resources and control over the resources makes the firm enable to improve its efficiency and effectiveness. Then the framework model further proceeds to examine the firm internal and
external factors that can influence their foreign market mode choice. The factors, which have highly influence on the entry mode strategy is the company background, size of the company, international experience and its existing resources. While choosing entry mode selection the company also taking in consideration risk, uncertainty and control over entry mode, culture distance growth and competition, market size as well as government related issues such as taxation, policies etc. These different aspects have high impact entry mode selection. Then we look at entry mode research relating to small medium enterprise (SMEs) and their entry mode selection in the foreign market.

**Assumption 1** - SMEs with limited resources tend to choose the export mode

**Assumption 2** - SMEs with high technology products or service tend to choose the WOS mode

**Assumption 3** - SMEs that need to be supplied with complementary knowledge by a partner and obtaining local management expertise and connection in order to facilitate fast entry into new markets tend to choose Joint Venture mode

**Assumption 4** - The more attractive the host country market in (the sense of large market size and market growth rate (GDP growth) the more likely a firm is to set up WOS instead of other entry modes.

**Assumption 5** - The more socio-culturally distant country has the less likely a firm is to set up a WOS and joint venture instead of other entry modes in that country.

**Assumption 6** - The more unstable and riskier the host country, less likely a firm is to set up a more extensive investment equity mode such as WOS and Joint venture.
3. METHODOLOGY

This chapter discusses different approaches and the choices we have made during this study to be able to fulfill the thesis. As a summary, a figure has been developed, summarizing all the methodology steps used in this study.

![Figure 5: Schematic Presentation adopted from Foster (1998)]

3.1 Research Purpose

The goal of this research is to develop careful descriptions of different patterns. Therefore, according to Foster (1998) is descriptive research performed when studying a problem with already existing theories and information.

3.2 Research Approach

According to Bryman and Bell (2011) a research can be both quantitative and qualitative. According to Stewart (2009) the use of diverse methods results in different conclusions, which does not make the method more adequate compared to another. Numerically oriented, the
quantitative research is mainly based on measurements of phenomenon and most of the time the analysis conducted subsequent to the study involves statistics. Conventionally, marketing research was mostly based on quantitative design, such as experiments, surveys or analyzing secondary data. Moreover, using multiple methods of investigation can generate strong findings on the same phenomenon that are “far more compelling than single method outcomes” Stewart (2009, p.382). The term qualitative research most obviously emphasizes words rather than number (Bryman & Bell 2011). Qualitative research is a methodological aspect and not a consistent and combining a several different kinds of research, e.g. case study, life history etc. (Bryman & Bell, 2011). The research data is consisting basic empirical material, collected in the research process, which verbally is described or narrated. Moreover, the gathered material is analyzed in words rather than numerical operations (Devetak et al., 2010). Creswell (2009) states that qualitative research could contain data collected from interviews (via telephone or face-to-face), observations as well as document in natural settings. Qualitative study can be used to describe and emphasize different contexts where the researchers describe details within the contexts (Bryman & Bell, 2005). The motivation behind the using of qualitative method in this research is that the strength of such interactive relationship in which the researcher receives first hand information and meaningful data. In addition to spend more time on the topic creates a relationship between the authors of this thesis and subject, which plays a crucial role for a genuine understanding of the problem.

3.3 Deductive Research

Deductive approach is frequently described as major research approach in general (Kirkeby, 1990). Deductive research means that the researcher represents conclusion through logic reasoning, (Ghauri & Gronhaug, 2005). Deductive reasoning is described as theory test process, which starts with an existing theory or generalization and try to find out whether the theory applies to particular case, (Hyde, 2000). Deductive approach builds up hypothesis before testing and generalized the results. This simplification and their discussion comprise new knowledge in the light of previous research (Peter & Olson, 1983). Deductive research begins with strong academic footing or data (Danemark, 2001; Hyde 2000,) its aims to test theoretical knowledge that has been developed previous knowledge to empirical research (Johnson, 1996). Deductive approach research is most often used for quantitative research but it does not reflect that it’s
merely used for quantitative research. Additionally, deductive approach is considered less risky, risk like (non-response of questionnaire) collate to other research approach (ibid).

3.4 Research Design

The data sources can be either secondary or primary, or both can be used (Ghauri & Grønhaug, 2005). (Malhotra, 2010; Ghauri & Grønhaug, 2005) argue that secondary data is data that is collected for other purposes than the problem; secondary data is useful to explain and to better understand the problem. In many cases the research problem requires more information than what is available, or the information can be tailored to a specific case (Christensen et al., 2010). It means that the researcher needs to collect new information; this data is known as primary data (ibid). Primary data is data collected first-hand in order to solve the specific research problem (Ghauri & Grønhaug, 2005). Therefore, the data is dependent on both the research problem and design (ibid). This thesis demanded mostly primary data, since it aimed to explore a specific research problem. According to Christensen et al., (2010) a wide variety of data collection techniques is available for solving the current problem, e.g. the collection can be done by telephone interview or face-to-face interview, which can be either structured or unstructured. Our primary data are collected by telephones interviews, and our secondary data from annual report and old research works.

3.5 Research Strategy

Since this research needs to get deeper insight in the firms, the qualitative research will be conducted and to be able to get out special data from the firms, the case studies will be performed on a smaller sample of firms. Case study strategies are useful for intensive analysis of one unit (Bryman & Bell, 2011). A case study can be single or multiple; the approach to choose depends on the specific case and the context (ibid). The authors of this research used a multiple case study, and regarding to Yin (2009) there is a possibility to go deeper into the firms and ask questions specific. By doing a case study the research will answer the question of why and how (Yin, 2009).
3.6 Data Collection Instrument

According to Bryman and Bell (2005) are interviews probably the most frequently used method when it comes to qualitative research. Furthermore, in qualitative research the interviewer puts more attention on trying to understand the respondent’s beliefs and opinions (ibid). In a qualitative interview the researcher writes down underlying information in order to make sure that the interview will go in right direction, which helps the researcher solving the questions (Holme & Solvang, 1997). The interviews can take place face-to-face or over telephone (Bryman & Bell, 2011; Jacobsen, 2002). The telephone interview is argued to be advantageous, because the risk for interviewer bias could be lower, moreover the face-to-face is argued to be advantageous since the respondent’s behavior can be observed (Jacobsen, 2002). In the semi-structured interview the researcher has a list of topics and questions (interview guide) that should be covered during the interview (Bryman & Bell, 2005). According to Bryman and Bell (2011) the respondents sees as important since they explaining the patterns, events, forms etc. of behaviors that are investigated. The authors in this research were collected data from the case studies through telephone interviews with employees at the different case firms (Appendix B). In order to receive the information is it important to have personal contact with the right employees with knowledge about the subject (Bryman & Bell, 2011).

3.7 Sample Selection

According to Yin (1994) it is crucial to find relevant and manageable samples to collect empirical data from. The author chooses four Swedish SMEs that have been entered in the Chinese market through various entry modes. The selected companies for this study based on following criteria:

1. A small or medium sized company (under 250 employees)
2. Have entered in China and still exist in China
3. Have more than three years internationalizations experience

The first case is based on Bergkvist-Insjö a firm within the sawmill industry and headquarter are located in north Sweden. The second case is based on Nepa, who is a company within the marketing consultation industry and are located in Stockholm. The third Case is based on Norden Machinery a firm within the tube industry, core business focus on advancing tube filling systems and have they introduced many innovations along the way. Today is Norden Machinery located
in Kalmar. The last case is based on Anza, which are the leading supplier of painting tools in Nordic countries. They are located in south Sweden in Bankeryd.

3.8 Operationalization

<table>
<thead>
<tr>
<th>Concept</th>
<th>Adapted from</th>
<th>Item in question</th>
<th>Conceptual Definition</th>
<th>Operational Definition</th>
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<tr>
<td>Uppsala Model</td>
<td>Johanson &amp; Wiedersheim (1975) Johanson &amp; Vahlne (1977) Ojala (2008)</td>
<td>Indirect or direct entry mode</td>
<td>“Market knowledge (particularly experiential knowledge) and commitment is assumed to be directly related – better knowledge leads to stronger commitment to the foreign market” (Johanson &amp; Vahlne, 1977)</td>
<td>“Was your entry mode in China indirect or direct ?”</td>
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According to Ghauri and Grønhaug (2005) and Bryman and Bell (2010) an operationalization is a set of procedures that describe activities to be performed to empirically establish the degree if existence of what is defined by a concept. Furthermore, operational definitions are crucial in measurement (ibid). They tell what to do and what questions to ask in order to bring the phenomenon defined within the range of the researchers’ experience. Moreover, the process of operationalization regarding Bryman and Bell (2010) is critical for a qualitative research. Because conducting an interview requires making all the questions understandable for the respondent. Bryman and Bell (2010) emphasizes the importance of all interview questions being based in the theory used. Bryman and Bell (2010) argues that is done to increase the validity by making sure to measure what is supposed to be measured. All of the theoretical concepts were operationalized into workable questions with easily understandable words. See the table for a full operationalization of concepts.

3.9 Interview Guide

According to Bryman and Bell (2011) the interview guide can contain a list of memory prompts of areas that are to be covered during the interview. Our questions were based on the operationalization and the interview guide was conducted before the interviews were held. The interview guide can be found in Appendix A.

3.10 Data Analysis Model

Miles and Heberman (1994) mentioned that various methods are used to analyze qualitative data. The majority of the data collection was completed after finishing the data collection. It is ongoing process where various components put into analysis cycle sequentially (ibid). Additionally, an author demonstrated, that data analysis as three resultant flows of actions: data reduction, data display, and conclusion.
Data reduction: data reduction one the components in proposed by Miles & Huberman, in 1994. The model reflects that data reduction part should not be judge as separate from analysis but as part of it. Reduction of the data analysis helps the researcher to narrow down, sort, remove, and put in order the data for drawing the final conclusion and verification. Data can be reduced and changed through Iterative qualitative data analysis model sorting, selection and summarizing. The second activity of the Iterative qualitative data analysis model is the data display. The aim of this action is to taking reduced data and displaying it an order, so that the final conclusion can be easily extracted. The last and final activity in data analysis model is conclusion drawing and verification. During the researcher finally extract the results of the study and additionally, the researcher noting, difference, similarities, causal flows, and propositions is part of this activity. However for the current research the large amounts of data collected from interviews and have been analyzed by categorizing, clustering, and sorting based on the Miles and Huberman (1994) approach.

**Figure 6:** Data Reduction adopted from Miles and Huberman (1994)
3.11 Quality Criteria

Validity and reliability are by Bryman and Bell (2011) stated to be the most important quality criteria while establishing and judging the quality of a qualitative study. Carmines and Zeller (1979) stressed that validity is basically “concerned with the extent to which a particular measure relates to other measures consistent with theoretically derived hypotheses concerning the concepts or constructs that are being measured.” Validity can be defined as the degree to which achieved measure s estimated values of the “true” state of nature. The conception of validity is quite complex, for instance Bell (2006) stresses that interview questions succeed in describing what they are meant to do describe. This statement means that if the questions have the researcher to achieve the enviable empirical finding, it will be considered valid. To achieve the right data, the right question must be asked to collect the data, which fulfill the research objective. If the question is not reliable, it cannot be valid too. (Bell, 2006). In order to get hold of high validity it is essential to asked questions that reflect purpose and research question of the study. Additionally, It is crucial to frequently enlighten the question for the respondent if they feel need for that, to avoid a misunderstanding about the asked questions (Lundahl & Skärvad, 1999).

In order to validate this research work the authors followed the above presented concept of the validity presented by different authors. Authors, of this research work, put in order a well prepare reliable documentation for survey and interviews in the beginning of this study by asking several concern people to validate the research. Authors took substantial time from interview respondents for valid answer. Authors explain authors also recorded their questions in details before getting answer from the respondent and interviews answer.

Bryman and Bell (2011) stated that reliability can be explained as the consistency of a measure of a concept. Furthermore, reliability tells if the result of a specific research would be the same if someone repeated the study (ibid). Christensen et al., (2010) strengthened this quote and mean the reliability is about in which level it is possible to repeat a survey, if the survey would be done in an identical or similar manner. According to Gray (2009), if a case study wants to reach high level of reliability the researcher must critically use document procedures. It is also essential to identify the theoretical concept that is investigated in order to establish that the finding could be connected to the concepts (ibid). To make insure the reliability of this research work the
information was collected from the concerned people who have closed linked with concerned researched area. For achieving a right information and data our interview guideline was consists of closed and open ended question. After contacted with many company we finally managed a couple of interview with right authorities of the companies. Who conducting the interviews or where it took place did not affect the result of the finding. Hence the entire interview were conducted through telephone and recorded as well. All the gathered data was quite reliable and relevant to our research because the open-end question was provided an opportunity to respondent to expresses their views and provided information about the research area.
4. EMPIRICAL STUDIES

In this chapter the results from the collected data are presented. The chapter is divided into four parts. Each part representing one case, first case are Bergkvist-Insjö AB presented second are Nepa AB presented, third are Norden Machinery AB presented and the last one are Anza AB.

4.1 Case 1: Bergkvist-Insjö AB (Export)

Company Background
Axel Bergkvist founded the company Bergkvist-Insjö in 1926 with cooperation from his family and relatives. Axel passed away in 1970, Ragnar, Axel’s eldest son, took over and ran the company until 1986. Bergkvist’s third generation joined the company in 70’s. Ulf, Ragnar’s eldest son, started to deal with purchasing of timber, and Olle, Ulf’s brother, took over that position when Ulf succeeded the company in 1986. Business expanded between 1980-1990. In 2000 they was invested together with AB Karl Hedin and Moelven Timber AS to establish a raw material company Weda Skog AB (they buy in timber for the three owning companies). Today is the company owned by Bergkvist-Insjön AB (70%) and Moelven Industries ASA (30%). Several enormous facility investments were carried on at the same time. The company’s core business is Sawmills and today does the company have 120 employees. We got the opportunity to interview Suzan Ljungemo, who is working as marketing director at Bergkvist-Insjö (http://bergkvist-insjon.se).

Reasons to internationalize the business
For about eight years ago Bergkvist-Insjö started to look at the Chinese market by contacting a bunch of people with great knowledge about the market. The respondent said that the reason to expand the business to overseas market was to find new buyer for our goods. We also realize that our product is superior to the competition in foreign markets and seek to take advantage of this opportunity and the overseas investment will bring higher returns than additional investments at home. According to respondent we also had some direct inquires from the Chinese market therefore its also drives us to enter in Chinese market. Another major goal with expansion of business to China was to serve the existing customer and to find a new market with a more
potential where we were able to sell our superior quality product to over a large demographic. The company came in contact with the Swedish Export Council and a PR company who helped us with a market research and to get information about the Chinese culture e.g. After a while Bergkvist-Insjö were together with Export Council traveled to China for meetings with potential customers. Bergkvist-Insjö is a large sawmill, but they have never had the plan to start a Joint Venture, open a factory or have the ownership in China. The respondent stated that Bergkvist-Insjö want to have full control over their business and don't take any risks, with e.g. shared ownership.

**Entry mode choice in foreign market**

According to the respondent entry mode selection is one of the significant factor in our success in the Chinese market. Since we already involved in the international business and had previous experience as well in the foreign market so it simply led us to choose same entry mode, exports and other reason is that we having a limited resources therefore to follow up export since it less risky and more suitable for our business.

The respondent also states that we saw a market with growth potential in many regions that have large furniture industry. According to respondent entering in china was little bit different for example an office with recruiting of two Chinese employees. The reasons Bergkvist-Insjö entering in China in a different way was to figure out a long-term plan for the Chinese market, and to overcome different barriers, e.g. language and geographic distance. Moreover the respondent stated that, since we are small medium size company and our resources is limited and our previous experienced also signified that exporting are the more suitable and simplest way to reached sustainable growth in the foreign market. The exporting also has low level of risk and commitment regarding to investment in foreign market. The respondent states “*we always take in consideration how we present our company for customer and potential clients, it always well planned presentation with exactly calculates if it is a good or bad deal*” (Ljungemo, 7 of May 2014).
**External and internal factor that influencing entry mode choice in foreign market**

The respondent said that expanding of business to Chinese market due to rapid changing, raising income, increased market growth, increasingly open business environment and represents huge potential market for foreign manufacturing good. Moreover the respondent mentioned that the market size and growth rate make it enable for our firm to expand our business to different parts of the country and sell more. The respondent said the business environment of Chinese market is quite open and stable from that there is no specific risk from government that affected our entry in the Chinese market but the only risk the firm facing the payment from the customer. To reduce the risk our firm contacting customer that they can have some sort of credit insurance or do payment in advance. Since our company has a limited resource we cannot afford late payment and financial risk.

Bergkvist-Insjö saw the market potential, the customers and a demand of the company’s goods, for many years ago. The respondent mean that China today is more aware of the quality comparing when they entered in China. The cultural distance is something the company doesn’t think affected them so much, since the our firm has a good knowledge about the Chinese market in the term of business practices, legal and political system and marketing infrastructure and Bergkvist-Insjö also just trying to be open-minded and good listener and stay aware about rapid adjustment.

“The last decade has other Swedish sawmills entered in China. The competition level is a bit high then before, but we use advance technology, which make our product superior to the competitor and the price of our product is more reasonable in compare to our competitors” (Ljungemo, 7 of May 2014).

According to the respondent, the relationship between the company and their customers is great, the customers are easy to deal and talk with. The respondent said those customers are the most important people for our organization and our entire business success depend upon on our customer. The major purpose of our firm to develop the customer loyalty and makes them satisfied by fulfilling needs and wants. The company size of Bergkvist-Insjö played a critical role because with the small size this led us to follow up the export since it the more simple way to enter in international market. The respondent mentioned that our existing size is more flexible
and suitable for our target exports to foreign countries. Today the company more stable and around 14-15 % of whole production goes to China and this may increase even more.

Bergkvist-Insjö has a long export tradition and today they have up to 90 % export. Bergkvist-Insjö’s main market since 1992 is Japan, they also exporting to many countries in Europe. So after many years of experience as an exporting company they were not fear to take the chance in China. One another advantages the respondent point out was that Bergkvist-Insjö has their own container terminal in Gothenburg harbor and train goes every day between the sawmill and the harbor and therefore they have the potential to send to country long away. All types of resources are always critical for organization but the human resources as always played the most important role whilst exporting in China, its is impossible for the company to fulfill the needs of the customer without a sufficient human resources other kind of resources is always significant for us and we cannot denied it such as technology, transportation etc. The management plays an important role, the company is privately owned and it makes it easier to take short decision and make quick changes. The respondent states “our network played a vital role and another benefit is that the employees in china have also a large network, and additionally they speak the Chinese language” (Ljungemo, 7 of May 2014). The institutional environment influence not Bergkvist-Insjö in a particularly way, they most dealing with privately owned industries so they see very little of the public side. But one thing is sure and it is that you never can relax in this type of market states the respondent.

4.2 Case 2: Nepa AB (Wholly Owned Subsidiary)

Company background

Nepa is a creative company that provides innovative market research and big data mining solutions globally. Nepa as a gazelle company- flexible, agile and moving forward quickly. For Nepa, innovation means doing thing in new way and innovation measuring marketing communication in a smarter and more efficient way. The data collection, data processing and visualization entirely online based and Nepa rely to high degree on automation in his work and process, which provides a high quality and user-friendly research product at the lowest market rates. Today Nepa serves brands, media owners, consultants and global advertisers in over 40 Countries across four continents on a continuous basis and has offices in China, India, Finland, Norway, and UK and has 90 employees around the world. Nepa is a fast growing small medium
sized company and their core business is marketing consultancy with high tech IT content. The telephone interview was conducted with P-O Westerlund who is an executive vice president and head of international operation, at Nepa (http://nepauk.co.uk).

Reasons to internationalize the business
The main factors that led Nepa to internationalize their operation were due to the markets and customer demand for their product. The demand from foreign companies led Nepa into the international market. The direct demand from the foreign market for Nepa service was also one of the inspirations to establish itself in for distance market. Except this pace of competitions, international market opportunity, profit, market share and rapid market growth rate and small domestic market also the factors that drives them into Chinese market. The strong securely and entirely online-based service, and the company’s internal management ability are other motive that drives them into international market.

Entry mode choice in foreign market
After the investigation and the evaluation of the market scope and different entry modes the high management eventually comes up with a decision to adopt the Wholly Owned Subsidiary mode. The reason Nepa adopt the Wholly Owned Subsidiary mode was because of the demand of certain characteristic that motivated Nepa to began its operation independently in the foreign market. The respondent stated that, Nepa data collection, data process, and visualization totally online based which led us to high degree of automation in work process. “Such sort of high tech resources definitely led us to adopt a specific entry choice (wholly owned subsidiary), which enables us to keep competence and capability of doing things securely and protected from leaking to competitors” (Westerlund, 7 of May 2014). Moreover the respondent stated with selection of this entry mode Nepa also has the opportunity to make his or her own decision and take control over everything and as well as to achieve long-term profitability.

External and internal factor that influencing entry mode choice in foreign market
When it is comes to the company choice of international market entry mode the respondent views all the mentioned external and internal factors are significant for them. The external factor such as market size and growth, culture distance, competitions, customer relationship,
geographical distance etc. influencing the entry mode choice while the internal factor to some extent also influencing entry mode decision such as human resources product or service, international experience, company size, goals of the firm etc.

According to respondent, it extremely significant for Nepa to has good market knowledge, educated and skillful worker as well as the right technology to succeed in the foreign market. Therefore Nepa management relies on the importance of hiring of high profile, experienced and skilled personnel to develop the business further. To take the business on the next level Nepa hire Johnny Caldwell who previously was working in a similar role at research, now he left and working for Nepa. He has over 20 year experience in the marketing research industry. Johnny Caldwell said, “This is the kind of role I have been waiting for. Nepa is a young and ambitious company and I’m looking forward to helping the current management team develop the business to next in the UK and beyond” (http://www.nepauk.co.uk).

Nepa has also recruited former researcher Cecily Crawely as research insight executive. In his new role will to providing advanced analytical and data mining techniques fusing primary research with internal client data and social media output. Nepa taking a consideration all the resources but the human resources are more crucial for company since they have the ability to play a crucial role to exploit the firm resources in efficient way. Since 2006 Nepa offers innovative, high quality and cost effective analytical services for branding and communications. The respondent stated that we offer a reliable product or services with high content of technology, which make the customer satisfied. Nepa assets specificity is not different in the various markets. Since Nepa served the customer in the various market across the world. According to respondent, the international experience is very significant when choosing foreign market entry mode. The gained experience in many countries made our entry easier in the Chinese market. Due to previous experience it has also been easier to choose an appropriate entry mode. The company size plays a vital role in selection of the entry mode choice in the foreign market. The present size and the market share of the company allow us to expand our business to various international markets. The progress in the company size is quite satisfactory. Nepa has a long-term goal in china, therefore this led Nepa to adopt Wholly Owned Subsidiary entry mode to have a full control over the assets and have full ownership. Nepa goal is to serve their customer better than their competitors and gain more market share. Nepa has strong and
well define strategy, organizational structure and with a bunch of previous international entry experience with over more than thirty countries.

The respondent emphasized the importance of market size and growth rate as it crucial for reaching profitability in the market. “The market size and growth rate highly influence the entry mode choice and led the firm where to set up a new unit” (Westerlund, 7 of May 2014). To bearing the logic of market size and growth rate high management of Nepa had made comprehensive survey of Chinese cities to select the location to set up new unit of Nepa. The management finally decided that shanghai is the suitable location to placed the new unit of Nepa. Country risk and uncertainty are also significant factors to take into account when choosing foreign entry modes for Nepa. The company evaluated the target market for a long time before taking the decisions about the establishing of new units. After gaining a good knowledge and information about the market the management evaluate what sort of risk and uncertainty are exist in the market. To deal with risk and uncertain situation Nepa has parent unit located in Hong Kong often involves their help and expertise to handle the situations.

According to respondent, Social-cultural distance is very significant but we already had knowledge about the Chinese market and culture and previous experience about the various cultures of countries made it easier for us to deal with. We took all the aspect of their culture and language in consideration and as I mention before that Nepa relies on the recruited local, well educated experienced, skillful personnel so they how to deal with it. Therefore social-cultural distance is not a really obstacle in our entry. Since the business nature of Nepa is quite different from the rest of the business so the host country institutional environment factors do not have a high influence in the company entry mode decision while entry in foreign market. Customer relation has also a high significance since the whole business depend on customer demand. Therefore, it really crucial for Nepa to know the customer needs and wants in the target market. Since the Chinese economy is growing day by day and huge number of companies is trying to enter and setup their business. Therefore the competition is getting high but due to our effective organization structure, technology, management ability, experience and skilled personnel we compete very well in the market.
4.3 Case 3: Norden Machinery AB *(Wholly Owned Subsidiary)*

**Company Background**

For over 70 years Norden Machinery have focused exclusively on advancing tube filling systems and have introduced many innovations along the way. Their long involvement with tube handling filling gives the customer access to extensive technological and application expertise. Norden Machinery is a well-equipped and working for long-term tube filling partnership. Today is Norden Machinery world’s leading supplier of high-performance tube filling system and have 230 employees. We got the opportunity to interview Anders Ekström, who is working as After Sales Director, at Norden Machinery [http://nordenmachinery.com](http://nordenmachinery.com).

**Reasons to internationalize the business**

The reason why Norden Machinery entered China with Wholly Owned Subsidiary was that they have a strong ambition from the owner Nordstjernan, which saw a number of potential customer and a way to keep the prices more competitive in the home country. Another driving force was to cheapen their production and the assembling. The Chinese market offered us a cheap labour and low taxation rate, Therefore many companies in the mid of 2000s expanded their businesses, and started to produce in China. The respondent states, “if you want your business to remain competitive you have to expand internationally, if you don’t your competitors will” (Ekström, 8 of May 2014). The motive have been shifting since they entered in China, today are Norden Machinery focuses more on great material purchase instead of cheapening the process.

**Entry mode choice in foreign market**

For many years ago, Norden Machinery agency has relationship with a Chinese partner. This partnership lasted in many years, and gave Norden Machinery a base with 80-90 customers. 2005, the Swedish company Nordstjernan acquired Norden Machinery and in same moment Norden Machinery were decided to start their own business in China. The process started with establishes a sales organization, and then 2008 were Norden Machinery sold to Italian Coesia Group so the organization broadened in China. Since 2005 have Norden Machinery a Wholly Owned Subsidiary that providing sales and service, the respondent state that the reason why we entered China with WOS was to higher the control over our products and to make our own decisions in a long-term perspective. Today are there more than 300 unit of machines running in
hundreds of factories in China, Those customers are concerning personal care, cosmetic, pharmaceutical, food and chemical industry.

*External and internal factor that influencing entry mode choice in foreign market*

An increase in the demand of Norden Machinery specific product made it obvious to enter in China. Other factors which influencing the Norden Machinery entry mode choice is that whey want to be market leader so from them was a WOS mode an obvious choice. “*It cost 25-30% in tax to estimate in their already expensive machines, so it was a driving idea behind to start assembling in China*” (Ekström, 8 of May 2014). A worker with many years of experience and well educated handled the country risk, for example the government policies and other necessary questions. The respondent state that one of Norden Machinery core value is that knowledge comes from culture from the territory, relationships, experience, research, training and education; knowledge as professional and personal growth. The respondent state, by expand our business around the world we gain valuable knowledge, which we can use in product development. When Norden Machinery was entering in China, the cultural distance plays a critical role. The respondent stated that they wanted to have Chinese employees, which can deal with all daily communication with the customers so therefore they choose to start a WOS. Furthermore, the respondent state that the geographic distance did not affected them in a negatively.

Norden Machinery is used to travel a lot around the world. One of the major problems for Norden Machinery is to handle all Chinese and Indian companies that make copy of their products, and sell it to lower prices. But this kind of competition is still far from Norden Machinery technology wise. Before Norden Machinery entered in China they was market leader in many other countries in the world, so the major goal with establish business in china was to get leading position in China as well. Today is 97% of all machines are exported. Worldwide operations are something that is very common at Norden Machinery. For examples were North America, U.K., Germany and France markets that Norden Machinery entered successfully before they entered in China. This previously experience gave them confidence and they know what to do, and just in fact that Norden Machinery have 40 employed in the external sales network. Shanghai became an obvious choice since the target was easy find in this region. The management potential has played an important role regarding all important decisions, less role
have the network played, the management have handle the most thing by them self. Norden Machinery is strong technology company, and industry people around the world know their capacity. Furthermore, the respondent state that the technical resources drove us to start a Wholly Owned Subsidiary, and the technology played the most important role of all their resources. The institutional environment influenced Norden Machinery the entry mode choice a bit since they wanted to show the Chinese market that they were in China to stay and to prove customers about their high quality compared to all “copy” companies. So of all market in the world is China the hardest one concerning all copy companies.

4.4 Case 4: Anza AB (Joint Venture)

Company Background
Anza AB, the Nordic region's largest manufacturer of painting tools, and one of the major producers in Europe. Anza is a part of the Orkla House Care concern and they are located in Bankeryd. The Group has a turnover of nearly 500 million. Anza began the production of rollers in 1960, and only a couple of years later were they entered into our first cooperation agreement with industrial designers. Anza’s main markets are Sweden, Norway, Denmark and Great Britain, but they have sales network that covers most of the world. Today is Anza the leading supplier of painting tools in the Nordic countries and they are constantly updated the product range and are a very innovative SME. Anza has 220 employees in Sweden and is located in Bankeryd in south Sweden. Bankeryd has a part of the productions, and have responsibility for the market, R&D as well as purchasing and inventory. Anza is a fast growing SME and our telephone interview was conducted with Johan Hultman who is purchase manager at Anza (http://anza.se).

Reasons to internationalize the business
Anza has chosen to enter into China by a Joint Venture with a Chinese trading house. The trading house is owned partly by the local staff and partly by the Chinese authorities. Anza's stake is 45%. They chose to not be majority owners because they thought it is different to drive a company in China compared with in Sweden. Despite its minority stake in the company Anza believes they can control the operations by being the only customer for the Chinese company. The main factor that led Anza to internationalize their operation was the prices. All competitors
within the industry did the same thing in the beginning of 2000s, Anza were looking for low cost countries and they was taking advantage of the low production cost in China.

Entry mode choice in foreign market
After an investigation among low cost countries and available labors as well as management knowledge, Anza selected to enter the Chinese market by adopting the Joint Venture mode. The investigation was conducting by the management at Anza and then also the Chinese partner who was found by the management. In consideration of shared ownership and operating control by both parent companies, the Joint Venture mode was the most suitable way to entering in China. The respondent states “Joint Venture is a very common and a good way if you want to establish your business in a foreign country with size and resources in consideration” (Hultman, 16 of May 2014). Furthermore, large companies have more resources and therefore it is easier to start your own company and have the Wholly Owned Subsidiary mode while you entering in a foreign market. By utilize the Joint Venture mode the host country company can handle the issues you have, e.g. government, laws and regulations etc. The Chinese Company, which Anza collaborates with, had production in another factory but when they started the Joint Venture, a new factory was constructed. The respondent means that the Chinese company had the know-how, so Anza was just providing the quality mindset and the management style.

External and internal factor that influencing entry mode choice in foreign market
When it comes to the company’s choice of international market entry mode the respondent views some of the mentioned external and internal factors are significant for them. The market size and growth rate didn’t influence the choice of Joint Venture mode in China in a specific way. Instead China was a country with a lot of available labor potential. Anza not selling their products on the Chinese market, they are just producing cheap products so they are not competing with other companies in China. Moreover the socio cultural distance affected Anza a lot, and it was one of the main reasons why they were entered china with a Joint Venture. The respondent states, “The cultural distance was hard to handle, so therefore we was very happy to find a company with complementary skills” (Hultman, 16 of May 2014). The Chinese partner has dealing with all the governmental issues and to get political acceptability. It is common that the communication in English from the Chinese side is bad, so you need to have people that communicate in Chinese.
The competition in China didn’t affect Anza to choose Joint Venture mode, it was more the competition in Europe that made it necessary to find a way to produce cheaper than other companies in same industry. Then the Joint Venture mode was a simple way in a foreign market, considered the shared risks and development costs. Furthermore, the respondent states that the geographic distance has influenced Anza, for example the transportation between China and Sweden takes around seven weeks, so the planning and forecasting are very critical. Considering the internal factors that influenced the choice of Joint Venture mode it has been some internal factors that have affected Anza to choose the specific entry mode.

First of all, Anza feels that they have a strong product with high demand around the world, and they have a big market share in the painting tool industry. Before Anza entered in China, they had a Joint Venture in Malaysia as well as Belgium. So previously experience had definitely influenced the choice of Joint Venture mode in china state the respondent. “We feel that Joint Venture form are a comfortable mode of enter a new market, you became more accepted and the host country can deal with governmental issues” (Hultman, 16 of May 2014). Moreover the respondent states that the company size influenced the choice as well. As small company you have limited resources so with the Joint Venture mode you share the risk and development cost, and also the limited knowledge about the new foreign country is increasing. The major goal with entering in China was, like mention earlier, to cut the production cost and sell the product to a more affordable price in Europe.

Anza currently has no sales in China, but the long-term goal is to develop such a function in the country. The factory is placed in Dantou, which is located near Shanghai. Previously Anza had to buy products from China, which was important from a competition perspective. The respondent states that an investment in China gave us better company image. The management played an important role, and the Joint Venture mode was a decision that the vice president at Anza took. Anza has a good relationship with management and partners in China, but the values differ, however. This is especially notable in the perception of quality. Therefore, we try to implement so much we can about the quality level. Likewise the human resources have played a critical role, which are regarding to the respondent, the most important resource they have. Before Anza
was entered in China they didn’t have an enormous network, but it was something they have built up by the partner company in China.
5. ANALYSIS

In this chapter the analysis are presented, the analysis are divided into three parts. First are the within cases analysis presented and the second part are the cross case analysis presented. Finally a summary of the analysis made.

5.1 Within Case Analysis

5.1.1 Reasons to internationalize the Business

Growth opportunities associated with international markets were identified as a key driver of firm’s internationalization. Small and medium size enterprises have gained opportunities to enter in foreign markets through globalization (Nummela & Bell, 2006). It seems that Globalization is not exclusively multi-national or big firm issue even a small to medium size enterprises looking to expand their market place internationally but before entering into international market there must be some motives such as large market size growth rate, profit, market share, low cost international experience, product, resources competence, as well as someone inside or outside that take initiative to put in practice the process of entering into foreign market (Holleussen, 1998). Expect this, in the case of our chosen companies such as Bergkvist-Insjö AB, Nepa AB, Norden Machinery AB and Anza AB had also other various factors and explanation which inspired them to choose a specific choice of a mode of entering into expand their business abroad.

The reasons which led the Bergkvist-Insjö into international market were: To find new buyer for their goods, their product was superior to the competition in foreign markets, to bring higher returns than additional investments at home, to serve the existing customer and to find a new market with a more potential where they were able to sell their superior quality product to over a large demographic. According to Hollensen (1998) unique product could help the company to raise the product price and gain more profit. Bergkvist- Insjö have unique product (in the sense of unique features and high quality) through which they may can catch the attention of the new buyer and satisfy their need, create a barriers for the competitor and strengthen its competitive position in the foreign market. Bergkvist-Insjö can also keep high prices and gain more profit
with unique differentiated product than competitor but for the retention of the existing ones and to attract new customer they keep the product price reasonable compare to rival. Nepa is a fast growing small medium sized company and their core business is marketing consultancy with high tech IT content. The reasons for Nepa to expand their business to foreign market were: A customer demand in the market for their service, to gain profit, market share, large market growth rate and internal management ability whilst the motives which led the Norden Machinery into international market were: a customer potential market size, to cheapen their production and to stay competitive.

According to Root (1994) a companies with unique resources, such as e.g. management skills, expertise and technology often drive them into international market. As the author mention above Nepa management personnel also has high experience, skills, expertise and technology which makes their company infrastructure entirely unique and online based. This make Nepa able to discover what the consumer like, think and want and offer them high quality and user friendly research product with at the lowest market rate. Another reason to expand business into the Chinese market due to high customer demand and moreover Nepa realize that through foreign investment they would be able to expand their business and will strengthen their competitiveness large market to gain more market share and profit, these attributes attracted Nepa into international market and more specifically to Chinese market. Since 2005 Norden Machinery has are more than 300 units of machines running in hundreds of factories in China.

The reasons why Norden Machinery entered in China were because they saw a great customer potential and a great sales volume. According to Lu and Beamish (2006); Bruhno and Schilt (2001) a great sales volume or strengthen their competitiveness can be another motives for a company to go to foreign market. Norden Machinery wanted to be market leader and they realized that they must act in the Chinese market to stay competitive. By acting in China they could cheapen their production and offer lower prices. The reason why Anza was internationalizing their operation was the price. Many of the competitors within the painting toll industry went abroad in the early 2000s to offer products in Europe to more affordable prices. Anza took the advantage to find cheaper production and labor in China. An international
operation can strengthen a firm's competitiveness; by lowering production costs offer more affordable prices to their customer (Root, 2004).

5.1.2 Entry Mode Choice Selection in Foreign Market
The appropriate selection of the entry mode choice is the core process of the every company strategy. According to Datta, Herrmann and Rasheed (2002) is the foreign market entry mode choice signifies one of the most important strategic decisions for a firm seeking to internationalize its operations. Regarding our multiple case studies all SME’s such as (Bergkvist-Insjö AB 120 employees, Nepa AB 90 employees, Norden Machinery AB 230 employees and Anza AB 220 employees) have taken strategic decisions to expand their business and choose a suitable entry mode to achieve their desired goals. Since SMEs have few financial and managerial resources (Zacharakis, 1997; Kirby & Kaiser, 2003; Lu & Beamish, 2006). Limited resources may lead them to very different international strategic choices in comparison to larger firms, and they may use low investment non-equity modes of entry, modes such as exporting and licensing (ibid). Yap and Souder (1994) stated that SMEs may be able to service small niche markets. Through that reducing the investment risks and encouraging the use of more investment-intensive, equity-based entry modes, like Joint Ventures and wholly owned subsidiaries. Since our chosen case studies findings well reflected the above mention theory in the sense that all chosen companies possesses on limited resources may lead them to very different international strategic choices compare to large firms and some of them like Bergkvist-Insjö used low investment non-equity modes of entry, such as exporting while the others like Nepa and Norden Machinery, Anza used more investment-intensive, equity-based entry modes, like Wholly Owned Subsidiary and Joint Venture. Moreover Wild et al., (2010) argue which entry mode to choose depends on several reasons, e.g. previous experience, amount of control manager, desire, market size etc. The finding shows that that all the four companies had a previous experience in the various markets across the globe and their selected particular entry modes in the Chinese market is the result of their previous experience and as well as depend on other factors such as amount of control and large market size.

Additionally, Johnson and Tellis (2008) stated that the entry mode selection also depends on the level of control, risk and ownership. When firms seeking to enter in a foreign market are a
numerous choice available, the most common choice is export, wholly owned subsidiary, Joint Venture (Agarwal & Ramaswami, 2014; Deepak, Herrmann & Rasheed, 2002). Nepa and Norden Machinery’s have the same entry mode due to high tech resources and a long-term goal in China. Both companies argue that they entered in China with the WOS mode because they wanted to have full or high control over their products or assets and make their own decisions. Furthermore, Luo (2001) argues that the WOS entry mode is seen in an open economic choice, which leads to achieve long term-profitability when the asset strength of a country is high. In this scenario Nepa and Norden Machinery have the opportunity to execute their long term planning, this choice led both firm to achieve their desired goals and long-term profitability especially when the high positive fluctuations occur in host country assets in the sense of currency.

In another viewpoint is that the WOS mode is complex, expensive and time consuming process and companies often enter in foreign market with WOS is trying to enhance its unique resources or core competences (Luo, 2001). Nepa and Norden Machinery management are well aware that WOS mode is pretty expensive, complicated and time taking process but this mode offered them a full control over their assets and enable them to enhance its unique resource in the sense of improving know-how about the process with help of local skilled personnel and may can produced and offered a differentiated product to the host market. Nepa and Norden possess very specific assets or assets with great potential for generating profits. In this case, Nepa and Norden machinery prefer to protect itself against possible opportunistic behavior by a partner using firm assets to pursue its own interests. Furthermore Nepa and Norden Machinery prefer not to share the potentially high revenues that its assets may generate. According to Chen and Messner (2009) WOS mode increases the flexibility, control and protection over own processes. Moreover both the firms possess tacit assets related to the firms internally and its organization which cannot be transmitted to an external partner. By selecting WOS choice both firm have the opportunity to adjust any sort of rapid changes regarding to the firm process or strategy and have full control to make their own decision about the firm present or future. Moreover, in the case of Nepa and Norden machinery WOS is the only entry mode that can protect its tacit assets from leakage to competitors (Luo, 2001). Nepa and Norden machinery have a previous experience, expertise and confidence in the international market such as Norway, Finland, UK, India (Nepa) North America, France Germany (Norden Machinery). These markets experience learned them
how to tackle control over a specific condition and obstacle in for distance market and as well as what entry mode is appropriate for entry into foreign market so this is led the both firms to employ WOS in the Chinese market (Philippe & Léo, 2011). Furthermore, Luo (2001) pointed out that when the companies desire to enter into a growing market, the majority of them prefer the Joint Venture or wholly-owned entry mode.

When the firm want to enter into international market is not only concerned what market they want to enter it also about how to enter (Pehrsson, 2008). Since the selection of the entry mode choice is significant strategic decision for Bergkvist-Insjö but the firm already involved in the international business and had previous experience in export, which shows the way to Bergkvist-Insjö how to enter in foreign market. So it seems that of because of limited resources and not to take risk they choose to enter in China with the same exporting mode. This decision of Bergkvist-Insjö reflects that exporting is the simplest way of going international. When the low level of investment are involved in exporting since the level of commitment and risk is lower too (Bradley, 1995; Brouthers, 2002; Johnson & Tellis, 2008). The respondent at Bergkvist-Insjö stated, since we are a SME, exporting a more suitable and simpler way to reached sustainable growth in the foreign market. Hollensen (1998) argues that SMEs always been desirable to choose the option of export as entry mode in international markets, because other entry modes often requires a higher degree of resources. This argument supported the Bergkvist-Insjö position since export mode is appropriated for Bergkvist-Insjö in Chinese market because of limited resource. Entry mode refers to the institutional arrangements under which the companies carry out their operations in the foreign market (Pehrsson, 2008). So the export mode is the simple way for Bergkvist-Insjö to carry out their activities or action in the Chinese market.

The Joint Venture mode according to Kirby and Kaiser (2003) can be seen as successful entry mode, and particularly for SME with limited knowledge about the new foreign market. Anza was entered in the Chinese market with the Joint Venture mode. The respondent at Anza argues with limited resources and knowledge about the new market, the Joint Venture mode can solve this kind of problem. The host country partner can handle the issues you have, e.g. government, laws and regulations etc. Moreover the entry mode choice has significant difference in term of control, risk and ownership (Johnson & Tellis, 2008). The term Joint Venture is when two parties control,
most often, 50% of the business and share revenues, expenses and assets (Gong et al., 2005). The respondent stated that they not want to have full ownership because of the risk. Anza's stake is 45%, despite its minority stake in the Joint Venture. Anza believes they can control the operations by being the only customer for the Chinese company. Furthermore, Kirby and Kaiser (2003) state that the Joint Venture is a way of obtaining local expertise and connection in order to facilitate fast entry into new markets. This is in line with the respondents’ statement, that the Chinese Joint Venture partner had the know-how expertise.

5.1.3 External factors that influencing entry mode choice in foreign market
Hollensen (1998) and Root (1994) have external factors that can influence on decision to entry mode selection in the foreign market. The external factors that influencing entry mode choice in foreign market are market size and growth rate, social-culture distance, country risk, demand uncertainty, competitors and customer relationship (Bruhno & Schilt, 2001 & Hollensen 1998; Root 1994).

Market Size and Growth Rate
Hollensen (2001) proclaims that the larger the market and the higher the market growth rate, the more likely companies commit resources for this particular market and consider establishing Wholly Owned Subsidiary or Joint Venture. It seems that the investigated companies took in consideration market size and growth rate from different perspective. All the companies have been expanded their business to Chinese market due to increasingly open business environment, rapid changes in economy, and most importantly outstanding large market size, and growth rate which led them to achieve a possible market share and profitability. Apparently it is cleared that the level of profitability in a market will vary from company to company but it also depend on the company resources and how they exploit it in the target market. Moreover respondent from Bergkvist-Insjö informed us that such expansion will helped their firm to gain new buyers, to serve the existing customers and to find a new market with large size and more potential, which make them able to enlarge their business across the various markets. The respondent at Nepa mentioned that market sized and growth rate is crucial factor to leads us what entry mode to choose and where to execute business setup. Nepa management had made a comprehensive survey analysis of Chinese cities to select the location for new set up.
The main intention of the market analysis to establish the appeal of a market and to comprehend fluctuating opportunities and threats it presents in relation to strength and weaknesses of the company. After the inclusive analysis the management decided that Shanghai is the appropriate site into commit their resources for this particular market due to its large size and high growth rate. Whilst the Norden machinery respondent stated that the market size and growth rate matter in the sense, that there should be apparently a high consumption and demand for the product. Since our products already have a high demand in the Chinese market and may turn us to more effective firm and market leader in the future. It seems that Nepa and Norden Machinery well aware of Chinese market size and growth rate therefore they more likely to commit resources for this particular market and consider to establishing Wholly Owned Subsidiary Hollensen (1988). Anza attracted to this particular market and considers establishing Joint Venture to improve the product and reduce the cost of the product. The Anza does not sell their product in Chinese market since market size and growth rate did not have influence on their entry mode selection.

**Social-Culture distance**

According to Zhao *et al.*, (2004) the cultural distance one of the most common construct for external uncertainty. Firms tend to start their international activities in countries with similar condition to their own, this is an example of how culture influence market entry regarding to Czinkota (1982). The collected data shows, that all investigated Swedish SMES reflect a high level culture difference between the home market and target market it may be the result of high external uncertainty for the firm, because often the companies tend to start their international activities in countries with similar condition to their own or have similar industry structure, similar business practices or culturally closed the each other Zhao *et al.*, (2004) & Czinkota (1982). All the investigated firms agreed that high culture difference are crucial in the way of establishing business in Chinese market but we already had good knowledge about the Chinese market in the term of business practices, marketing infrastructure, legal and political system.

Moreover the data shows that the investigated companies also had international experience in their concerned business and they often recruited local educated, experienced and skillful personnel so they make it easier for them to deal with culture related issues. To stay away from
negative effects of the culture difference on the entry mode, the investigated firms such as Nepa and Norden machinery selected mode which provides them full control over the business while Bergkvist-Insjö choose export which often involve less risk. Moreover, Anza started their international activities with selection of Joint Venture choice in Chinese market where as Anza faces high cultural difference in the term of industry structure management style, language that highly influenced their entry mode choice. The selected entry mode choice could better Option for Anza to get local management expertise and connection to order to facilitate fast entry into Chinese market (Kirby & Kaiser, 2003).

**Country Risk**

Brouthers and Hennart (2007), asserts that country institutional environment can strongly affect the firm boundary choices. Entering a new foreign market is always considered more risky for a company than to operate in the domestic market. Foreign markets are in general considered more risky than domestic but in the case of government policy and business environment the Chinese market is quite stable. According to Bergkvist-Insjö respondent the only risk that we faced the payment from the customer, because of limited resource the firm business based on export, which cannot afford high risk. To handle this risk Bergkvist-Insjö asked from customer to have credit insurance or to do payment in advance. Moreover, company’s past foreign experiences in the International markets also give it an advantage on how to act when entering a new international market (Hollensen, 1998). Whilst Nepa and Norden Machinery data shows that in fact they are small and medium size enterprises but due to experiences in the international markets led them how to operate and while entering in the Chinese market.

In the case of Norden Machinery they have experienced qualified personnel have know-how to act and carried out operations in Chinese market whereas Nepa had made the evaluation of the market and gained good knowledge about the concerned market before to set up of new unit. Nepa also has parent unit located in Hong Kong and often involved their help and expertise to overcome on the risky situation. Its seems that Nepa and Norden Machinery small medium size enterprises and well aware of the institutional environment but they their potential and special skills led them to enter in Chinese market through Wholly Owned Subsidiary because WOS more risky than other entry modes since it required enough management potential and special
skills (Koch 2001). Moreover the Chinese institutional environment deeply affects the entry mode choice of Anza and compelled Anza to adopt specific entry mode choice like Joint Venture. Through this choice Anza has opportunity to combine assets, finance, talent, property, core competence, capabilities and share risks to achieve mutual benefits (Lu & Beamish, 2006).

**Competition**

If the intensity of the competition is high on a foreign market, the market become less profitable and does not encourage heavy resources commitments. Companies tend to avoid internationalization on this type of foreign markets. The competition level for Bergkvist-Insjö Nepa, and Norden Machinery is not that much intensive so that they tends to avoid their entry in the Chinese market. Bergkvist-Insjö has one competitor but Bergkvist-Insjö using advance technology, which makes their product superior to the competitor whereas Nepa has strong effective organization structure, technology, management ability, experienced personnel makes Nepa competent to offers innovative, high quality and cost effective analytical services for branding and communications against the rival. At start Norden Machinery was market leader in many markets but later on Chinese and Indian companies imitates their product and started to sell it lower price due to which the competition level increased a little bit for Norden Machinery. But still Norden Machinery product is superior to competitor in the sense of quality and technology wise. Its seems that for all the investigated companies the competition level is not that much extremely extensive to affect their profitability and discourage them to wind up their operation or bring to an end their internalization process in Chinese market.

**Customer relationship**

According to Fredrick & Webster (1992) the different types of relationships that a company can have, with its supplier and customer is highly connected with selection of particular foreign entry mode. Usually, the more complex the type of entry mode is the deeper and closer the relationships, commitment, trust and adaptation will be. The respondent from Bergkvist-Insjö said that from the very first day we had a good relationship with customer and we considered them the most important people for our organization and the selection of our entry mode and the entire business success depend upon our customer. To succeed or simply to survive Bergkvist-Insjö deliver superior product through export to deeper and closer the relationship with target
customer. Since Nepa service already had high demand and had different customer connection in the Chinese Market, which led Nepa to select the Wholly Owned Subsidiary to have full control over the organization and made their own decision to satisfy the customer needs and wants in the market to stronger the relationship with customer.

The respondent stated that, Norden machinery had better relationship with supplier and customer since they are centered individual to guide us to select Wholly Owned Subsidiary in Chinese market. Hence the selection of this particular entry mode promotes the better relationship with customer and supplier to improve the coordination and cooperation for the Norden Machinery to provide the needed resources and study its customer markets needs closely. Customer relationship have no influence on the Anza entry mode choice since Anza do not sell their product in Chinese market only have production unit with Joint Venture partner.

5.1.4 Internal factors that influencing entry mode choice in foreign market

When companies decide to expand their business and start to operate in a foreign market different internal factors influence their choice of entry mode (Hollensen, 2001). We have taking seven internal factors in consideration that are the most common and have the greatest impact on the choice of entry mode in a foreign market. The internal factors are the product, international experience, company size, motive, strategy, goals, management, resources as well as the network (ibid). In our case studies all firms defined as SMEs with a business’s between zero to 249 employees” (Sullivan-Taylor & Branicki, 2011).

Product

According to Root (1994); Armstrong and Kotler (2011) a unique products can give companies the advantage and value. Bergkvist-Insjö, Nepa and Norden Machinery have unique product or high technology, which are in connected with Root’s theory that companies can take advantage from their unique products. Nepa and Norden Machinery levels of uniqueness or technology draw them to start a wholly owned subsidiary. In Anza’s case they choose to enter with the Joint Venture mode, they do not have any unique products. According to our cases it seems the choice of entry mode depends on level of uniqueness product and technology among other factors.
International Experience

(Wild et al., 2010; Hollensen, 2001; Barney, 1991; Erramilli, 1991; Johanson & Vahlne, 1977) Basically firms’ entry mode choices depend on both the length and scope of international experience. These theories supported our case findings, which represents that all companies have previous experiences through which they based their choice of entry mode. Bergkvist-Insjö has a long export tradition and today they have up to 90% export. For them was the export mode an obvious choice in China. Hollensen (2001) argue that after some experience it is easier to choose the most appropriate entry mode for the product provided. Furthermore, Barney (1991) state that after international experience firms can move from straightforward exporting operation to more complex organizational structures such as JVs and WOSs. Norden Machinery’s respondent stated that previously experience gave them confidence to choose the WOSs mode in China which provide an opportunity to have full control over organization decisions (Erramilli, 1991). Neap respondent also stated that the gained experience in many countries made their entry easier in the Chinese market.

Due to previous experience it became easier to choose an appropriate entry mode. Furthermore, Anza’s respondent stated that previously experience had definitely influenced the choice of Joint Venture mode in China. Hollensen (2001) stated that, companies could derive these former experiences while operating in a particular country or through general international experience, which implies that how much a company has been involved in international operations. Moreover, by international experiences companies can reduce the cost of and uncertainty associated with entering the foreign market and the possibility to commit more resources increases (ibid). The collected data of the firms shows that the former experience of the companies in foreign markets makes them able to choose a particular entry mode choice to reduce the production cost and risk into involves more resources to increase the efficiency while entering in foreign market.

Company Size

According to Hollensen (2001); Koch (2001) the size of a company indicates the company’s resource availability. Furthermore, the larger the company is the better resources it has for the foreign operations. Often SMEs enter a foreign market by the export modes for the reasons that
they do not have the necessary resources for the indispensable control of the heavy investments abroad (ibid). Bergkvist-Insjö’s respondent stated that the company size played a critical because with the small size led us to follow up the export since it the more simple way to enter in international market, which reflect the Hollensen’s theory. Additionally, the respondent at Bergkvist-Insjö stated that, since we are small medium size company and our resources is limited and our previous experienced also signified that exporting are the more suitable and simplest way to reached sustainable growth in the foreign market. Which also support the Koch’s (2001) theory that SMEs generally have fewer market servicing options, as their very limited own resources may simply not allow, or discourage from, some market entry modes. This was also one of the reasons why Anza chooses the Joint Venture mode. Since they are small in size they have limited resources and therefore wanted to bring more improvements in the product and share the risk with a Joint Venture partner. Nepa and Norden Machinery stated since they have the high technology and uniqueness they argue that the company size did not affect them while they were choosing the entry mode, WOS.

Management
According to De Búrca, Brown & Fletcher (2004) the previous experiences of international market of the company’s management influence highly the choice of foreign entry mode. This theory supports our answers from the respondent from all the four cases. Bergkvist-Insjö, Nepa, Norden Machinery and Anza stated that the management has played an important role whilst the companies went to a foreign market and choosing an appropriate entry mode. The respondent at Anza stated that the management played an important role, and the Joint Venture mode was a decision that the vice president at Anza took. In all cases the management had the desires to go international and wants the expansion of their business globally. Bruhno and Schilt (2001) point out how important it is to have a great management with right engagement and competencies to success in international market as well as accomplish goals in a foreign market. It seems that the investigated firms possesses on high experienced management personnel’s and competencies which have the ability to take the business to the next level and achieve goals.
Goals
According to Bruhno and Schilt (2001) is goal the basic thing you need to figure out before you go international with a business. If it is a short or a long-term goal is also important to take in consideration (ibid). It was common to all firms that they have a long-term perspective and goal to establish their business in China for long time. Bergkvist-Insjö has a long-term goal to sell quality products. Nepa has a long-term goal in china, therefore this led Nepa to adopt Wholly Owned Subsidiary entry mode to have a full control over the assets and have full ownership. Norden Machinery’s major goal was to establish business in China and to get a leading position in China as well. Finally, Anza’s major long-term goal was to develop and improve their production China. According to Douglas and Craig (1995) the company goals and objectives determine the motive for foreign market entry as well as the required level of control to achieve a firm's objectives in the foreign market. Furthermore, firms with limited goals favor entry modes involving minimal commitment of resources, while firms with aggressive goals and objectives favor entry modes that involve substantial resource commitment and control over the foreign subsidiary (ibid). This theory is related well with the empirical data we collected, it seems that Nepa, Norden Machinery and Anza has aggressive goals and they wanted to improve and have control over the foreign subsidiary.

Resources
According to Sun and Tse (2009) and the RBV, a firm can be seen as a bundle of collected resources, in form of tangible and intangible. Furthermore, Grant (1991) suggested five different categories of resources, physical, financial, human, technological and reputation. Resources seem to play a critical role for the companies from our case studies. Bergkvist-Insjö’s respondent stated that all types of resources always are critical for organization and the human resources has always played the most important role whilst they have exporting in China. Furthermore the respondents from Nepa and Anza argued that the human resources play the most essential role while operating in a foreign market. Norden Machinery is a very strong technology company, and therefore the respondent means that this kind of resource is the most important form them. Moreover it was the technology resources that drove Norden Machinery to start a Wholly owned subsidiary. Hollensen (1998); Bruhno and Schilt (2001), for a company to go international relies more on its resources, companies having huge resources have higher possibility of going
international. Likewise companies having small setups or limited resources should follow up the entry mode that requires smaller number of resources (Root, 1994).

Network

Many studies have highlighted the essential role of international network in firm’s process to go to a foreign market (Evers, Andersson, & Hannibal, 2012). Furthermore, the international networks are of strategic importance to firms for identifying international opportunities and foreign exchange partners, acquiring foreign market knowledge, and gaining access to other strategic resources (ibid). Regarding our case studies it seems that the network has played a vital role whilst the companies entered in China. If the company didn’t have the network, they were trying to build up the network. Furthermore, the local network seems to play the most important role, because the local network can handle the issues with the language (Amal & Filho, 2010). This is something that are in line with the theory, regarding Giblin and Ryan (2012) the local networks tend to play a central role for small firms relation with internationalization. According to Bergkvist-Insjó’s respondent is it a lot with benefit with have a large local network, because they can the Chinese language.

5.2 Cross Case Analysis

<table>
<thead>
<tr>
<th>Entry Mode Choice (In a foreign market)</th>
<th>Bergkvist-Insjö AB</th>
<th>Nepa AB</th>
<th>Norden Machinery AB</th>
<th>Anza AB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly Owned Subsidiary</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint Venture</td>
<td></td>
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<td>X</td>
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</tbody>
</table>

**Figure 7:** Entry Mode Choice in a foreign market, the four companies from the case studies

In figure 7 shows the different entry mode choices. Two companies entered the Chinese market with WOS mode, while one with the export mode as well as one with JV mode.
Figure 8: External Factors that influenced the company’s choice of entry mode in new international market

In figure 8 shows the external factors that drive a foreign SMEs choice of mode of entering in a foreign market. All external factors do not have the same influence on the foreign SMEs in Chinese market whilst some of them such as market size and growth rate as well as socio cultural distance highly influence their entry in the Chinese market.

Figure 9: Internal Factors that influenced the company’s choice of entry mode in new international market
In figure 9 shows the internal factors that influences SMEs market entry mode selection of entering in a foreign market. The figure shows that almost all the internal factors affect the entry mode choice of the investigated SMEs.

5.3 Summary of the Analysis

As Hollensen (1998) and Root (1994) stated if the companies have unique and superior product (have high demand) unique resources (such as management skills and expertise, technology etc. and strong commitment toward his worked often drives them into international market. with regards to investigated cases finding support this argument since this argument as the major reason for these Swedish SMEs to go foreign market. The decision-making process in foreign market entry mode selection or choices is an important strategic process (Quan, 2012). “A precise and careful analysis is necessary before entering a new market” (Albaum & Duerr, 2008) Root (1994) discusses entry strategy for international markets are extensive plan and it decides the firm objective, goals resources and policies and also shows way to companies in international business operation that what to choose to reach sustainable growth in foreign market. The finding shows that before the selection of the foreign market entry mode choice investigated companies have been made a comprehensive and careful analysis of the concerned market. Since the SMEs possess on limited resources may guide them to very different strategic choices such as low investment non-equity mode of entry such as exporting and more investment-intensive, equity based entry modes such as Joint Venture and wholly owned subsidiary. Moreover with regarding to investigate companies selected modes clearly described their intentions weather the company has long-term or short-term goals as well as also indicated the level of their resources and how much the company has willing to take a risk. Hollensen (1998) and Root (1994) have identified some internal and external factors that can influence on decision to entry mode selection in the foreign market. The finding support this argument, the analysis model illustrated in detail the factors that influence investigated firms entry mode selection in Chinese market. Since the SMEs have limited resources and often adopt entry mode which required limited resources such as export because Bergkvist- Insjö export has been considered the most simple way for entry in the foreign market but on the other hand Nepa and Norden Machinery do not want to share the revenue, profit and have unique product or service and process therefore they wish to have full control over the assists which led them to adopted more investment-intensive
equity based entry mode wholly owned subsidiary. While Anza chose Joint Venture since they wanted to share risk and to achieve local expertise to facilitate it quickly in new market. Moreover the other internal and external factors such as product, resources, and international experience market size and growth rate country institutional environment etc. drove them to choose a specific entry mode in the foreign market.

**Assumption 1** - SMEs with limited resources tend to choose the export mode: *Supported*

**Assumption 2** - SMEs with high technology products or service tend to choose the WOS mode: *

**Assumption 3** - SMEs that need to be supplied with complementary knowledge by a partner and obtaining local management expertise and connection in order to facilitate fast entry into new markets tend to choose Joint Venture mode: *Supported*

**Assumption 4** – The more attractive the host country market in (the sense of large market size and market growth rate (GDP growth) the more likely a firm is to set up WOS instead of other entry modes: *Supported*

**Assumption 5** – The more socio-culturally distant country has the less likely a firm is to set up a WOS and joint venture instead of other entry modes in that country: *Not supported*

**Assumption 6** - The more unstable and riskier the host country, less likely a firm is to set up a more extensive investment equity modes such as WOS and Joint venture: *Not supported*
6. DISCUSSION

This chapter provides initially a discussion of the results derived from the previous research.

The findings in this study support that the entry mode choice in foreign market is influenced and driven by numerous internal and external factors (Root, 1994; Pehrsson, 2008). Furthermore, with look upon to investigated cases, a small number of assumptions were supported and the findings of this study reflect distinction to previous study that have been conducted and pointed out the factors influence entry mode choice of foreign SMEs in foreign market. However, the finding of this study also shows some similarities with prior study (Ekeledo & Sivakumar, 2004; Gomes-Casseres, 1989) that international experience influences the choice of entry mode in a foreign market. This underscores the conclusion that international experience is important for firms while they are choosing an appropriate entry mode.

Further, prior study (Benito & Welch, 1994) shows that smaller companies have fewer market servicing options as their very limited own resources may not allow or discourage from some market entry modes e.g. establish Wholly Owned Subsidiary involves substantial investment and correspondingly high risk levels. The collected findings of the investigated companies cannot not supported above statement, because the limited resources in Norden Machinery and Nepa did not seemed to discourage them from choosing the WOS mode. Instead, the high technology product or unique service tended to play a crucial role while they were choosing the entry mode. With regards investigated case, management of the firm are more likely interested to choose the market that have the potential to show long term benefits and assure to improve the firms competence as the Johansson (1997) stated that the companies often select countries that show greater long-term prospects and promise to enhance the firms capabilities. The finding correspond that’s knowledge of the concerned foreign market is significant for the investigated companies since it makes easier to figure out what choice of market entry mode appropriate to makes its entry more flattering whereas the previous research (Forsgren, 1989; Johanson and Vahlne, 1977) suggest that knowledge of the foreign market is particularly important to the choice of market entry mode. However we also found that, direct demand, advance technology, unique product, high level of competence and country political stability played a critical role in
the attracting of the investigated SMEs to foreign market. Moreover the study shows that the most critical factor which influencing the Swedish SMEs entry in the Chinese market are the internal factors of the company as well as a few external factors is also influencing their entry and droves them to specific entry modes in Chinese market.
7. CONCLUSIONS AND CONTRIBUTIONS

In this chapter we are answer our research questions and give contributions to previous knowledge.

The growing internationalization of the world’s economy has brought the topic of entry modes and their determinants, to the spotlight. Although initially MNCs (multinational corporations) clearly took the lead on the internationalization process, SMEs soon demonstrated they were not to be ignored. However, SMEs find it more difficult to internationalize, when compared to MNCs, due to their fewer resources. In this research study we point out that, what factors drives a foreign SME choice of a mode of entering in a foreign market. According to previous research (Pehrsson, 2008; Hollensen, 1998; Root, 1994) as well as our own investigation represents the entry mode choice in a foreign market is influenced and driven by numerous internal and external factors. It seems that the majority of the firms from our qualitative case studies represent that the internal factors plays the most critical role while choosing the entry mode in a foreign market. It seems that the product, international experience, company size, management, resources and the goals plays crucial roles that drove them to a specific entry mode. When entering in a new market, the investigated SMEs often look how they previously entered in foreign market. This gives knowledge to SMEs how to enter and what factor should take an account to reduce the risk while seeking to enter in foreign market. It is the fact that An SME do not possess on same amount of resources collate to larger company, since the SMEs often facing constraints and limited resources are often forced SMEs to choose an entry mode that only demands a small resource commitment as for example export. It seems that investigated SMEs with high technology or unique product or service tend to choose WOS mode since the firm do not want to share generated revenues tacit assets or knowledge to competitor. It also seems that SME who need to be supplied with complementary knowledge may choose Joint Venture mode since this make the firm enable to obtain local management expertise, makes good networks in new markets. Among the external factors the market size and growth rate, demand and competitors have the highest impact on the choice of entry mode. Moreover, the study shows that SMEs do not have the same prerequisites as larger companies have when entering new foreign markets. The study found that SMEs often uses a mix of the stated approaches.
8. MANAGERIAL IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

The managerial are discussed which ends up with a presentation of this study’s limitations followed by recommendations for further research.

8.1 Managerial Implications

The SMEs manager may can find the information of this research study helpful if they are involved in the decision making process of entering in foreign market. It is significant for SMEs manager to make a comprehensive foreign market analysis is to determine the attractiveness of a market and to understand its evolving opportunities and threats in order to reduce the risk and ensure the profit of the firm, since SMEs possess on limited resources and cannot afford high risk. After deciding to internationalize, it is also highly significant for the SMEs manager to identifying, evaluating and applying best practices that is, the best ways of working to achieve the goal of entering and operating in foreign market. For example the SMEs manager need to looking at successful companies, entry mechanism and adopting their practices is to save time and resources. Moreover when SMEs managers choosing the entry modes in a foreign market it is essential to look at both the external and internal factors and to find out what factors that are more significantly influencing on their entry while choosing an appropriate mode.

8.2 Limitations

This research was limited to four different cases that have been carefully scrutinized. Although in this research study we investigated few of the most interesting field but there are many other Swedish industry field, which could be studied further on. As the findings of the investigated companies were not supported with statistical data, the results cannot be generalized and alleged for all SMEs that enter in a foreign market. In fact, this research merely shows possible tendencies and presumptions. Regarding to the finding all investigated SMEs taken an account a different entry modes due to its resources and nature of the business. The finding shows that investigated SMEs is not limited to specific entry mode they taking in consideration a various of entry mode in Chinese market and most often depend upon on the company goals.
8.3 Suggestions for Further Studies

For further research we suggest the use of a significantly larger sample, from a larger geographical area, preferably a multi-country study, in order to assess the hypothesis related to the home market factors. It should also be recognized that the analysis presented here is essentially descriptive in nature. Future research may adapt in more detail explanatory approach, to exploring more in depth the entry mode choice. For instance, a qualitative approach, using case studies, in-depth interviews and focus groups would provide a complementary insight into how market factors influence firms’ decisions. Lastly, for future research it would be interesting to conduct study with entirely different market entry mode in a one particular industry, by using a large sample from different countries.
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APPENDIX A

INTERVJU GUIDE

Bakgrundsfrågor:

Namn och position

Hur många anställda har företaget?

Vad är företagets huvudsakliga verksamhet?

Ingångsläge:

Vilken typ av inträde på internationella marknader har företaget utnyttjat?

(Export, licenser, strategiska allianser, Joint Venture, helägt dotterbolag) Annan form

(Franchising, produktion kontrakt, Dotterbolag, Produktions dotterbolag, samarbete med andra
företag) Varför valde ni specifikt ingångsläge för kinesiska marknaden (viktigaste
orsakerna)? Vilket mål hade ni när ni etablerade er på en ny internationell marknad? (Kina) Hur
har företaget hanterat risken med att etablera sig på en internationell marknad? Verkade ni på
några andra marknader innan ni gick in på den kinesiska marknaden? Om... Hur påverkade era
tidigare erfarenheter valet av specifikt inträdessätt? Vilka lokala marknads faktorer har påverkat
företagets val av ingångsläge på nya internationella marknader?

Resurs Baserad Syn:

Tycker du att ert företag har några unika resurser som kan göra att ingångsvallet blev
framgångsrik på utländska marknaden? Bidrog era befintliga resurser till att välja ett specifikt
ingångsläge? Vilken av följande resurser tror du spelat den viktigaste rollen?

(Fysiska, ekonomiska, mänskliga, tekniska) Hur?

Transaktionskostnadsanalys:

Vilken typer av faktorer (Tillgångar specificitet, osäkerhet och frekvens) har påverkat företagets
beslut av ingångsläge på den utländska marknaden? Hur?

Institutionell Teori:

Påverkade miljön (politik, konkurrens) i Kina företagets ingångsläge beslutet? (Product,
regeringspolitik, makroekonomisk, material och konkurrens)... Om det gör det? Hur?
Eclectic Framework:
Påverkade ägarskap och plats ingångsläget i Kina?

Uppsala Modell:
Var ert ingångsläge Kina indirekt eller direkt?

Externa faktorer:
Hur har följande externa faktorer påverkat företagets val av typ av inträde på den internationella marknaden? Marknadens storlek och tillväxt? Socio kulturella avståndet?

Interna faktorer:
Hur har följande interna faktorer påverkat företagets val av inträde på den internationella marknaden?
Produkt?
Internationell erfarenhet?
Företagets storlek?
Motiv?
Strategi?
Mål?
Management?
Resurser?
Nätverk?

INTERVIEW GUIDE
(In English)
Background Questions:
Name and Position?
How many employees does the company have?
What is the company’s core business?

**Resource Based View:**
Does your company have any unique resources that can make sure your entry mode choice became successful in foreign market?

Does your existing resources drives your attention to choose a specific entry mode of choice in foreign market?

Which of following resources do you think played the most important role? (physical, financial, human, technological and reputation) How?

**Transaction Cost Analysis:**
What kind of factors (Assets specificity, uncertainty and frequency) highly influence your company decision while entry in the foreign market? How?

**Institutional Theory:**
Does the host country institutional environment influence your company entry mode decision? (Product, government policy, macroeconomic, materials and competition)...if it does? How?

**Eclectic Framework:**
How did the ownership, location, and internalization advantages affected mode of entry for your firm in foreign market?

**Uppsala Model:**
Was your entry mode in China indirect or direct?

**External factors:**
How has the following external factors influenced the company’s choice of entry mode in new international markets?
Market Size and Growth?
Socio-cultural distance?
Country risk?
Demand uncertainty?
Competitors?
Customer relationship?
Geographic distance?
Law and regulations?
Trade barriers?
Tax advantages?

**Internal Factors:**
How has the following internal factors influenced the company’s choice of market entry mode in new international markets?
Product?
International experience?
Company size?
Motive?
Strategy?
Goals?
Management?
Resources?
Networks?

**Entry Modes:**
What kind of international market entry modes have the company used to enter in foreign markets (Chinese market)? (Export, Licenses, Strategic alliances, Joint Ventures, Wholly Owned Subsidiary, Other form (Franchising, Contract production, Sales subsidiaries, Production subsidiaries, Cooperation with other companies)
Why did you choose specific entry mode while you entering in the Chinese market (most important reasons)?
What future goals does the company have with their extended international operations?
How does the company handle risk when entering new international markets? Have you entering any other international market before you entering the Chinese one? If…. How does the company’s previous experience of specific entry modes affect your choice of market entry mode when establishing on a new international market? Which local market factors have influenced the company’s choice of entry mode into new international markets?
## APPENDIX B

<table>
<thead>
<tr>
<th>Company</th>
<th>Name</th>
<th>Position</th>
<th>Employees</th>
<th>Phone number</th>
<th>Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bergkvist-Insjö AB</td>
<td>Suzan Ljungemo</td>
<td>Marketing Director</td>
<td>120</td>
<td>+46 247 44321 +46 70 5342100</td>
<td>Wednesday 08.30</td>
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<tr>
<td></td>
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<td></td>
<td><a href="mailto:suzan.ljungemo@bergkvist-insjon.se">suzan.ljungemo@bergkvist-insjon.se</a></td>
<td>7/5-2014</td>
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<td>suzan.ljungemo@bi kb.se</td>
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<tr>
<td>NEPA AB</td>
<td>P-O Westerlund</td>
<td>Executive Vice President, Head of international operations</td>
<td>90 employees</td>
<td>+46 706 404 824 <a href="mailto:p-o.westerlund@nepaglobal.com">p-o.westerlund@nepaglobal.com</a></td>
<td>Wednesday 10:00</td>
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<tr>
<td>Norden Machinery AB</td>
<td>Anders Ekström</td>
<td>After Sales Director</td>
<td>230</td>
<td>anders <a href="mailto:ekstrom@nordenmachinery.se">ekstrom@nordenmachinery.se</a> 070-5519254</td>
<td>Thursday 16.30</td>
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<td>8/5-2014</td>
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<tr>
<td>Anza AB</td>
<td>Johan Hultman</td>
<td>Purchase Manager</td>
<td>140</td>
<td>036-376300 <a href="mailto:johan.hultman@anza.se">johan.hultman@anza.se</a></td>
<td>Friday 09:00</td>
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