To Lead or to Follow?
A case study of an internationalization process

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Abstract

This Bachelor thesis studies the internationalization strategy of a Finnish label stock company, UPM Raflatac, in China during the late 1990’s. The purpose of this descriptive study is to facilitate the understanding of companies’ internationalization processes. This was done by studying UPM Raflatac’s internationalization strategy’s connection to the internationalization theories of the Uppsala model and the eclectic paradigm. The findings were established by presenting an Internet based questionnaire for the employees of the company. The results showed that the company did not have a country specific strategy and that the resemblance to the reference material was therefore limited.

Keywords:

Internationalization process, internationalization strategy, entry mode, the Uppsala model, the eclectic paradigm, China.
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1 Introduction

The following chapter will briefly introduce the reader to the choice of a specific company and a specific country as well as background elements of internationalization. Thereby the research problem will be discussed and the purpose stated. Finally the research question is concluded and limitations are reviewed.

1.1 Background

China has the largest population, 1,32 billion, in the world (BBC). Even if you have not been to China or do not know anyone from there, this country has an effect on your life. If you stop for a moment and look around at the products surrounding you, we can assure you that at least one of them has a little sticker that says “Made in China”. It is difficult to imagine what kind of success story simple stickers can have. They are the product of the company selected for our thesis, UPM Raflatac. The story of this company started with small experiments in the 1970s in Finland, and now UPM Raflatac is a leading global supplier of pressure sensitive label stock. This company has a worldwide business network and has made sales of approximately one billion Euros (2007). This remarkable growth could not have been achieved without internationalization, and that is why UPM Raflatac has widened their business area to five continents.

How firms internationalize is a widely examined area without any specific and general answer. There is not one particular theory of international trade that could sufficiently explain all forms of international transactions of goods and services (Dunning 2001). The forces behind the patterns of internationalization change over time. According to Nilsson et al. (1996), internationalization should not be looked upon as one single process but as a chain of separate and linked processes. In each company the internationalization process may have unique elements where the firm’s history and specific changes in the competitive and corporate environment need to be examined (Nilsson et al. 1996). The aim of our thesis is to examine the internationalization process one company went through in one country. We seek to facilitate the understanding of the internationalization process. This is
done by giving a full description of UPM Raflatac’s internationalization process in the geographical area of China.

UPM Raflatac was chosen as our study object because they are well established in their operations, which we conclude this to be a sign of their international strategies’ credibility. In addition, their success story intrigued us, and their extraordinary product assortment was seen as an interesting driving force. That is why we chose to concentrate on this particular Finnish company that is now international in its operations. China, on the other hand, in its nature as a growing economy, is a relevant cornerstone in the internationalization process of any company. Being the second largest recipient of foreign direct investment (World Investment Report 1998, Luo 2000), we see China as a fundamental market area for internationalizing companies. China was a closed economy until 1978, and an entry into such a vast and challenging area can be complicated. This is not only because of the complex situation after the economic transformation, but also because of the overall cultural differences. Internationalizing into a country near the home country, with cultural similarities, would be easier. Any company has to have a clear competitive and adjustable strategy in order to survive the obstacles of internationalization.

1.2 Problem Discussion

Competing internationally, or within a domestic market with international firms, is said to be a necessity nowadays in order to keep up with the competition (Nordström 1991). When it comes to a firm’s foreign market entry strategy, the choice of entry mode is crucial (Tse, Pan & Au 1997). Three main schools of thought are offered to explain the choice of entry mode for a company (Pan & Tse 2000). These are the Uppsala Model, the Transaction Cost Model and the Eclectic Model (also known as the OLI-model, abbreviation of ownership, location and internalization). All of these theories are specific in terms how companies start internationalizing and why companies pursue international trade. Two of the models, the Uppsala model and the eclectic paradigm, concentrate more on the autonomy of the firm in developing its international marketing activities (Whitelock 2002). It is both the firm and individuals within that determine how to enter the market area (Whitelock 2002).
According to Nilsson et al. (1996) companies may have unique elements and they should not be generalized under the internationalization theories. With this in mind, we disregard the Transaction Cost Model, also because as Whitelock (2002) mentioned, the Uppsala and Eclectic models concentrate more on the individual factors of the firm. We seek to facilitate the internationalization process understanding, doing this by concentrating on examining the internationalization strategy of only one firm. We believe these two theories to be of use because they use the company as the starting point. In other words, these theories handle unique managerial issues and decisions that affect the internationalization process. The applicability of two of the internationalization theories is examined by using only one firm as our research material. Foremost, we are interested in examining the cooperation possibilities of these two entities since China is a powerful and growing economy.

1.3 Purpose

Our starting point is to put the firm in focus. This means we are going to perform a descriptive study of UPM Raflatac’s internationalization process in China. We are interested to compare the research material with the chosen reference material. In other words, we are to examine what kind of connection the Uppsala model and the Eclectic paradigm have with UPM Raflatac’s internationalization process. We are going to examine whether either of the chosen theories are applicable to this firm or are able to explain the company’s actions and successes abroad.

We hope the results of our study will be helpful for internationalizing companies. International success stories can be sources of inspiration and information as companies devise their own strategy. We believe that UPM Raflatac could be an example of a good configuration of various factors presented in the theories. UPM Raflatac’s decisions might even present factors that could encourage future research into, and the understanding of, the internationalization processes companies go through.
1.4 Research Question

We state our research question: *What was UPM Raflatac’s internationalization strategy for China?* To be able to answer this question, we raise two supplementary questions:

1) What were the underlying factors for their internationalization process in China?

2) What was their entry mode for the Chinese market?

By choosing only one firm we can analyze whether or not our company in question followed the aspects of the theories.

1.5 Limitation

The scope of our study is focused geographically, theoretically, and company wise. The geographical focus is on China as a whole, which makes geographical generalizations of the results to other countries impossible. We assume the whole of China as our study object, not particular regions of the country. Moreover, we concentrate on only two internationalization process theories even though there is an abundance of them available. Thus our perspective is intentionally limited to examine only points of view mentioned in these theories. Company-wise, the limitations include studying only one company whereby our results are exclusive. Our research material is collected mainly from the employees of UPM Raflatac. Therefore, it may be biased.
2 Theoretical Framework

In this chapter we will introduce the reader to two of the most recognized internationalization theories. As already mentioned in the introduction, they are chosen from others because they were most interesting in regard to our study. They are called the Uppsala model and the eclectic paradigm. In these theories, factors and problems affecting companies’ choice of entry will be discussed. This discussion will proceed by presenting the main entry modes a company can choose from when entering a foreign market.

2.1 The Uppsala Model

In 1977, Jan Johanson and Jan-Erik Vahlne developed a model called the Uppsala model in order to explain the internationalization of a firm. The researchers came to the conclusion that a firm striving for long-term profits uses a process of gradual acquisition and integration to foreign markets. In other words, the internationalization of a firm occurs in small steps as a series of incremental decisions. This means that the level of market knowledge and carefully measured risks before entry have an effect on the internationalization process. Johanson and Vahlne’s Uppsala model is dynamic which means that the outcome of one decision constitutes the input of the next. The key aspects in this model are knowledge and learning. Johanson and Vahlne (1990) state that international involvement is interplay between knowledge about foreign markets and an increasing commitment of resources to foreign markets.

The Uppsala model consists of state aspects and change aspects. The researchers claim that “the present state of internationalization is one important factor explaining the course of following internationalization”. These two aspects are then again divided in two. The state aspects are resources committed to foreign markets (market commitment) and knowledge about foreign market. The change aspects, on the other hand, consist of commitment decisions and current activities. Johanson and Vahlne define a direct relation between these aspects: the better the knowledge about the market, the stronger the commitment (1977).
The first state aspect, market commitment, is composed of two factors: the amount of resources put into the foreign market and the degree of the commitment. Johanson and Vahlne (1977) state that the more specialized the resources are to a specific market the greater is the degree of commitment. The amount of resources committed means the size of the investment in the market which is dependent on the market knowledge. The market commitment is usually slow but the authors of the Uppsala model pose some expectations, such as that firms with big surplus can easily invest in more resources.

The other state aspect, market knowledge, plays a key factor in the internationalization process: the better the knowledge, the easier it is for the company to invest in the new market area (Johanson, Vahlne 1990). In other words, it is vital for companies to possess knowledge about the new market, and to continue collecting it actively. The knowledge of opportunities, problems, and alternatives, among others factors, influence the level of commitment (1977). The market knowledge is divided into objective and experiential (1990). The objective knowledge can be taught whereas the experiential knowledge can only be learned through personal experience. According to Johanson and Vahlne (1977), experiential knowledge is regarded as a resource associated with the particular market and thus cannot be transferred to other individuals or other markets. The experiential knowledge becomes fundamental when the activities are less structured and the markets complex. Firms entering foreign markets often have no such knowledge to start with.

The change aspects are current activities and commitment decisions, i.e. the decisions to commit resources to foreign operations. Johanson and Vahlne (1977) say that current
activities are the prime source of experience which can be acquired by hiring experienced personnel or consulting people with experience. Information from inside the firm, and outside, from the market, is essential in order to integrate into the new market and to be competitive. The more complex the current activities are the higher is the need for experience. This can be acquired by hiring an experienced sales manager or a representative, or by buying a part or all of a firm in the host country. Therefore, it is important to study the choice of entry.

Commitment decisions, which is the other change aspect, concern the decisions of investing resources in foreign operations. This decision is influenced by the alternatives at hand and conclusions are made in order to respond to the opportunities and problems in the specific market.

### 2.1.1 Manifestations of the Model

Johanson and Vahlne conclude that their model of the internationalization process can explain two patterns in the internationalization of the firm. These two patterns can be seen as the operationalisations of the process model (Johanson & Vahlne 1990). Johanson and Wiedersheim-Paul (1975) introduced the establishment chain in 1975: at the start there is no regular export activity, and then firms start exporting to a foreign market via an agent, later establish a sales subsidiary, and eventually begin production abroad. This can be seen with the process model: the internationalization goes in small steps rather than making big investments at once. The establishment chain also goes together with the market knowledge aspect which can be thought to increase with the stages in the chain (1990).

![Figure 2. Our own model based on the establishment chain by Johanson, Jan & Wiedersheim-Paul, Finn 1975: The Internationalization of the Firm: Four Swedish Cases. Journal of Management Studies.](image)
The second pattern explained is the concept of psychic distance by Johanson and Wiedersheim-Paul (1975). Psychic distance is defined as factors that prevent or disturb the information flows between firms and markets, e.g. differences in language, culture, political systems, and level of industrial development. Thus the firms start their internationalization process where the market uncertainty is at low level (1990). The psychic distance correlates with geographical distance, the closer you are the smaller the psychic distance (Johanson and Wiedersheim-Paul 1975). This explains why firms normally start their internationalization process with nearby countries.

2.1.2 The Uppsala Model in Practice

The Uppsala model was introduced over 30 years ago; globalization since the 1970s has increased considerably. One major influence has been the European Union’s strategy to open up its own market; in other words, removing trade barriers between countries. Nowadays companies can even be “born globals” such as high-tech firms and Internet based companies.

Mats Forsgren and Peter Hagström (2007) have questioned the Uppsala model in their studies where they came to the conclusion that Internet-related firms did not follow this model. The authors point out that the internationalization process in eight Internet-related firms they studied was fast and discontinuous. The process was not slow as the establishment chain of the Uppsala model suggests. Little attention was paid to the psychic distance and the main reason for the choice of market was the actual level of Internet usage. Another aspect that Forsgren and Hagström mention is the importance of business relationships which is ignored in the Uppsala model. The crucial factor in internationalization is specific customers; according to Forsgren and Hagström it is important to build a relationship with the customers in order to maintain business cooperation.

After restating the theory and reviewing the criticism we argue that the Uppsala model is of use since we are trying to facilitate the understanding of the internationalization processes companies go through. The fact that the theory is often referred to tells us about its importance in the field of international business research. Therefore, we claim that these
elements are still useful even though the model is from the 1970’s. The model divides the internationalization process into numerous elements which makes it comprehensible and more feasible. These elements form a sort of list of important factors such as market and experiential knowledge as well as learning factors of which the company should be well aware. In addition to these two central concepts, we believe the establishment chain to be an appropriate tool for tracking down the phases of the internationalization process of our case. We claim the psychic distance to be high between Finland and China which makes it interesting to apply this model to our company. The differences between these two cultures can be verified with the help of Geert Hofstede’s study during 1967-1973 of how values in the workplace are influenced by culture. For example individualism was at a high level in Finland, which was not the case in China. There were also differences in the dimension of power distance: in Finland this was low while in China it was high.

2.2 The Eclectic Paradigm

The eclectic paradigm, originally known as eclectic theory, was created by John H. Dunning. He presented it at a Nobel Symposium in Stockholm in 1976, but in the mid-1950’s Dunning started sketching it in his PhD thesis. It was further developed in the 1970’s as well as later in his papers “Explaining Changing Patterns of International Production: In Defense of the Eclectic Theory” (1980) and “Toward an Eclectic Theory of International Production” (1980). The eclectic paradigm consists of the OLI-model standing for Ownership, Location and Internalization advantages that explain the activity of companies outside their national boundaries. Dunning mentions “avenues” that enhance corporations’ growth (1980). For example, as an “avenue” he states the diversification to new product lines and new activities as well as the possibility of exploiting foreign markets. He presents “the extent and pattern of international production” with the help of OLI advantages that companies strive for.

Ownership advantages can consist of benefits from assets like capital and technology that a company possesses or has access to, unlike their competitors. They are also known as income-generating assets, prior to the internationalization (Dunning 2001). These advantages can derive from a company’s size, the capacity and usage of its resources, as
well as a company’s ability to manage its operations. In other words, ownership advantages concern the aspect of overall control and analyzing the costs and benefits of the relationships and transactions within the firm.

Location advantages originate from factors of both host and home countries and are also called the non-transferable characteristics (Dunning 2001). The home country plays the role of a pushing factor; if the market there is limited the companies are forced to broaden their activities. According to Dunning, the wider the attractions of a foreign production base, the greater the likelihood that a company will engage in international production. Therefore, in the destination of the international production, the host country advantages can be, for example, low tariff barriers, the preferable presence of competitors, favorable government legislation and policies as well as good availability of natural resources, most kinds of labor and proximity to market.

Internalization advantages concern reducing transaction and coordination costs which allows companies to maximize their performance. Thus, internalization advantages correlate to the level in which the company employs its ownership advantages and adds value to them. Dunning states also that the more the ownership-specific advantages possessed by a company, the greater the inducement to internalize them.

The OLI advantages influence the choice of market entry mode, according to a study made by Agarwal and Ramaswami (1992). They suggest for example that low levels of ownership advantages can result in exporting. This is also proved by Dunning: if the firm does not have ownership advantages, it is impossible to invest in foreign operations, “engage in foreign direct investment”. If the company has nothing but ownership advantages, it would be more lucrative to consider licensing than practice FDI. For example, if a company manages its operations well and uses its ownership advantages internally but does not have the location advantages, it is lucrative for them to export products instead of producing them abroad. The company’s size and multinational experience also plays a role in ownership advantages. The lower the foreign market experience, the higher the possibility to have problems in managing the foreign operations (Agarwal & Ramaswami 1992). Non-investment entry modes are suggested. On the other hand, firms with higher multinational experience will prefer an investment entry mode. According to a study of Tse, Pan and Au (1997) firms tended to utilize more wholly owned modes of entry as their OLI advantages increased. Furthermore, when a company declares
its advantages to be high in each determinant (ownership, location and internalization), it will prefer a more integrated mode of entry. Agarwal and Ramaswami’s Schematic Representation of Entry Choice Factors (see figure 3) presents the possibilities of OLI advantages and examples of entry mode choices.

2.2.1 The Eclectic Paradigm in Practice

Although positive results have emerged that support the applicability of the eclectic paradigm, there are still critics. For example it is mentioned by Johanson and Vahlne (1990) that the eclectic paradigm assumes that the decisions are made by well-informed and rational decision makers. They continue by claiming that the theory is static and does not take into consideration contingent factors.

In 2001 Dunning reiterated the eclectic paradigm in his article where he mentioned that the significance of the paradigm is likely to be context specific as well as that it may vary across industries, firms, countries and regions (2001). Dunning had refined his eclectic theory even before 2001 and restated that the paradigm has only limited power to explain or predict particular kinds of international production. He continued by alleging that these points of criticism could not be directed at attempts to formulate a general but operationally testable paradigm of international trade (Dunning 1988).
The eclectic paradigm is studied in the thesis as a set of factors that can reveal the choices behind a company’s internationalization strategy. If the company finds its ownership and internalization advantages to be competitive enough, it is reasonable for it to proceed in extending its operations abroad. If a company manages to achieve even location advantages, it is possible that it will internationalize its operations. The reasons that Dunning claims to be behind the internationalization process will be practical in figuring out the process the company of our thesis went through. OLI advantages are connected with companies’ decisions of entry mode and entry mode decisions on their own reveal the companies’ internationalization strategy.

2.3 Entry Modes

Entry mode is the cornerstone of a firm’s market entry strategy (Tse, Pan, Au 1997). Different entry modes reflect varying levels of commitment, risk, control, and profit return (Pan, Tse 2000). The impact of an entry mode on future company success is also great (Anderson, Gatignon 1986). This is why it is important for a company to analyze thoroughly which entry mode to use. We claim the entry mode decision to be the result of the company’s internationalization strategy. The entry mode decision requires the company to evaluate the underlying factors that have an effect on future operations. After distinguishing the strengths and weaknesses of their organization and the environment of the business, the entry mode will be evident. In this chapter, the modes of entry are described.

The modes of entry have been clustered in different ways. Anderson and Gatignon (1986) made a distinction between the different ways of clustering them according to the level of control the foreign investors will have. Pan and Tse (2000) divided them again into equity and non-equity based entry modes. We will present Pan and Tse’s clustering since we are not concentrating on the level of control connected to the entry mode. Moreover, the entry mode decision is not the main focus of our thesis but it reveals the strategy of the company.
2.3.1 Equity Modes

The equity modes require a major resource commitment to the overseas location. In other words, an actual investment is needed in order to set up an independent operation unit. Ongoing management is also needed. According to Pan and Tse (2000), firms need to carefully access the investment risk, location choice, adaptation to the local environment, and control of operation among other factors.

Choosing the equity mode of Greenfield investment as an entry mode to foreign market, the company sets up a whole factory at the new location (Harzing 2002). If the company has already created firm-specific advantages in the domestic market, it is easy to transfer them to foreign countries, when the company has full control (Hennart & Park 1993). The downside is the length of time that it takes for the company to build and establish business networks (Dikova & Witteloostuijn 2004).

The choice of broadening the company’s operations by acquisition implies that the company will purchase an already existing local company (Harzing 2002). By acquiring a local firm, the buyer obtains the existing awareness of the local circumstances and connections to the markets as well as a knowledgeable workforce (Harzing 2002). Acquisition is the last mode of entry according to the establishment chain.

When two or more firms want to achieve similar objectives they can form a joint venture, i.e. cooperative business in order to create complementary resources (Schillaci 1987). Usually a new corporate entity is created in order to satisfy mutual needs. The actual degree of control depends on the number of parties and how control is divided among them (Hill et al. 1990).

2.3.2 Non-equity Modes

These modes, contrary to the equity modes, do not require establishment of an independent unit. Examples of the non-equity modes are exporting and contractual agreements, e.g. licensing, and franchising. These relationships are often short. The dissemination of know-how with non-equity entry modes is at a high level. It is protected only with wholly owned subsidiaries.
Exportation might come under consideration if a company aims to dispose of surplus capacity that cannot be sold in domestic markets, possibly because of a sudden change of economic climate (Management Research News, 1981). This type of non-equity entry mode increases the utilization of the domestic plant (Buckley & Casson 1998). Exportation is the option for companies that have not obtained location advantages with their operations and do not have the advantages required for production abroad (Dunning 1980). Exportation is the first mode of entry according to the establishment chain.

Licensing means that a firm (licenser) grants to another firm (licensee) the right to use their brand, name or other asset to some extent. In the case of licensing, the licensee normally bears the cost. Thus the resource commitment of the licenser is usually low (Hill et al. 1990). In addition, the licensee owns all the revenue creating aspects. Licensing and acquisition are two good ways to avoid competitive threat (Buckly & Casson 1998).

In franchising, the foreign entrant (franchiser) receives royalties from the host country collaborator (franchisee). The franchiser usually gives name, brand, and marketing support to the collaborator but the actual day-to-day management and operational control from the franchiser is at low level. Franchising normally lasts for a longer time than licensing. (Erramilli et al. 2002).
3 Methodology

This section of the thesis will give the reader a description of the method of our study. First, we will present how and where relevant information was gathered. Then we discuss the validity and reliability of the study.

Our study is a single-case study, and thus is qualitative. According to Ghauri et al. (1995) the research problems that focus on uncovering and understanding a phenomenon are typical examples of problems that require qualitative research. We claim the internationalization process of this particular firm to be such a phenomenon.

3.1 Primary Data

We started our research by contacting UPM Raflatac’s Group Communications, asking for press-related material on UPM Raflatac’s business and activities. We were encouraged to study their global customer magazine called Raflatalk, which is published once or twice annually. This material helped us to collect information about the internationalization process UPM Raflatac went through when entering China. We also contacted several managers who were in charge at the time of the Chinese market entry. In order to get the research material needed, we performed an Internet based questionnaire with carefully planned and semi-structured questions. The questions were designed according to the theories and details that we determined to be appropriate for this study.

The questionnaire (Appendix 1) was sent to 21 managers personally (Appendix 2). Ten responses were gained. These respondents were selected from UPM Raflatac’s website because of their specialization in the Asian market. Furthermore, some respondents suggested that we contact others individuals who might have more specific information about the process. Some of the managers were retired from their positions. The titles and the number of years the respondents had been employed by UPM Raflatac varied considerably, which provided us a broader perspective. After a week a reminder was sent to the remaining eleven managers, and one more response was received, which gave us a
total of eleven answers. Two of the responses were incomplete and one was blank. The results contained a few ambiguous answers and further clarification was needed. Therefore we contacted via e-mail two executive managers who were in charge during the internationalization process to China. They provided us with supplementary information.

We are aware that presenting a questionnaire to employees could give us a biased, overly positive, and slanted agreeing picture of the internationalization process. However, other sources of information would not have produced such specific knowledge about the process of UPM Raflatac in particular. To gain more information about business culture and environment in general, we interviewed (Appendix 3) a person outside the company as well. This person is a Chinese entrepreneur who has business experience in both of the countries involved which helped us obtain information about China from a local’s perspective. This person has lived and worked in Finland since 1989 after years of business operations in China. He was chosen because we perceived him to have firsthand knowledge about doing business in these two cultural environments. Even though he has no experience in the label stock industry, we perceived his cultural knowledge and his long term work experience in both of the countries to be of use. For the reliability for our study it would have been interesting to interview a larger number of people who have lived in both countries. However, this was not the focus of our study, and we decided that this person could give us an adequate understanding of the cultural differences through his personal experience. He was asked to compare the economic situation in China with that in Finland and to specify differences between these two cultures (Appendix 3). His answers were useful in understanding the Chinese economic transformation as well as the importance of the local market knowledge and the cultural factors.

3.1.1 Questionnaire

The questionnaire was Internet based, provided by Polldaddy. It consisted of ten questions which varied from general to more specific, from open questions to multiple choices (Appendix 1). In order to facilitate the intelligibility of the questionnaire for the respondents the language used was English. We assumed the respondents to be of various nationalities, therefore English was most universal. The aim of the questionnaire was to
gain information about how UPM Raflatac prepared for the internationalization process, what they did and how they succeeded in their operations.

The questions were designed in order to gain understanding of the aspects of the theories. After determining the personal information (Q.1) we posed a question when did UPM Raflatac enter China (Q.2). This question was asked because public information varied. Next, we proposed questions that would reveal perceptions about the following aspects of China: Chinese government rules and regulations, level of technology, cultural aspects, market responsiveness and economic situation (Q.3). The respondents were asked to evaluate the level of risk that these aspects possessed. Thereby a connection to the Uppsala model could be achieved, since this question reveals the specific knowledge of the market. We conclude that if the risk is at a low level, the knowledge of the market is good.

We were also interested in the actual mode of entry used when entering China, and when the operations developed (Q.4, Q.5). These questions were designed to find out the resemblance to the establishment chain. The respondents were also asked to clarify the underlying factors for entering China and their importance (Q.6). The choices for underlying factors were selected in regard to those mentioned in the eclectic paradigm. These were aspects of natural resources, research and development of technology, labor resources, competition, market situation, foreign direct investment boom and tax breaks. These aspects could all be processed and placed in different advantage categories.

In addition, we wanted to find out how much market knowledge the company had acquired, and in which way (Q.7). This question is connected with the Uppsala model’s state aspects: the better the knowledge, the stronger the commitment. The level of commitment was also explored in relation to the question of financial investment (Q.8) which reveals the commitment decisions, in other words the decision to invest resources in foreign operations. To see the resemblance to the change aspects, a question of the nationality of their Chinese units was posed (Q.9). This helped in analyzing whether the company had sources of experience to be able to integrate into the Chinese market. Finally the respondents were asked to conclude whether the outcome of the market entry was a success or not by naming the strengths and weaknesses of the process (Q.10).
3.2 Secondary Data

Our secondary data comes mainly from international business journals. In order to obtain higher quantity information, we have used Emerald and JSTOR among others which are noted systems for archiving academic journals. Some keywords used in the search of reference literature were the internationalization process, entry mode strategies, the Uppsala model, and the eclectic paradigm. Our secondary data about the company was collected mainly from the archives of their press-releases and electronic publications. Moreover, Finnish trade magazines, such as Kauppalehti, Taloussanomat, and Talouselämä were reviewed regularly and with a broad time span in order to collect detached information about UPM Raflatac’s internationalization. International Herald Tribune was also an advantageous source in the search for information about China’s economic environment.

3.3 Validity and Reliability

As a starting point, in our questions, we tried to capture the main elements of the internationalization process from the perspective of the theories in our questions. The main purpose of the questionnaire was to transfer the theories to reality. The connection to the theories was well analyzed before the final design of the questions. In order to raise the degree of validity, we tried to ensure that the purpose of the research would be the same in the beginning and in the end. We were careful to make the conclusions strictly according to the research material and not subjectively.

When doing a single-case analysis, we have to be extremely careful when it comes to reliability. The results of our study can vary already because of the large geographical distance. The distance becomes a problem since we cannot perform interviews in place even if we would get more reliable data that way. We acknowledge the fact that by performing an Internet based questionnaire it is impossible to tell whether the respondent we wanted to approach actually answered or not. The respondent has also more time to think clearly what he or she prefers to answer. In addition, by doing an Internet based
questionnaire we cannot see the respondents’ reactions. Moreover, it is impossible for us to predict the answer of the respondent to be the same in different research situations.

Finally, we want to point out that we are doing a case study and are aware that the results of this thesis are exclusive to UPM Raflatac. We do not want to criticize or to question this company’s process of entering the Chinese market, but we intend to analyze it and give the reader a description of it.
4 Empirical Study

This chapter will introduce the reader to facts about the company in question, UPM Raflatac. After this, we present aspects of China’s transforming economy and business environment as well as present statements of the interviewee. This is done in order to understand the specifics of the rise of the Chinese market. Finally we end this chapter by presenting the findings of our questionnaire.

4.1 UPM Raflatac

Juhani Strömberg is the founder of UPM Raflatac (previous name Raf. Haarla). The history of this company started in 1972 when the first experiments with laminating paper were made. In 1975 the very first laminating machine was built and after this the company started to expand its operations (Salovaara 1998, Taloussanomat). In 1976 Raf. Haarla merged with United Paper Mills Ltd. In 1995 United Paper Mills Ltd merged with Kymmene Corporation and Repola Ltd creating UPM Kymmene. Today UPM Raflatac is the label division of UPM Kymmene which is one of the world’s leading forest products groups. Since the 1970’s UPM Raflatac has built its business network, which now consists of 2,700 employees, 12 factories on five continents, and a broad network of distribution, terminals and sales offices worldwide. In 2007 the approximate sales figures reached one billion euros.

4.1.1 Product Assortment

UPM Raflatac’s business consists of labels, laminates and adhesives and they are the world-leading supplier of self-adhesive label materials and RFID (Radio Frequency Identification). RFID labels are used to identify and track all kinds of commodities using radio frequency transmission. According to UPM Raflatac, they possess the most knowledge and capacity for the design and manufacture of RFID labels as well as adhesive labels. As a matter of fact, they are one of the world’s leading label manufacturers (Startel 2008, Taloussanomat). This business area has been increasing during the last decades and
the growth continues. The founder of UPM Raflatac points out that today stickers are used even to attach mirrors! (Rantanen 2002, Talouselämä).

According to UPM Raflatac’s publication *Raflatalk 2/2000*, innovation has been an important factor behind their success story. End-use areas for UPM Raflatac’s laminates include, for example, retail and industrial information, transport and shipping, office information, cosmetics, pharma and techno chemical. High-tech methods and intense investment in R&D are the key elements of their continuous product development. An example of their innovations is the “smart label” of RFID. RFID-products are used in logistic chains, and the end-users of different RFID-products are media management, pharma, transportation and postal services, to name only a few.

**4.1.2 Internationalization**

As UPM Raflatac states in their publication *Raflatalk 2/2000*, the operations of the company started to expand significantly in 1984 through the acquisition of the Kymtac Oy factory in Jyväskylä, Finland. After that UPM Raflatac purchased Raflatac Ltd in the United Kingdom, the very same year. In 1985 the company began its production and sales in Fletcher, North Carolina, USA. The company went to Nancy, France in 1989 and started a major development of its sales and service network. In 1996, the operations had reached a point where a joint venture production was started in Malaysia. Full ownership of the Malaysian factory was gained in two years, simultaneously completing their Singapore terminal and a joint venture factory in Australia. Finally, in 1999 UPM Raflatac acquired factories in Spain, Germany and South Africa. In 1999 UPM Raflatac also formed a joint venture in China which became a wholly own factory in 2000. As a measure of UPM Raflatac’s continuous growth, the eleventh US factory was under construction in the year 2000.

**4.2 China’s Economic Transformation**

The Republic of China was established in 1911 when the emperor era ended. Over the next decades China faced serious changes in the economic field. During the years 1978-1990
China went through an economic reform towards a more market-oriented economy. This reform process was needed because the economic planning of this country was recognized to be a failure and the population badly wanted a change (Chow 2002). According to the Chinese entrepreneur interviewed, free markets were nonexistent, and everything was controlled, owned and funded by the government. There was no competition. When it comes to the biggest consequences of this reform, Chow (2002) mentions that the state enterprises were given some autonomy in production decisions, the enterprises were allowed to keep some profit rather than giving all the revenue to the government, and the contract responsibility system was introduced to all enterprises in 1987. The price system was also modified towards determination made by market forces, and in 1997 the state enterprises were restructured into shareholding companies.

Before this reform China’s economy was essentially closed. The need for change was inevitable and with the help of the open-door policy (encouraging the opening of China to foreign imports and the promotion of exports) the volume of foreign trade increased to 25 percent by 1987 (Chow 2002). By 1998 the volume of foreign trade was already at 37 percent of gross domestic product (Chow 2002). Foreign investment was promoted with the help of opening of different regions of China; foreign investors could set up factories and take advantage of the skilled and inexpensive labor. The foreign companies also received special tax breaks: the tax rate for domestic companies was 33 percent while foreign firms paid a much lower rate (Yardley, International Herald Tribune 2007). China became highly attractive to foreign investors. China’s large and continuously growing domestic market, its export-oriented strategy and successful penetration of world markets were some other factors influencing the boom of FDI (Luo 2000).

According to the interviewee the biggest changes in the economy are the liberation of the market and the rise of entrepreneurs, foreign investors and different ways of funding. Inspiration is gathered from all over the world, especially from western countries. This entrepreneur states that though the situation has improved, the government still has a huge role in the economy. It still holds major corporations though its influence has shrunk from a few decades ago.
4.2.1 Today’s situation: Entry Modes and FDI

When it comes to entry mode, according to Luo (2000) the foreign investors are in general free to choose their entry mode into the deregulated Chinese industries. In 1996 FDI dominated in foreign capital inflows with about 90 percent. Among these, equity joint ventures accounted for 40 percent, wholly foreign-owned enterprise for 35 percent and contractual joint ventures 25 percent. Lou states that the equity joint venture remains the primary entry mode used by multinational corporations to expand into the Chinese market. The international production by multinational corporations has grown continuously (Luo 2000).

In 1998 China was still the largest Foreign Direct Investment recipient among developing countries and was second largest in the whole world after the United States (World Investment Report 1998, Luo 2000). However, presently China is facing some difficulties in attracting foreign investment. One of the factors for this is considered to be China’s entry to the World Trade Organization in 2001. With this participation they needed to unify the tax code in order to treat every investor equally. Fair competition among businesses was a prerequisite. In 2007 a new law was proposed: the tax rate of 24 percent would be applied to all companies (Yardley, International Herald Tribune 2007).

4.3 UPM Raflatac’s internationalization process to China

Out of the 21 persons asked to answer our questionnaire (Appendix 1), we received eight completed answers. Seven of the persons who answered were Finnish and one was Chinese. One of the respondents was female, the remaining seven were male. The titles and the years they had been employed by UPM Raflatac varied by a significant extent. The titles and the years were: General Manager (10 years), Vice President of UPM Raflatac’s overseas operations (33 years), Trainee/Country Analyst/Project Manager (7 years), Project Manager (8 years), Vice President Sales and Marketing (25 years), Senior Vice President (5,5 years), Sourcing Manager (14 years) and Strategic Business Development Manager (11 years). The Vice President and Vice President in Sales and Marketing were
contacted in order to gain more specific knowledge and they provided us with more information by e-mail correspondence.

The second question (Q.2) concerned the time of entry when UPM Raflatac entered China the first time. The results varied, the following years were introduced: 1985 (by two respondents) 1997, 1998 (by two respondents), 1999 (by two respondents) and 2000.

The following question (Q.3) was posed to reveal the perception of risk the Chinese market possessed. The government rules and regulations posed a risk according to 75% of our respondents. The level of technology was seen as not risky by 25% and hardly risky by 12, 5% and slightly risky by 37, 5%. The answers to cultural aspects varied since they were considered hardly risky by 25% but considerably risky by 37, 5%. When it comes to market responsiveness, the answers varied again, from not risky to risky. The economic situation of China was considered as hardly risky by 50% of the respondents.

<table>
<thead>
<tr>
<th>Q.3 Was China seen as a risky market?</th>
<th>Not risky</th>
<th>Hardly risky</th>
<th>Slightly risky</th>
<th>Neutral</th>
<th>Risky</th>
<th>Considerably risky</th>
<th>Very risky</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government rules and regulations</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>3 (37.5%)</td>
<td>3 (37.5%)</td>
<td>8</td>
</tr>
<tr>
<td>Level of technology</td>
<td>2 (25%)</td>
<td>1 (12.5%)</td>
<td>3 (37.5%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>8</td>
</tr>
<tr>
<td>Cultural aspects</td>
<td>0(0%)</td>
<td>2 (25%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>2 (25%)</td>
<td>3 (37.5%)</td>
<td>0(0%)</td>
<td>8</td>
</tr>
<tr>
<td>Market responsiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic situation of China</td>
<td>1 (12.5%)</td>
<td>4 (50%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>8</td>
</tr>
</tbody>
</table>

People who answered question: 8 (89%)
People who skipped question: 1 (11%)

The first mode of entry was revealed in question four (Q.4) where the respondents said it to be acquisition (50%), export (37, 5%) and other (12, 5 %). The next question (Q.5) considered the way in which the company entered the market as the operations developed. Answers varied and even one blank answer was received, the total answer rate was then 87, 5%. Joint venture was named by 37, 5% of the respondents, acquisition by 37, 5 % and wholly owned subsidiary by 12, 5 %. Because the answers varied in both of the questions (Q4, Q5), further research was done by contacting the Vice President of UPM Raflatac’s
overseas operations and the Vice President in Sales and Marketing. The Vice President of UPM Raflatac’s overseas operations at the time of entry into China stated that UPM Raflatac entered China in the mid 1980s via sales agents located in Hong Kong. According to this person, most of the Chinese market information was gained from Hong Kong with the help of their agency. UPM Raflatac’s own first sales office with UPM Shauman was set up in 1998 in Shanghai after approximately three years of planning. A joint venture was formed with a Singaporean company in 1999. Finally, in 2000 UPM Raflatac acquired its own factory by buying out the Singaporean partner. From the year 2000 UPM Raflatac had their own factory in Shanghai which was soon expanded to other locations.

Question six (Q.6) concerned the underlying factors for this company’s entry into China. Natural resources and research and development of technology were considered as not important by 50% of the respondents, whereas competition, market situation, and foreign direct investment boom were seen as considerably or very important by the remaining 50%. Answers varied when it came to labor resources and tax breaks but in both cases “hardly important” was the main choice.

<table>
<thead>
<tr>
<th>Q.6 What were the underlying factors for entering China?</th>
<th>Very important</th>
<th>Considerably important</th>
<th>Important</th>
<th>Neutral</th>
<th>Slightly important</th>
<th>Hardly important</th>
<th>Not important</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>4 (50%)</td>
<td>8</td>
</tr>
<tr>
<td>Research and development of technology</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>4 (50%)</td>
<td>8</td>
</tr>
<tr>
<td>Labor resources</td>
<td>0(0%)</td>
<td>3 (37.5%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>2 (25%)</td>
<td>1 (12.5%)</td>
<td>4 (50%)</td>
<td>8</td>
</tr>
<tr>
<td>Competition</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>2 (25%)</td>
<td>5 (62.5%)</td>
<td>0(0%)</td>
<td>8</td>
</tr>
<tr>
<td>Market situation</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>3 (37.5%)</td>
<td>5 (62.5%)</td>
<td>0(0%)</td>
<td>8</td>
</tr>
<tr>
<td>Foreign direct investment boom</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>1 (12.5%)</td>
<td>0(0%)</td>
<td>2 (25%)</td>
<td>3 (37.5%)</td>
<td>0(0%)</td>
<td>8</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>1 (14.29%)</td>
<td>2 (28.57%)</td>
<td>1 (14.29%)</td>
<td>1 (14.29%)</td>
<td>1 (14.29%)</td>
<td>0(0%)</td>
<td>1 (14.29%)</td>
<td>7</td>
</tr>
</tbody>
</table>

People who answered question: 8 (89%)
People who skipped question: 1 (11%)
As a result of further investigation of the underlying reasons for entry, the Vice President in Sales and Marketing at that time in Asia Pacific said that the reason UPM Raflatac entered China was to secure its costly operations in Europe. The company wanted also to secure its smooth production in their European factories; occasional seasonal holidays in production were seen as a costly factor and the entry into China was seen as a solution to this. For example the European factories’ production was shut down during the summer time. The production in China was seen to balance this deficit.

The next question (Q.7) was posed in order to gain information about the local market knowledge. The majority of the respondents (62.5%) evaluated the market knowledge to be low. The respondents referred to weaknesses like “very undeveloped knowledge”, “extremely weak market understanding”, “wrong assumptions” and “knowledge relatively limited”. Two of the respondents (25%) said the Chinese market knowledge was good. A remark to be made here is that the other person was Chinese. The remaining one (12.5%) did not evaluate the level of market knowledge.

Question number eight (Q.8) evaluated the amount of investment in the Chinese entry compared with UPM Raflatac’s other market entries. All of the respondents answered “no”. The next question (Q.9) investigated the employees’ nationality in the Chinese units. Five respondents (62.5%) said UPM Raflatac had mainly Chinese workers in their Chinese units. The remaining three (37.5%) said it was a mélange of nationalities.

The last question was posed to see whether the respondents perceived the entry to China to have been a success or not. Some strength in UPM Raflatac’s entry was seen by the respondents. The Vice President of overseas production said the company had experience in starting up processes around the world. He also mentioned that efforts made in order to reduce the cultural differences, by training of Chinese experts in Finland and vice versa, were started early. In other words, cultural bridges were built. The Manager of Strategic Business Development evaluated UPM Raflatac’s advantage to have been that it was a well known supplier of label stock and big brand owners already knew the company from other continents.

However, the results of the questionnaire suggested that the entry into China was less successful. Firstly the Vice President of overseas production named difficulties of the exploding economy of China to have caused transport and label industry problems. Furthermore, the payment rate by customers was low. These obstacles were too great to
have been managed only with the help of UPM Raflatac’s previous experience in market entries. Also the Senior Vice President stated that this experience was not employed or adjusted even on the managerial level to match the challenges of the particular market environment of China. Problems with leadership and managerial issues occurred according to many of the respondents. False expectations about the technological level of the machinery were also a mistake according to the Senior Vice President. In addition, the limiting of financial support and interest by headquarters was a negative factor. Money was allocated to Europe and to USA operations, encouraging development of production there, but the Chinese market and industry was disregarded, according to the General Manager, the Vice President in Sales and Marketing and the Vice President of overseas production.
5 Analysis

The purpose of this thesis is to put the firm in focus and to perform a descriptive study of UPM Raflatac’s internationalization process to China. The research question is: what was UPM Raflatac’s internationalization strategy for China? In order to clarify the research question we review what their entry mode was and what the underlying factors for their internationalization process were. These questions are restated in order to get a structure for our analysis and to be able to see the resemblance of UPM Raflatac’s internationalization process with the two chosen theories.

5.1 The Uppsala Model

First we will analyze whether the internationalization process has similarities with the Uppsala model’s state and change aspects. Did the internationalization of this firm to China follow the Uppsala model? When it comes to state aspects, UPM Raflatac’s market commitment was at a low level since the headquarters decided not to invest a lot of financial resources into the Chinese market entry. The headquarters interest was elsewhere. The respondents all agreed that entry to China did not entail on average more financial investment compared to other market entries done by the company before China. The reason for this could be the other state aspect, namely market knowledge, which is a prerequisite for market commitment. UPM Raflatac was not prepared enough even though market research was done. UPM Raflatac had objective knowledge but they were lacking experiential knowledge. Efforts to gain the necessary experiential knowledge were made by training Chinese experts in Finland and vice versa but this was not enough. Before entering the Chinese business area, five out of eight respondents said that the market knowledge was at a low level (1, 2 of a scale of 1-7). The knowledge is of especially high importance when markets are complex. We can consider China to be a complex market because of culture and language barriers and the situation in the society after the economic transformation. UPM Raflatac’s lack of knowledge was crucial: the Uppsala model emphasizes the importance of the market knowledge which was disregarded in the case of UPM Raflatac’s entry into China. Therefore a connection to the state aspects cannot be found.
Change aspects, the other aspects of the Uppsala model, are connected to current activities and commitment decisions. Current activities of the company are the prime source of experience which is needed to be able to integrate into new markets. UPM Raflatac dealt with this by recruiting local people. Five out of the eight respondents stated that UPM Raflatac’s Chinese units consist mainly of Chinese workers. The remaining three described the staff to be a mélange of nationalities. This helped them to gain coherence with the local market and to gain local market knowledge. However, UPM Raflatac failed to execute this before their entry into China. The training of Chinese experts in Finland and vice versa was not conducted efficiently enough. Commitment decisions concern the decisions of investing resources in foreign operations. UPM Raflatac’s European companies were creating a deficit which needed to be balanced. By entering the Chinese market, they tried to solve the problem at hand. However, sufficient capital was not invested, and that negatively influenced the current activities. Therefore it can be assumed that the connection to these change aspects of the Uppsala model does not exist.

The second point we wanted to know about UPM Raflatac’s internationalization to China was the time and the mode of entry as well as the length of the planning phase. According to the results of our questionnaire and further investigation, the earliest activity by UPM Raflatac towards China occurred in the mid 1980’s via sales agents. The first sales activities were negotiated more than ten years earlier than before the actual entry. Planning by UPM Raflatac started in 1995, whereby they set up their own sales office with UPM Shauman in 1998. UPM Raflatac entered China by forming a joint venture factory with a Singaporean partner in the year 1999. Its own factory was acquired in 2000 by buying the shares of the Singaporean partner. We can conclude that the planning phase was long because the company did not enter the foreign market immediately after the first contact with the host business partner. This gives us a reason to make the assumption that the company progressing by small steps of internationalization, as the Uppsala model suggests. Rather than making big investments at once, UPM Raflatac’s internationalization process followed the establishment chain of the Uppsala model.
The reasoning behind the establishment chain is connected to the core concepts of the Uppsala model, which are risk aversion as well as knowledge and learning. This means that companies internationalize gradually because knowledge gathering and learning is unconditionally important in order to decrease the risky elements of internationalization. According to our results, government rules and regulations as well as cultural aspects formed the biggest risk for the company, while level of technology, market responsiveness and the economic situation of China posed less of a risk. Altogether they represented such a major risk that it was safer to approach the market gradually, according to our conclusion. Thus, their internationalization strategy occurred in small steps or expanded like rings in the water as the Uppsala model’s establishment chain suggests.

Finally, the concept of psychic distance is explored. UPM Raflatac started their internationalization to countries such as the United Kingdom in 1984 and after that to the United States of America in 1985. After establishing units in the UK, it was easier to proceed to another English speaking culture, namely the USA. Although these two countries are geographically distant from Finland, the psychic distance is less. This is because the differences in culture, political systems and level of industrial development are small. English is the first foreign language taught in schools in Finland. Finland is acquainted with the culture of the United Kingdom as well as with the culture of the USA, thanks to global media and long established trade and business contacts. It was only in the late 1990’s that internationalization of UPM Raflatac’s operations to countries with larger
psychic distance took place. Therefore the other manifestation of the Uppsala model is a reasonable explanation of the company’s internationalization process.

5.2 The Eclectic Paradigm

A company has to have ownership advantages in order to proceed with business operations abroad as well as in order to maintain its competitiveness. It is reasonable to claim that UPM Raflatac had these, since during half of the time the company has existed, it has had operations in foreign countries. The fact that UPM Raflatac has expanded in size, in experience as well as business area, can be seen as resulting from the company’s ownership advantages. The company had gained experience in foreign market entries and starting up processes but this experience was not completely applicable in the case of China. As mentioned above, the market knowledge of this particular country was insufficient.

First we suggest that the company had ownership advantages in the form of technology. We claimed this because the size of UPM Raflatac had an impact on the size of its investment in technology. This is implied also in their broad product assortment presentation, where they claim to have the greatest knowledge and capacity to produce a wide assortment of specialized products. Also according to the results of the questionnaire, the respondents evaluated the technology of the host country less or hardly risky. In other words, they claim that the level of technology they possess is something that the competitors lack. Being self assured in a foreign market might be risky but in UPM Raflatac’s case it can be seen as a sign of believing in its own competitiveness. UPM Raflatac considered their technological awareness so strong that entry into a new market did not pose a threat.

Later, as the outcome of the internationalization process of UPM Raflatac was evaluated by the respondents, they admitted machinery and technology preparedness to have been overestimated, and found to be weak because of a low investment rate. This shows that the ownership advantages were not put properly in place after all, since their adjustment to the local environment was not successful. That implies also that the ownership advantages of management and experience were not sufficient in this particular
market area. The management of overall operations failed even though technological superiority was present.

When studying the possible location advantages we want to point out that Finland as a home country can be seen as a pushing factor since the Finnish market is limited. The fact that production in Europe created costs for the company can also be seen as a pushing factor for UPM Raflatac’s internationalization to China. To reveal the host country’s attractiveness as location advantages the respondents were to evaluate seven aspects of underlying factors for the entry. These factors were natural resources, research and development of technology, labor resources, competition, market situation, FDI boom and tax breaks. Natural resources were seen as hardly important or not important by six out of eight respondents. When it comes to labor resources, opinions were mixed as half of the respondents thought them to be important and the other half classified them as hardly important. If the labor resources of the host country are affordable to the company they form a location advantage. Since the natural resources did not indicate a clear location advantage, the labor resources are taken into consideration. This gives us a reason to speculate as to why UPM Raflatac chose to enter the Chinese business area. Moreover, the results from the questionnaire show that the research and development of technology in China was hardly important or not important whereas competition was seen as considerably important. We analyze this to show that the R&D situation in China was not an important factor of the location but keeping up with the competition was. Market situation was considered to be a location advantage since according to our respondents it was seen as an important underlying location specific factor. This was also the case with FDI boom: the results of our questionnaire show that China was seen as a lucrative investment target. On the other hand, tax breaks were not a specific location advantage because it was not one of the most important underlying factors according to our respondents. However, the result of government rules and regulations being seen as considerably risky implies that the company did not have location advantages in this sense. In other words, China’s government rules and regulations could not be seen as a pulling factor of the host country.

Finally, with the help of the above analyzed ownership advantages we proceed with internalization advantages. We claimed that UPM Raflatac’s size, experience and multinational activities were an ownership advantage. The results of our questionnaire
show that this advantage was not completely employed internally since the market environment was not fully investigated and the leadership was not fully adjusted to China. Management issues occurred, which is a sign of unsuccessful application of ownership advantages and lack of internalization advantages. Furthermore, our study did not investigate whether UPM Raflatac was outsourcing some departments in order to maximize its performance. In other words there were other ownership advantages that were not investigated in this study. By knowing this we would be able to check whether all of them were internalized, or was UPM Raflatac employing some other company’s ownership advantages, since they lacked their own. However, technology and R&D departments were not outsourced which means that these two advantages were used inside the company. All the factors that had similarities with the eclectic paradigm are compiled in figure 5.

Figure 5. Agarwal and Ramaswami’s Schematic Representation of Entry Choice Factors edited with the results of UPM Raflatac.
6 Conclusions

After organizing and structuring the most significant findings of the questionnaire in the analysis, we can now conclude how UPM Raflatac entered China and what their internationalization strategy looked like. Finally we state whether UPM Raflatac’s internationalization process led the way in its own fashion or did it just follow the regular path presented by the theories.

Our interest in seeing the resemblance or the lack of it between the theories and the reality was the main goal of this thesis. We can now conclude that UPM Raflatac did not follow the aspects introduced by the theories thoroughly, but some similarity was found.

The Uppsala model’s manifestations establishment chain, and psychic distance, were useful tools in the search for the similarity between the internationalization patterns and UPM Raflatac. The core concept of the Uppsala model is to decrease the risks connected to market entry. UPM Raflatac’s entry mode decisions showed an increase in their business integration to China which can be linked to the establishment chain of the Uppsala model, as mentioned above. The idea of psychic distance can be connected with UPM Raflatac’s internationalization as a whole: at first the company expanded its operations to countries with a smaller psychic distance (UK and USA in the 1980s) before reaching out to more distant markets (for example Asia, South Africa in the 1990s).

When it comes to the underlying factors for the Chinese market entry, the state and change aspects of the Uppsala model are not applicable. These aspects pose a different set of underlying factors than what was accurate for UPM Raflatac’s internationalization process. It is interesting though that the manifestations which are the patterns of the Uppsala model matched UPM Raflatac’s process. However, in the end their entry into China was not considered a success. UPM Raflatac’s Chinese market entry strategy lacked investment resources and support from headquarters. These resources could have been useful in market research, since the lack of local market knowledge was not taken into consideration at an adequate level. Because the Uppsala model is dynamic, the outcome of one aspect is the input of another. Thus, the first choice of not investing resources in China influenced the following decisions in a negative manner.
Our final conclusion about the Uppsala model is pointed out in the last question of the questionnaire, about market entry’s success. We conclude that the high level of disappointment meant that the company lacked a clear market specific strategy. Respondents claimed that UPM Raflatac used the same strategy for China as in other foreign market entries, the experience of which created confidence within the company to enter the Chinese market. This was later seen as a mistake because no adequate adjustment to the Chinese environment was made. Thus the market knowledge was insufficient. A greater success could have been achieved by taking into consideration the importance of increasing market knowledge. This was the key prerequisite in order to gain adequate state and change aspects.

UPM Raflatac seemed to have characteristics that we interpreted as ownership, location and internalization advantages. Thus it is possible to apply and acknowledge the eclectic paradigm to certain extent. However, the eclectic paradigm does not help in predicting the outcome of the internationalization process, which is dependent on contingent factors that in this case were market specific factors. Even though UPM Raflatac had ownership advantages, it did not employ its most important advantage, namely capital. That is why we conclude their first choice of entry to have been one of the non-investment entry modes, sales agent and export. In our opinion also, risky factors and “disadvantages” needed to be declared which is not the case in the eclectic paradigm. The eclectic paradigm cannot be the main set of factors that explain the reasons behind UPM Raflatac’s strategy for China.

As a criticism of our thesis, we want to point out that analyzing our respondents’ answers was sometimes hard since the answers were not always homogenous. We could not know whether some of the respondents clearly had forgotten a phase in the internationalization process or just lacked the specific knowledge. For instance we got numerous different estimates of the year when UPM Raflatac entered China and the respondents could be occupied with questions such as: do random sales activities already count as an entry or not. Finding out who had the most knowledge was complex. Thus we posed supplementary questions for them.

The purpose of our study was to facilitate the understanding of companies’ internationalization processes. With this thesis, we wanted to examine whether the chosen theories were applicable in revealing their strategy. As a conclusion we can say that UPM
Raflatac used the same market entry strategy for China as in other countries. This strategy did not follow the Uppsala model’s aspects but similarities with the patterns were found. The eclectic paradigm, on the other hand, was useful although it was not sufficient. UPM Raflatac was a good configuration of random factors, but not the factors mentioned by the theories. UPM Raflatac did not follow these theories; they chose to lead their own way.

6.1 Future Research

An interesting question for future research would be whether UPM Raflatac’s internationalization process to China was unique or if there are similar cases within the label industry. Studying this would contribute to general understanding of the label industry’s companies’ internationalization strategies to China. In addition, exploration of the internationalization of other label stock firms to China would show whether the companies have similar kinds of problems within this particular market. If similar kinds of problems are recognized, the label companies could develop their strategies in order to avoid them.

In regard to our study, since the number of the questions posed to our respondents was only ten and they were designed from our personal points of view, the theories were examined from a limited angle. Differently posed questions might reveal other aspects of the theories’ applicability.
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Appendix 1

INFORMATION OF THE RESPONDER

Q.1
Please type here your 1. Name, 2. Title, 3. Location of employment and 4. How many years in the company

CHINA

Q.2
When did UPM Raflatac enter China? How long was the planning phase before entering China?

Q.3
Was China seen as a risky market?
Which of the following factors were considered as risky? To what extent?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Not risky</th>
<th>Hardly risky</th>
<th>Slightly risky</th>
<th>Neutral Risky</th>
<th>Considerably risky</th>
<th>Very risky</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government rules and regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of technology</td>
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<tr>
<td>Cultural aspects</td>
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<tr>
<td>Market responsiveness</td>
<td></td>
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<td></td>
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<tr>
<td>Economic situation of China</td>
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</tbody>
</table>

Q.4
What was the first mode of entry used for China?

- Export
- Licensing
- Franchising
- Joint venture
- Acquisition
- Wholly owned subsidiary
- Other:

Q.5
Considering the entry modes of the previous question, which entry mode was used as the operations in China developed?
Entry modes: export, licensing, franchising, joint venture, acquisition, wholly owned subsidiary, other.

Q.6
What were the underlying factors for entering China?
How important was each of them?

<table>
<thead>
<tr>
<th>Factors</th>
<th>Not important</th>
<th>Hardly important</th>
<th>Slightly important</th>
<th>Neutral</th>
<th>Important</th>
<th>Considerably important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td></td>
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<tr>
<td>Research and development of technology</td>
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<td>Labor resources</td>
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<tr>
<td>Competition</td>
<td></td>
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<td>Market situation</td>
<td></td>
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<tr>
<td>Foreign direct investment boom</td>
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<td></td>
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<tr>
<td>Tax breaks</td>
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</tbody>
</table>
Q.7  
How well did UPM Raflatac know the Chinese market before entering? How did you gain knowledge of the Chinese market? Please elaborate your answer, after scaling your answer from 1 (very little) to 7 (very well).

Q.8  
Compared to the other market entries done by UPM Raflatac before China, did the latter operation entail on average more financial investments?

- [ ] Yes
- [ ] No

Q.9  
Considering the internationalization to China, did UPM Raflatac organize its HRs by staffing the Chinese unit with:

- [ ] Mainly Finnish workers
- [ ] Mainly Chinese workers
- [ ] A mélange of nationalities

Q.10  
What would you consider UPM Raflatac's strengths/weaknesses in internationalization to China? Would you say market entry was a success? Please elaborate your answer.
Appendix 2

Uppsala University
Department of Business Studies
April 2008

Dear Sir/Madam,
We are two International Business students from the University of Uppsala. At the moment we are writing our Bachelor thesis and we are contacting you in the hope of getting some research material. The fact that you are busy is something we are well aware of, but we still hope you could spend a few minutes with our questions.

Our thesis studies internationalization process of UPM Raflatac to China. We are interested to see what some of the underlying factors for this process were and how has Raflatac succeeded in its operations. We hope you can briefly answer our questionnaire of 10 questions online. Please see the following link:
http://www.poll daddy.com/s=DBF41DEB1021B7EC/

We would appreciate your help but we understand if you are too busy to squeeze us into your schedule. In case you happen to know some person who would be more suitable to answer, we would happy being informed about it.

Thank you for your concern!

Best regards

Heta-Liisa Haapanen
Ulla Kaukonen

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Appendix 3

Questions:

1) Name

2) Present location

3) Background information

4) When did you leave China?

5) What was the economic situation in China the year you left?

6) How would you describe the economic situation of China today?

7) Which changes would you name?

8) Does the government still have a big role on the economic situation?

9) What would you say the three biggest differences are between the Chinese culture and the Finnish culture?

10) Do you consider the Finnish and the Chinese to be good business partners?

11) What piece of advice would you give the Finnish companies to think of when starting a business in the Chinese market?

12) What piece of advice would you give the Chinese companies about starting a business in the Finnish market?

Thank you! KIITOS!