Connections between Psychic Distance, Entry Modes and Networks

A Case Study of Internationalization Processes

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Executive Summary

Swedish companies have a relatively small domestic market that quickly becomes saturated. For those companies who are dependent on increased sales in order to survive or have the ambition to grow internationalization is the one option. Traditionally companies have expanded internationally by first exporting to countries with a short geographical as well as cultural distance. With increased experience the companies have entered markets farther and farther away, culturally as well as geographically. Eventually it might be possible to for example start production abroad. With today’s increasingly internationally competitive market it becomes more frequent that companies establish business in foreign countries at a more rapid pace.

The choice was to study PMC Cylinders, a Swedish medium sized company that has been operating internationally for approximately thirty years. This company’s internationalization processes have been analyzed in order to understand factors that might bridge these distances to other countries.

These distances can be bridged by for instance existing customers, consultants, sister companies with complementary resources or employees with host country origin. Further the way of establishing foreign operations can contribute. With shorter distance there is no big issue. For example Norway was perceived almost like selling in Sweden. When the perceived distance is medium, here Germany serves as an example, it becomes more complicated. Existing British customer relationships made it possible to enter the German market. It was not enough to use an agent which was the case at an earlier failed attempt. Relationships with different actors and ways of entering foreign markets become even more important when this distance is long. Here China can serve as an example; the country is far away geographically as well as culturally. Together with a customer production was established in the Chinese market. This was also seen as an opportunity by a sister company to follow one of their customers. Thus the efforts of the companies were combined. PMC Cylinders also used employees with technical, cultural and language knowledge to bridge the distance. Thus there were a number of factors making the establishment in China possible.

By the study of PMC Cylinders internationalization processes certain patterns were found. The outcome of these patterns is a structured model with a number of steps. This model implies that with increased geographical and or cultural distance the importance of connections and ways of entering the market grows. The model is a decision tree which can be seen as an internationalization tool for PMC Cylinders.
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1 Introduction

This initial chapter discusses the background for the thesis, the problem and the purpose. Further, the delimitations are presented and finally there is a description of the structure of the thesis in order to guide the reader.

1.1 Background The International Market Yesterday and Today

1.1.1 History of Internationalization

Internationalization is not a new phenomenon. Since the Dark Ages there have been systematic trading activities between European nations (Söderman, 2002). Thus company involvement in trading across borders to find new business partners and markets has been going on for a long time.

In Sweden, it has led to a growing economy in recent times. “Globalization, in particular international trade, has been the single most important reason for the growth of the Swedish economy over the last 150 years” (Svenskt Näringsliv, 2012).

Traditionally the internationalization of companies begins with sporadic export to geographically close countries with a similar culture, where one experience what is called a smaller psychic distance. This psychic distance consists of two parts; a perceived and a real distance. This term is mentioned by Beckerman (1956) who made a distinction between on the one hand physical distance and on the other language, culture and economy. As experience grows commitment deepens and activities develop farther and farther away. This incremental way of growing is described as the Uppsala Model by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977).

It has been proved that the way of incrementally going international is to a great extent dependent on differences among for example cultural, legal and economical issues or barriers. Recent studies by for instance Rutihinda (2008) and Perks (2009) regarding export barriers mention for example culture differences affecting internationalization strategies.

1.1.2 Changes in Internationalization

According to Söderman (2002), recent changes in the market such as an intensified competition in various industries such as mechanical manufacturing industries, electronics and so on has forced competition upon companies in their domestic market forcing them to internationalize. These changes in the market open up new ways for companies to go international. These firms look at the world as one market and this attitude makes the internationalization processes faster. These companies also tend to go international from inception; born globals (Oviatt & McDougall, 1994; Bell, McNaughton, Young & Crick, 2003).

Not every company has the intention or the need for going international. But for those companies acting in a market with substantial and increasing global competition international expansion might be necessary in order to survive (Söderman, 2002).

With this more transparent and competitive market in mind; what if for example the impact of cultural factors could be reduced or eliminated? To lower or eliminate these factors
might make it easier for a company to internationalize at a more rapid pace. Thus the interesting question is how this psychic distance could be reduced.

1.1.3 Problem

What affect does the above described internationalization development have on a single company? The fact that there is a global competition makes it even more important to reach distant markets, especially since foreign companies will compete in the firm’s home market.

The traditional way of growing one step at a time; is that enough or will a company be outwitted by companies with a greater ability to go international? What about the born globals; what makes them able to go international instantly? Are there lessons to be learned here?

PMC Cylinders, a mechanical manufacturing company in the hydraulics business has been operating internationally for some 30 years. How has this company handled its internationalization processes? What are the learning outcomes? What can be done to help this company entering new markets?

Thus the question is: How can this so called psychic distance be reduced?

1.2 Purpose

The purpose is to investigate a company’s internationalization processes and to find out how to bridge the psychic distance in order to facilitate internationalization.

1.3 Target Group

This thesis is also considered to be written for managers. The outcome can be seen as a tool helping managers within PMC Cylinders when entering new international markets.

Keywords: Psychic distance, network, entry mode, born globals.

1.4 Structure

The introduction chapter describes the background, problem, purpose, target group, structure and finally the delimitations of the thesis. Next chapter introduces and discusses methodology and methods chosen. The theoretical framework is discussed in the third chapter and the empirical findings are presented in the fourth. In chapter five the empirical findings are analysed relatively the theoretical framework. The discussion chapter intro-
duces a company specific internationalization model. Chapter seven concludes the outcome of the purpose as well as critics. Finally the eighth chapter suggests further research.

1.5 Delimitations

This thesis has the company’s perspective not the customer’s.

This thesis is a case study meaning that the result will probably not be applicable on another company.
2 Method

This chapter introduces and discusses the method used to collect data. The different sections begin with a theoretical description followed by a motivation of the chosen alternative.

2.1 Alternative Inquiry Paradigms

This section describes different aspects of observation of reality and knowledge.

2.1.1 Ontology What is Real?

Ontology is about what the world is like when observed. It is hard if not impossible to agree upon what the world is like in reality (Jacobsen, 2002).

There are two different aspects of ontology; objectivism and constructivism. The former says that there is a true reality that can be described objectively if the correct method is used. The latter states that there is no one real reality but that the reality looks different from different points of view Eriksson and Wiedersheim-Paul (2006), Jacobsen (2002) states that it is hard to decide if one of these is the true one. Philosophers have discussed the matter for long time.

2.1.2 Epistemology What is Possible to Know?

Epistemology is about how and to what degree it is possible to collect knowledge. Like ontology there are two different points of view regarding what we can know; positivism and hermeneutics.

Matters can be studied objectively, this is a positivistic standpoint. This means that anything, including social systems, can be studied by for instance measuring, hearing, feel. The most convinced positivists claim that there is no use asking about people’s opinion; what matters are objective circumstances (Jacobsen, 2002).

An example of hermeneutic could be the study of an organization and how it behaves and performs. According to the positivistic approach observing and measuring the organizations results should be enough. The hermeneutic approach states that this is not enough. It is also important to understand people within the organization and their different perceptions in order to understand and interpret the objectively measured results, for example the performance of an organization. Eriksson and Wiedersheim-Paul (2006) state that it is important to understand different parts in order to understand a whole and the other way around.

2.1.3 Choice

This study has a constructivistic and hermeneutic standpoint because what is investigated in this study is perceived differently by different individuals at different departments within a company. For instance the perspective of a sales person is different from that of a design engineer. An example could be that the sales person has a more personal contact with a particular customer while a marketing manager has a broader picture of the entire market. This is why there is a need for different perspectives.
2.2 Deductive or Inductive

A deductive approach is based on existing knowledge and theory while the inductive is based on empirical data. There is a historical explanation to this. A tradition that goes back to Aristotle for long time dominated science. The tradition stated that knowledge was created by logical conclusions of established and accepted truths. In the 16th century the technical development of for instance telescopes and microscopes revealed that there might be other explanations to nature phenomena; like the fact that the earth is not flat (Eriksson & Wiedersheim-Paul, 2006; Jacobsen, 2002).

Those who support an inductive approach claim that researchers should go out and gather information almost without expectations and after this formulate the theoretical framework. The intention is that nothing must constrain or limit what information is collected. The result should be data that correctly describes the reality (Eriksson & Wiedersheim-Paul, 2006; Jacobsen, 2002).

Opposed to this opinion are those who claim that first the theoretical framework and expectations should be formulated out of existing theories and observations. After this the empirical data should be collected and compared to this framework (Eriksson & Wiedersheim-Paul, 2006; Jacobsen, 2002).

2.2.1 Choice

This study had an inductive approach because this is more in line with the constructivistic standpoint that there is no one true reality. Companies are by nature different and they operate in different markets under different circumstances. This is according to our opinion the rationale for using the inductive approach.

2.3 Quantitative or Qualitative Method

2.3.1 Quantitative

A quantitative method is about gathering information from numerous sources (Jacobsen, 2002). The ambition is to find issues that are generalizable and applicable on larger groups. This is the case when using for instance surveys to measure and compare different results. A negative aspect might be that there in some cases is no possibility to ask complementary questions to follow up answers given in a survey. There are also methods available such as statistics that can be used to help interpreting results (Eriksson & Wiedersheim-Paul, 2006).

2.3.2 Qualitative

This is the opposite of quantitative meaning that the focus is a smaller group of respondents but with a greater depth as questions are concerned (Jacobsen, 2002). Interviewing or observation are common methods. Here is also a greater possibility to ask complementary questions as an interview proceeds. This will also generate a deeper understanding of the respondents and how they perceive the matters discussed (Eriksson & Wiedersheim-Paul, 2006). Also the qualitative perspective focuses on the individual and his or her perspective of their reality (Backman, 1998). It is also about investigating complex causes in order to understand people’s behaviour.
2.3.3 Choice

To summarize it can be said that quantitative studies give numerical results while qualitative studies give verbal formulation. This study will have a qualitative approach since the intention is to understand a company’s internationalization processes and obtain a deeper understanding of them. These processes are indeed complex and perceived differently within different company departments and among individuals. Thus verbal information is of essence.

2.4 Case Study

A case study is focused on one particular unit. A unit can be for example a process, a person or an organization (Jacobsen, 2002). Further it can be said that a case study is focused on a number of variables within one or a few objects. The opposite is when a few variables are studied among a larger number of objects, Eriksson and Wiedersheim-Paul (2006). This is not to be mixed up with the definition of qualitative and quantitative method. A case study of for example an organization may very well be conducted by a quantitative survey.

According to the conclusions above regarding that this will be an inductive and qualitative study with a constructivistic point of view it is suitable to use a case study. This because company’s internationalization is as reasoned in 2.3.3 complex as well as individual. Further it gives the possibility to work with a qualitative approach and obtain a deeper understanding of these complex internationalization processes.

2.5 Selection

Here the choice of company, respondents and foreign markets are introduced. There are two methods to choose samples, probability or non probability (Bryman & Bell, 2007). Probability is to make a choice where every possible unit has the same chance to be chosen. Non probability is when choosing a particular unit of interest. Convenience sampling is a kind of non probability sampling when for example access to a unit determines the choice (Bryman & Bell, 2007).

2.5.1 Choice of Company

The first requisite is to use a company with a history of internationalization. Another important issue is to have access to information about the company. To obtain this information it is important to have access to employees within the company who have knowledge about in this case the history of the company’s internationalization. Further it is important to have the possibility to interview employees from different departments in the company thus providing a broader perspective. In this case we have focused on employees with experience from research and development, sales and marketing.

At the initial contacts with companies it was decided to use a company that had the opportunity and possibility to meet the requirements regarding interviews. This company, PMC Cylinders, has from the beginning been responsive to our work and given us access as well as time. The choice of company is mainly non probability or to be more specific convenience sampling (Bryman & Bell, 2007) since the company was chosen because it was easy to access and willing to contribute.
2.5.2 Choice of Respondents

With a limited amount of time available to interview company employees we decided to limit the number of respondents to three. The respondents are Peter Blomqvist, Lars Kinderbäck and Göran Fridén. Peter Blomqvist’s current position is purchasing manager and he has a long history with the company beginning with a position in the design department followed by positions such as quality manager and technical manager. Lars Kinderbäck’s current position is sales engineer and he has long experience within the sales organization and extensive knowledge about the company’s development in different markets. Göran Fridén is the company’s marketing and sales manager. He has worked in the company for a long time and also has experience from quality as well as production. Since the respondents represent specific areas of interest this choice is to be considered non probability (Bryman & Bell, 2007).

Table 2.1 Interviews

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Time</th>
<th>Interviewers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Blomquist</td>
<td>Purchasing manager</td>
<td>Complementary Interviews</td>
<td>Magnus &amp; Emil</td>
</tr>
<tr>
<td>Lars Kinderbäck</td>
<td>Sales engineer</td>
<td>45 minutes</td>
<td>Magnus &amp; Emil</td>
</tr>
<tr>
<td>Göran Fridén</td>
<td>Marketing &amp; sales manager</td>
<td>55 minutes</td>
<td>Magnus &amp; Emil</td>
</tr>
</tbody>
</table>

2.5.3 Choice of Market Entries

The countries / market entries were chosen because the company has a relatively long history regarding trading with these countries, except the Chinese market. Further the markets were chosen from a psychic distance perspective meaning that they range from perceived as close to far away. The aim is to be able to observe differences among markets with varying perceived and real distance. This choice is to be considered non probability (Bryman & Bell, 2007). The countries chosen were Norway, Denmark, Finland, Great Britain, Germany, Japan and China.

2.6 Data Collection

Data collected directly from own work is called primary data. This data is collected by for example interviews, observations or questionnaires. The other kind is called secondary data and is everything else where the researcher collects information gathered by others. This might be literature, company websites or statistics. Here it is important to be aware if this data originally was collected for another research field; the external validity might be low (Jacobsen, 2002).
2.6.1 Literature Review

To review literature means that the subject is discussed using literature and scientific articles within the field. Here it is possible to compare different perspectives as well as opinions. In this work existing theories have been discussed and also combined in order to create a new theoretical framework.

We have used existing literature in the fields of internationalization, networks and marketing. This literature was chosen out of our own knowledge and experience as well as quotations and references within. In the search for scientific articles Google Scholar and library databases have been used with the search words internationalization, Uppsala model, entry mode and psychic distance. The articles were chosen by number of citations, words in the title and by briefly reading the introduction. Snowballing sampling has also been used. This is according to Jacobsen (2002) secondary data.

2.6.2 Interview

Interviews can be structured, unstructured or semi-structured. Structured interviews follow a specific set of questions with a result that is easy to structure and analyze. The semi-structured is more related to subjects or issues where the respondent is free to formulate the answers. Finally the unstructured interview is more like a conversation. Jacobsen (2002) goes a step further and states that the structure of an interview ranges along a continuum from closed to open. The interviews were conducted in Swedish since this is the mother tongue of respondents and interviewers. The translation of the empirical material into English was not considered a problem since the authors have good knowledge of the English language.

2.6.2.1 Personal Interview

Interview in person has the advantage that it is possible to create a relationship and a positive mood which in turn might lead to a more informal conversation. This informality might be an advantage especially when asking open ended questions. It is easier to make the respondent develop his or her thoughts. The possibility to observe the respondents body language as well as facial expressions gives hints on how comfortable or uncomfortable the respondent perceives the situation. Thus the interviewer is more able to adapt the questioning to the situation and respondents mood. This is hard over the phone (Eriksson & Wiedersheim-Paul, 2006). Drawbacks are that these interviews consume time. It may also be hard to gain access to the respondent’s time.

2.6.2.2 Interview over the Phone

Here it is possible for the respondent to feel relatively anonymous. This might lead to a greater willingness to answer uncomfortable questions. The fact that the respondent not is able to see the interviewer’s facial expressions and body language can be an advantage. This is the case when questions are asked and the respondent gives answers that seem to satisfy the interviewer. This is known as the interviewer effect (Jacobsen, 2002; Eriksson & Wiedersheim-Paul, 2006). A drawback is that unlike the personal interview no body language can be observed. However, the use of communication tools like Skype might reduce the drawbacks.
2.6.2.3 The Interview Choice

The choice in this study was mainly to use personal interviews in order to create relationships as discussed above. It is also a way of showing the respondents respect when meeting in person. It also supported the qualitative approach. Further and complementary questions were asked over the phone or mail when the relationship was already established. This is according to Jacobsen (2002) primary data.

This study has used semi structured interviews because structure is needed to ensure coverage of different subjects. The rationale for using open ended questions was to invite the respondent to further development of the answers as well as the interviewer to ask complementary questions.

When interviewing in person and over the phone information was gathered by recording. The information was transcribed in a way where the similarities and differences among the respondent’s answers were displayed. Further the interviewing time was set to maximum one hour.

2.7 Research Interest

The choice of study for research interest is determined based on already existing knowledge. This knowledge is then used in the process of formulating and shaping the primary concern and research interest. According to Jacobsen (2002) and Rosengren and Arvidson (2002) various forms of research interests can be the basis of the study; these are described below.

2.7.1 Exploratory

An exploratory study can be used when there is limited knowledge within the research area. According to Jacobsen (2002) this requires an open mind regarding different results and unexpected relationships. A simple example could be how to balance daily life and career. There could be many different variables that must be taken into consideration. For instance the number of working days, travel days and days of the year, etc., how does this fit with family life.

2.7.2 Descriptive

A descriptive study can be used when there is basic understanding and knowledge within the research area. This kind of study is used to find how different factors interrelate and affect each other (Rosengren & Arvidson, 2002). The example here could be time spent at work relatively time spent on spouse or family, and how these choices affect each other.

2.7.3 Explanatory

An explanatory study can be used when there is significant understanding and knowledge available within the research area. They are used in order to obtain a deeper knowledge and understanding (Rosengren & Arvidson, 2002). To continue the reasoning above the extra time spent on work results in less family time and may cause a negative effect on family life. But the deeper understanding is that the effect is a consequence of for instance overtime demand.
2.7.4 Choice
This study will have a descriptive approach because there already is a basic understanding and knowledge within the research area. The main aim for this study is the internationalization process and within this field there is extensive knowledge available. It is also to be considered exploratory since it also is an attempt to create a new framework to understand internationalization processes.

2.8 Data Analysis
According to Jacobsen (2002) qualitative data analysis can be described in three steps. These three steps are as follows.

2.8.1 Description
The material collected should be thoroughly and portrayed with great detail. Well documented material is critical in order to ensure that no information is lost. Thoroughly and well-detailed collected material is called thick description by Jacobsen (2002).

2.8.2 Systematization and Categorization
The material collected for analysis often becomes overflowed with information. Material overflow is reduced and the main material is processed, systematised and categorised in order to find out interesting and less interesting parts. This makes it easier to overview (Jacobsen, 2002). This can be done by organizing interviewing material according to for instance subject or timeline or making it readable.

2.8.3 Combination
The combination of the material is to interpret the material, find cause and effect as well as improve structure further. This might be the case when combinating interview responses from different respondents. When this is done the empirical data is ready for analysis relatively the theoretical framework.

2.8.4 The Data Analysis
First the recordings were transcribed to obtain a thick description. This was accomplished by transcribing the recorded material. Then relevant information was sorted out and structured by headlines or topics. The main interview questions were used when designing these headlines. Since the questions were semi structured, answers to different topics appeared as answers of different questions. These answers were moved to the relevant topic. Then this information was combinated by comparing answers from the respondents. The original questions and transcriptions are available from the authors.

2.9 Validity and Reliability

2.9.1 Validity
Validity can be described as a measuring tools ability to measure what it is supposed to (Eriksson & Wiedersheim-Paul, 2006). This can be done by keeping the theoretical frame-
work in mind when designing interviewing questions. According to Jacobsen (2002) it is also important to find the correct sources; and that these sources possess and give correct information. When investigating an organization it could mean to select correct respondents that possess the information required.

Both Eriksson and Wiedersheim-Paul (2006) and Jacobsen (2002) discuss external validity. This regards how the results can be applied in other contexts. Jacobsen (2002) states that the results of a qualitative study are not intended to be applied in other contexts. But it might be possible to use a result from a specific organization when investigating a similar one.

### 2.9.2 Reliability or Trustworthiness

Eriksson and Wiedersheim-Paul (2006) state that the validity is the most important demand since if it fails the results will suffer even if the measuring itself has been performed ever so well. Another important issue is the reliability. This means that the measuring tool must give stable and reliable results. This can be described as follows; would another investigator obtain the same result? This could be accomplished with the use of recording equipment and a written questionnaire. In other words reliability could be described as trustworthiness (Eriksson & Wiedersheim-Paul, 2006).

Carlsson (1991) states that truth is multi-faceted and context dependant and we have to accept this. When doing qualitative investigation with a hermeneutic approach this has to be accepted. Further Carlsson (1991) mentions triangulation as a means of handling this by for instance use more than one observer or interviewer to obtain a broader image.

### 2.9.3 How to Ensure Reliability or Trustworthiness

To ensure validity the interviewing questions were designed with the theoretical framework in mind and structured according to these. Further different sources were used when describing those theories. The intention was also to interview respondents in appropriate positions within the organization. The reliability or trustworthiness was insured by using questionnaire and recording equipment with subsequent transcription. There was also more than one interviewer present.

### 2.10 Limitations

First this work has limited amount of time.

The company had limited possibilities to provide access to respondents and their time. With more respondents and/or time there would have been less risk for misinterpretations. Further a larger number of foreign markets could have been investigated providing a broader perspective of the firm’s foreign activities.

If the group had a member with significant experience in internationalization the investigation could have been improved. This empirical knowledge could have created a stronger combination with our theoretical knowledge.

As external validity is concerned; with more time and access to more companies the results would have had improved external validity.
3 Theoretical Framework

This chapter introduces and discusses the theoretical framework used in the analysis chapter. These theories are collected from literature as well as scientific articles. At the end a model that combines these theories is introduced.

3.1 Psychic Distance

An early definition of psychic distance is made by Beckerman (1956) who mentions the term within quotation marks. He discusses and compares for example cost of transportation of raw material to Italy from Switzerland or Turkey. Aside from only looking at the economic figures he also takes into consideration for instance the value and advantages of economic strength or weakness in countries as well as cultural and language similarities or differences. Thus he describes distance in a more complex way.

Later work by Johanson and Wiedersheim-Paul (1975, P 308) made the concept publically known with the definition: “Factors preventing the flow of information between the firm and the market.” Johanson and Vahlne (1977, P 24) made an almost identical definition; “factors preventing the flow of information from and to the market”. Some examples of factors affecting psychic distance are according to Hollensen (2011) differences in political systems, culture and language.

The psychic distance can according to Hollensen (2011) also be defined as the individuals perceived difference between the foreign and domestic markets. Consequentially this is also a subjective interpretation and does not necessarily describe the true differences among markets.

3.1.1 Factors Affecting Psychic Distance

As seen above there is no easy way of defining the term but there is no question that it is a lot about individual perception (Hollensen, 2011). In general the psychic distance increases with increased geographical distance but that is not always the case.

3.1.1.1 Barriers

Rutihinda’s (2008) study regarding export barriers mentions for example foreign business culture as well as differences among legal systems. Perks (2009) mentions language, previous experience and culture as factors affecting internationalization strategies. This has also been observed by Hollensen (2011) who mentions for example differences among political systems, language and culture as factors affecting psychic distance. He also says that the distance is the individuals perceived distance relatively other cultures. This is in line with findings discussed by Beckerman (1956), Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977). This makes the term complicated; what are individual perceptions and what are objective differences?

3.1.1.2 Perception vs Reality

Worth mentioning is that for example Canada and USA often are considered closer to Sweden than countries like Spain and Portugal, Johanson et al. (2002). This might seem strange when considering that Spain and Sweden have civil law while USA has common law which is a significant difference, at least when considering doing business. Further the
fact that the European Union has made trade between member countries easier should reduce the distance between say Sweden and Portugal. Thus cultural issues are indeed important.

3.1.1.3 Culture

Culture is according to Hollensen (2011) part of psychic distance and can be found at for example different levels inside organizations, among countries, in different regions and among professions (Gooderham & Nordhaug, 2003). What is usually observed of a culture are issues like dressing code, degree of formality, different accents and different tastes. These observable phenomena express for example underlying values and history (Gooderham & Nordhaug, 2003). Thus a deeper understanding is needed that goes beyond individual perception.

These issues are indeed complex at least as culture is concerned. The issues regarding say different legal systems and language are relatively easy to cope with through education.

A well known study by Hofstede (1980) among 116000 IBM employees worldwide regarding preferred management style and work environment resulted in a description of culture in four dimensions. However it is important to keep in mind that this study was made on employees within a specific company. On the other hand it is large and describes many countries. Further the described differences can be seen as part of the psychic distance.

1. Power Distance describes how acceptant a society is to inequality in organizations. This can be described as how obedient subordinates are relatively their superiors. (Hofstede, 1980).

2. Uncertainty Avoidance refers to how preferable predictability is for a society. In an uncertainty avoidant organization this would mean that any event is planned and scheduled extensively. (Hofstede, 1980).

3. Individualism-Collectivism is related to how important for example the society is relatively the individuals own interests. A collectivistic culture means that the society or organization as a whole is more important than the individual. (Hofstede, 1980).

4. Masculinity-Femininity. Feminine societies value for example harmony and relationships while masculine values are individual performance and more materialistic. (Hofstede, 1980).

3.1.1.4 Summary

The Uppsala way of gradually expanding into new markets is dependent on the above discussed psychic distance (Johanson & Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Johanson et al., 2002; Hollensen, 2011). It can be said that the Uppsala model’s sequential four stages and the aspects of change and state develop resulting in a reduced psychic distance.

Our conclusion is that psychic distance is very complex. Psychic distance appears at different levels such as between cultures, countries, companies/organisations and individuals. It is of importance to identify and separate the objective differences from say individuals or organizations subjective perceptions. It is also of interest to find ways of reducing/bridging this distance. An effective way of doing this might be by gaining knowledge regarding culture, politics, juridical issues, language and so on. An interesting company in this respect is
Net4Business, a Swedish/Turkish company that offers services to Swedish companies entering the Turkish market.

3.1.2 Internationalization, a Traditional View

3.1.2.1 The Uppsala Model

The model was built from research regarding mostly Swedish manufacturing companies in the 1970s. It was observed that companies began exporting to neighbour countries and over time as experience grew gradually established relationships with companies farther and farther away. It was also observed that the larger the company the more willing it was to establish abroad. In general new markets were initially approached through export. This development was observed in four distinct stages (Johanson & Wiedersheim-Paul, 1975). The fact that this model is discussed in current literature, by for example Johanson, Blomstermo and Pahlberg (2002) and Hollensen (2011) indicates that it still is relevant.

1. No regular export but the company gets sporadic orders from foreign customers. The exporting company has no deeper commitment in the target country meaning no sales people and or active marketing Hollensen (2011) and Johanson et al. (2002).

2. At this stage some active actions have been taken such as beginning to establish export via independent representatives, Johanson et al. (2002). This stage is also described by Hollensen (2011) as an Export strategy.

3. In the third stage the company has moved one step further and established its own sales organization in the country Johanson et al. (2002). This establishment is described as a Hierarchical strategy, Hollensen (2011).

4. Thus when the company is established and has more knowledge about the market beginning to produce in the country is the next step Johanson et al. (2002). This may be as an Intermediate or Hierarchical strategy Hollensen (2011).

3.1.2.2 The Processes behind the Stages

Out of continued research regarding the Uppsala model a structure was shaped in order to describe the internationalization processes in a company. The model is divided in two aspects; namely state and change. State is focusing on market knowledge and increased market commitment in the foreign market while change focuses on commitment decisions and current activities.

The model describes how companies strive to grow and increase profits in the long run while minimizing risk. This should affect managers throughout the organization and their decision making (Johanson & Vahlne, 1977).
3.1.2.3 State

Market commitment is controlled by two factors. One is the level of commitment in the market and the other the amount of resources the company dedicates to that particular market. The more different parts such as design and marketing/sales of the company converge in their efforts and resources towards the particular market, the larger is the commitment. This is also the case when the resources are specific or unique for the market such as establishing a local production unit (Johanson & Vahlne, 1977).

Market knowledge is a central part and there are different kinds of knowledge that affect the commitment decisions made. Knowledge about problems as well as opportunities within the market is of essence when initiating decisions. Evaluating alternatives and choosing decisions are dependent on market knowledge about the environment like for instance competitions, distribution and demand. Thus market knowledge is a complex issue (Johanson & Vahlne, 1977).

3.1.2.4 Change

Current activities show that there is a gap between these activities and the result of the activities. Long continuity of the activities, might generate a clearer result. Increased product complexity and differentiation result in higher degree of commitment to the activities. As an example we could consider marketing activities which after continuous activities result in sales. There is also a connection between activities and experience, where existing activities are the main source of experience. Experience is divided into firm experience and market experience. The knowledge of understanding and interpreting the information given from inside the firm and from outside the market is very important (Johanson & Vahlne, 1977).
It shows that the current activities are the main source of experience. One can obtain knowledge either by hiring staff with the knowledge or by advice from company employees with experience. To clarify the experience and how this is integrated into a company’s internationalization process, there are two ways to illuminate the experiences. One is the internal experience “firm experience” and the other is external experience “market experience”. An employee such as a sales manager needs both firm and market experience to perform successfully. (Johanson & Vahlne, 1977).

This means that it is difficult to hire personnel from outside in order to perform these activities. The more production oriented these activities are, the easier it is for the firm to make use of hired personnel or consultants to perform these activities. To obtain market experience the best way is to hire managers with market knowledge, or to acquire parts of or a whole firm. The difficult parts are to find these human resources. That is why internationalization process are time consuming.

The second change aspect Commitment decision describes how decisions are made in order to distribute resources in the foreign operations. Decisions are made with respect to opportunities and the problems in a market and this in turn requires experiences. Experiences come from operating in the market and through that problems will be solved easier. It is the same when it comes to possibilities (Johanson & Vahlne, 1977).

### 3.1.3 Is Psychic Distance Obsolete?

Here new phenomena in internationalization are introduced and compared relatively traditional models.

#### 3.1.3.1 Born Globals

According to Oviatt and McDougall (1994, p.49) Born globals are defined as “a business organizations that from inception seeks to derive significant competitive advantage from the use of resources from and the sale of outputs in multiple countries”.

A born global firm is often characterized as a knowledge intensive SMEs trying to exploit networks and resources to success. These companies tend to be led by entrepreneurial visionaries with unique knowledge and products or operational processes. In contrast to internationalization in traditional firms born globals tends to concurrently expand in the domestic and international markets. They operate and compete from inception in a variety of markets simultaneously all over the world. This requires the company to use external resources and competences. Thus born globals tend to skip steps in the traditional internationalization process. (Hollensen, 2011; Bell et al., 2003).

When an established company adopts this behaviour they can be called born again global. These companies have been focusing on the domestic market for a long time. Through a change in the organization the focus has rapidly changed and the organization has become more like a born global company (Bell et al., 2003).

The reason for the change depends on a major shift in the organization. Through this shift the organization possesses new resources in form of human or financial capital. These resources could for example be a new CEO or for instance through an acquisition. (Hollens, 2011; Bell et al., 2003)
3.1.3.2 Changes in the Markets

The conditions in the global market have changed to become more homogeneous. Today there is more transparency regarding for instance price; competition is global. These factors have contributed to the emergence of born globals. The changing market conditions have improved communications and transportations between markets making business operations more effective (Oviatt & McDougall, 1994; Hollensen, 2011).

3.1.3.3 Challenging Traditional Models

Born globals are interesting since they are challenging the traditional, slow, risk-averse, organic way (Hollensen 2011) of internationalization. Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) with their reasoning regarding incremental stages, psychic distance and the resulting relatively slow internationalization process is quite opposed to this. However Johanson and Vahlne (2009) state that even though a step in the Uppsala model might be leapfrogged ignoring psychic distance by a born global this does not make the model obsolete. They explain this by stating that born global firms are often governed by people with existing networks as well as previous international experience. However Johanson and Vahlne (2009) admit that the market itself has changed and become more global.

3.2 Networks

Theories introduced here regard when companies interact, share resources and build relationships.

3.2.1 The Network Model

This model is different from the traditional market model where the actors do not have a relationship. According to the market model it is the product itself, its performance and price that determines whether there will be a deal or not, not the actors relationship (Hollensen, 2011; Johanson et al., 2002).

Networks differ from hierarchies by being more informal and using lateral cooperation rather than vertical orders from above. These networks are built upon a foundation of earlier positive experiences such as well conducted business with mutual benefit. Bindings of different kind are created. These might be for instance technological economical social or juridical (Hollensen, 2011). The Gnosjö region in Småland, Sweden, is a very good example of this phenomenon; companies lend production capacity, machinery and production capacity from each other (Wigren, 2003). Networks are often hard to see and it might be hard to get access to them.

A company that works with these network issues is Net4business (2011) which has the business idea of connecting Swedish and Turkish companies. The company’s employees have knowledge of business culture as well as juridical matters in both countries. It also possesses networks in Turkey. Their typical customer is a Swedish company with the ambition to sell products new to the Turkish market.
3.2.2 The ARA Network Model

This model describes a network in three dimensions: activities, resources and actors (Anderson, Håkansson & Johanson, 1994).

3.2.2.1 Activities

Activities are what can be said synchronize suppliers and customers operations. This might be the production and distribution of components, billing, support and so on. This is also described by Anderson, Narus and Narayandas (2009) as value creation. These activities tend to be more complex with a growing number of actors and product complexity. For example the aircraft and automotive manufacturing industries are very complex with a large number of suppliers as well as complex products. Here just-in-time delivery is important since no manufacturer wants to have a lot of inventory from numerous suppliers, but a constant even flow. Also cooperation when developing components, concurrent engineering, (Ford, Gadde, Håkansson & Snehota, 2006) might be considered an activity link.

An important aspect is to find which customers need more complex activities and which do not. An example might be an aircraft company’s supply of nuts and bolts relatively the design and supply of a jet engine, the latter naturally requires more cooperation activity. This is what Ford et al. (2006) describe as the difference between adapted and standard activities. Another factor to consider is the necessity to realize that the activities may affect other actors in the network as well. Considering the aircraft manufacturer again could mean the importance of the delivery of components related to the engine. Here activities regarding cooperation among different suppliers may be necessary.

3.2.2.2 Resources

Resources are commonly thought of as physical facilities such as machinery and plants. But it can also be knowledge resources (Anderson et al., 2009; Ford et al., 2006). Here we can consider the automotive industry when a sub supplier develops and produces airbags. We can observe interdependency among designers in both companies in order to make the component fit physically as well as functionally. This mutually achieved knowledge creates a resource tie. There are also ties when a supplier builds a facility close to a customer like a harbour investing heavily in a new terminal for loading and unloading ships, this might strengthen ties relatively close companies in need of overseas transportation (Ford et al., 2006).

Ties tend to be stronger with increased knowledge interaction and heavy capital investments. They may also become a constraint especially when a supplier has invested heavily in a facility close to a customer; it will be hard to change customer (Ford et al., 2006). On the other hand an airbag manufacturer might gain from ties with a specific car manufacturer. This tie may for the airbag manufacturer mean increased knowledge regarding car safety that, in turn, can be an opportunity to use this knowledge by producing for another customer.

3.2.2.3 Actors

Among actors learning to know each other bonds will be created. These will have a social dimension. Over time these bonds will be stronger since people within the interacting organizations develop mutual trust as a natural consequence of well performed activities (Ford et al., 2006). Also, the social bonds created might mean that activities will run smoother thanks to the developed trust. An example might be that placing an order could
be made over the phone without time consuming negotiation and contract discussions. But there is also a risk; these bonds might make it harder to for instance switch supplier – you know what you have but not what you get.

3.2.2.4 Summary

To summarize it can be said that actors possess resources and use these to perform activities. Actors have bonds, resources create ties and activities create links. Every part is dependent on each other but the proportions might vary among industries as well as situation. It is hard to discuss for example actor bonds without touching upon activities related to these bonds. These relationship issues are indeed complex. It can also be said that according to Johanson and Vahlne (1977) and their reasoning regarding the interplay between aspects of change and state this can be regarded as the development process of networks.

3.3 How Companies Expand Into Foreign Markets

Different companies and markets with a variety of circumstances make companies choose different ways of entering and establishing businesses in different markets. Hollensen (2011) describes these ways in three different categories; export, intermediate and hierarchical modes Gooderham and Nordhaug (2003) use a different approach meaning that the entry modes are divided into equity and non-equity modes.

3.3.1 Export-Modes

Hollensen (2011) divides export in three different categories; indirect, direct and cooperative. These categories have similarities with the term marketing channels according to place, Kotler et al. (2008). All export modes are according to Gooderham and Nordhaug (2003) non-equity modes since there is no significant monetary investment required. Thus there is less risk.

The Indirect export means that the manufacturer uses an independent agent located in the producing country that markets and sells the products abroad. This method is suitable for smaller companies with limited resources but with the ambition to expand internationally. The risk with this is that the producer has less control; are the products sold too expensive, too cheap, does the customer get proper service, what happens with the producing company´s reputation? (Hollensen, 2011).

Another kind of indirect export is piggyback. This means that the exporting company finds another company that already is established in the desired market. The idea is to find a company that can benefit from the new product and thus have a broader assortment. Thus the exporting company can benefit from the larger company’s network, economies of scale and international experience (Hollensen, 2011). This is also a way of overcoming psychic distance. A Swedish example of this is Dafgårds that follows IKEA all over the world by supplying IKEA’s restaurants with Swedish köttbullar. A drawback of this strategy is that the smaller company has to follow the larger one and its intentions.

Direct export is selling to a local distributor. A common way is to make an agreement with a distributor that takes care of marketing, selling and distribution. This also means that the distributor takes the economic risk by buying the goods from the manufacturer in order to sell them. Other advantages are that this distributor has knowledge about the local market and established distribution channels (Hollensen, 2011).
Another way of direct export is to use an agent. This must not be mixed up relatively indirect export using an agent. In this case the agent is a company that sells to the exporting company’s customers without actually handling the goods. The profit typically comes from a commission. Like distributors an advantage is the agent’s knowledge about the market as well as networks. A drawback might be that an agent might be reluctant to develop new markets since revenues are connected to sales (Hollensen, 2011). It is of importance to use distributor/agent with knowledge about the business and a good reputation. To use these intermediaries is to let go of some control.

Cooperative export resembles piggyback but is a more equal relationship among two or more actors. These companies should not be competitors but rather have complementary products. An example of this might be companies selling hot dogs, mustard and ketchup. In such a case there is a common interest and an opportunity to combine sales and marketing efforts and to share distribution channels. Properly handled there will be synergies as well as leverage effects in the marketing (Hollensen, 2011).

3.3.2 Intermediate Modes

These strategies regard agreements and arrangements of different parts of the marketing channel such as research development production marketing and sales to different partners (Hollensen, 2011; Kotler et al., 2008).

Manufacturing contract or outsourcing can have a number of reasons. Common reasons are to reduce production cost or shorten delivery time to customers. Countries like China or USA prefer that products are produced in the country rather than imported. It may also be the case that a specialist with specific know-how is more able to produce the goods more efficiently. Risks with this strategy are that it may be harder to control the quality and also loss of knowledge. It might also be a problem with lead times if the subcontractor is located far away Hollensen (2011). IKEA and H&M are companies that pursue this strategy (Söderman, 2002).

Licensing means to keep research/development and licensing out remaining parts. Coca-Cola is a very well known example of this it is not only about the beverage it may also regard the manufacturing of different products. This is particularly useful in markets where tariffs and quotas make exporting impossible but it also means some loss of control (Gooderham & Nordhaug, 2003).

Franchising resembles licensing but in this case research/development and marketing is kept within the company. The advantage here is that the franchisee takes the risk and that growth might be faster since the company itself doesn’t have to invest in order to grow. An advantage for the franchisee is that the concept is proven to work meaning less risk. Negative is that it might be hard to make local adaptations since the franchising company is in control. (Hollensen, 2011). McDonald’s and Holiday Inn are well known examples (Gooderham & Nordhaug, 2003).

Joint Venture and Strategic Alliances is when two or more companies create a new company or an alliance. A common way of doing this is a highly technological company that cooperates with a company in possession of existing marketing skills and distribution channels. Gooderham and Nordhaug (2003) say that international joint ventures often consist of one multinational company and a local partner. The advantages are that together the companies are stronger, larger, use complementary resources and obtain economies of scale. Negative aspects are that the companies might have different ambition and that there might be a dif-
ference in power. There may also be conflicts regarding how to share revenues or losses (Gooderham & Nordhaug, 2003; Hollensen, 2011).

The above described intermediate modes are according to Gooderham and Nordhaug (2003) non-equity modes except joint ventures. This is considered to be an equity mode since here the company has to invest and take a financial risk but the risk is lower since it is shared.

### 3.3.3 Hierarchical Modes

These strategies are described by Hollensen (2011) as those where the company owns and controls the whole foreign organization. This is of importance especially in countries regarded as high context cultures. These are cultures where long term relationships are important, such as Japan and China. Here it is important to show a long term commitment by investing equity.

A *Domestic Based Sales Force* offer better control than for example a local distributor. Further there is great flexibility since it is possible to sell virtually anywhere with short notice. This method is especially fit when selling complex customer made products. But this is expensive and much time and resources are consumed for travelling. It may also be difficult to have enough knowledge to do business in different cultures (Hollensen, 2011).

The main advantage of a *Local Sales Force* is that if local people are employed the company gets access to knowledge about the country regarding language, company and business culture. This might speed up the establishing process and also shows commitment which is of particular importance in high context cultures (Hollensen, 2011).

*Local Production and Sales* consumes considerable amounts of resources initially but in the long run there will be savings in transportation as well as inventory on the road especially if raw material is available locally. There is an increased risk especially in politically unstable regions and one has to realize that it might take time before the investment pays off (Hollensen, 2011).

Gooderham and Nordhaug (2003) state that these are equity modes since investment is necessary, particularly when investing in a local production unit. But the domestic based sales force is still considered a non-equity mode.

### 3.4 Interdependencies between Theories: PEN Model

The model introduced in this chapter is the authors of this thesis way of describing how the theories and models discussed previously in this chapter are interdependent and affect each other. It is named PEN as an abbreviation of Psychic, Entry and Network.
3.4.1 How the Incremental Internationalization Affects Networks and Entry Modes

The theories above can be interpreted in a way that the Uppsala model is the central framework that describes the development of international markets over time through the interplay between state and change. The other models describing entry modes and networks are observations of what happens as companies expand internationally. The increasing commitment in new markets has the consequence that the company becomes more and more willing to choose entry modes along a continuum ranging from exporting modes towards deeper commitment such as building and running a local production unit. This is also connected to the fact that as this evolving occurs, actor’s activities and resources are also affected. By establishing a production unit locally resource ties are established which in turn might lead to trust among actors by showing commitment. Also activities may be running smoother, for example lead times to the local market might be shorter.

3.4.2 Access to New Networks; Possible Contributions

So far the discussion has been about a traditional incremental development. But the events do not necessarily have to occur in the same order, here the born globals (Hollensen, 2011; Bell et al., 2003; Oviatt & McDougall, 1994) are a striking exception. Another example could be a company hiring an external consultant with knowledge about the domestic as well as potential export markets. There is for example the company Net4business (2012), a Turkish/Swedish consultant company that plays this role by sharing its resources such as knowledge about the Turkish market as well as providing access to networks. These activi-
ties can help a company overcoming psychic distance and more willing to, for example, choose a bolder entry mode like an alliance instead of exporting.

Similar results might be the case if hiring immigrants in management positions; their knowledge about foreign culture as well as connections in the foreign country can reduce the psychic distance. This can also be the case when a company is acquired by another company in possession of an existing network and foreign market knowledge.

3.4.3 The Chosen Entry Mode; Possible Benefits

The traditional way of beginning with export and incrementally expand into new markets might be considered slow; it takes time to reach a distant market. But a company that proactively uses a specific entry mode such as, for example, piggy-backing might be able to reach a more distant market faster. It is also an example of using the other company’s resources and network connections. This might be considered the use of a tool resulting in faster learning about the new market thus reducing the psychic distance. It will also help in creating bonds and activities relatively the carrying company as well as its customers in the new market.

3.4.4 Summary

To summarize it can be said that these frameworks are interconnected and affect each other. Further it can be said that market development can find other ways than the traditional Uppsala model describes. This is also what Hollensen (2011), Oviatt and McDougall (1994) and Bell et al. (2003) state regarding born globals. Instead of developing new markets in the traditional incremental way a proactive way of choosing among entry modes and using, for example, multi cultural consultants or employees the psychic distance might be reduced at a higher pace. This can lead to faster access to new markets.
4 Empirical Findings

Chapter four introduces the collected empirical findings. These are presented according to topics that are related to the open ended questions used when interviewing.

4.1 PMC Cylinder’s History in General

The company, originally named Vaggeryds Mekaniska, a typical Gnosjö region manufacturing company, was founded in 1928. The initial products were general mechanical equipment to supply the mechanical manufacturing industry. During the 1950s the company focused on hydraulic cylinders and related products. The name of the company was changed to Vaggeryds Hydraulik in the 1980s. The company has had a number of owners; from investment companies to families. PMC (Power Motion Control) Group acquired the company in 2004. This group of companies offers a broad total solution of hydraulics. Vaggeryds Hydraulik’s name was changed to PMC Cylinders in 2008. (Interview with Peter Blomqvist Apr 7 2012). The name PMC Cylinders will be used throughout the thesis.

Fig 4.1 PMC Group Organizational Chart

Source: PMC Group (2012)

PMC Cylinders with its small domestic market has been dependent on internationalization in order to expand. This because the domestic market is small and quickly becomes saturated. The company has followed a very traditional way of internationalization beginning with export to neighbor countries and entering more distant markets as experience has grown. (Interview with Göran Fridén April 4 2012).

To obtain an image of the company’s opinions and attitudes of internationalization as well as the process itself Peter Blomquist, Göran Fridén and Lars Kinderbäck have been interviewed. These respondents were introduced in 2.2.2.
4.2 Company Internationalization

This timeline is an overview of PMC Cylinder’s internationalization.

- **1980s**: Norway, Finland
- **Mid 1980s**: Great Britain
- **Early 1990s**: Germany
- **Mid 1990s**: Japan
- **1995**: China
- **2007**: Denmark, Failure

**Fig 4.2 Internationalization Timeline**

4.2.1 Why Internationalization?

Both Göran and Lars (Interviews Apr 4 2012) say that the main reason to the initial internationalization was because the domestic market was too small and the competition in the market was too high. PMC Cylinders had to initiate export to other markets to survive, this also meant spreading risks which was a positive side-effect. Further Lars explicitly states that the Swedish market was too small and the prices were too low which in turn reduced margins so quantity was the only way of making money.

4.2.2 The Foreign Markets

The first market PMC Cylinders entered was according to the respondents (Interviews Apr 4 & Apr 7 2012) Norway and later on Finland and Denmark. PMC Cylinders did not regard this as internationalization as they perceived these countries almost as domestic markets. An attempt was made to enter the German market through a trading company but this failed. According to Göran (Interview, Apr 4 2012) the Germans wanted direct contact with the company.

The next step PMC Cylinders took was exporting to Great Britain. Since they had the knowledge about the English language they entered a trade fair to make new contacts with new potential customers. They had no developed strategy how to get in contact with these potential customers. According to all respondents (Interviews Apr 4 & Apr 7 2012) they simply “packed their bags and left”. Göran adds (Interview Apr 4 2012) that the only criteria of the potential customers was that their demands had to fit with PMC Cylinders business idea and strategy.

In Great Britain they later on could establish new contacts through their existing customers which resulted in new market entries. Through these contacts they could later on enter the German market. The respondents say that Swedes also have long experience in trading with Germans. The German market in turn was the gateway to continental Europe. The contacts also gave access to the Japanese market. In Japan PMC Cylinders succeeded thanks to superior quality leading to local companies preferring the company’s products over domestic.

The production unit in China was initiated after an inquiry from one of the customers. At the same time another subsidiary in PMC Group wanted to follow one of their customers to Asia. This led PMC Group to start up a company in that market to match the intentions.
of the subsidiary. According to Göran (Interview Apr 4 2012) PMC Cylinders was hesitant, but later made up the mind and followed to China.

From the beginning the way of choosing process of internationalization was according to Göran and Lars (Interviews, Apr 4 2012) based on the lack of experience. Now the company is more self-confident, but according to Göran (Interview Apr 4 2012) they would still today if put in the same situation act in the same way; learning step by step. But if they had possessed the organizational advantage of PMC Group they would probably have been bolder. This because the combination of economic resources, complementary products and sister companies with existing foreign production would have made it less risky.

4.2.3 Culture Affecting Choice of Market

Lars reflects and says that the cultural aspects are important to take into consideration when doing business. He further says that countries in northern Europe are close and quite alike from a cultural point of view. But there are also countries like Russia which is relatively close geographically but has a very different business culture. In this country one needs to consider that business is not as straightforward as in Western Europe; you need to understand the way of doing business. If these barriers between Sweden and Russia were smaller, PMC Cylinders would probably already have been in this market (Interview Apr 4 2012). Göran (Interview Apr 4 2012) notices that culture is of big concern and that PMC Cylinders used the Swedish Trade Council when they initiated export to Japan to learn about the culture and bridge some of these barriers.

4.2.4 When Culture is Irrelevant

The export to Norway, Finland and Denmark was according to all respondents done naturally and this was because of the similarities to the Swedish culture. The company regarded these as one and the same market and did not even think about culture. Today parts of northern Europe are also considered almost domestic (Interviews, Apr 4 & Apr 7 2012).

4.2.5 What Affects the Choice of Entry Mode?

In general agents and retailers are not being used. There is no room for anyone else therefore export or own local production is the only alternative. Göran explains this as follows. In a price perspective PMC Cylinders products cannot handle intermediaries since margins that are already low would be even lower. In a customer perspective customers need direct contact with the supplier. This could according to Göran be exemplified by for instance a customer sending an order which has to be handled by an intermediary. A process like this takes more time and the information might be corrupted as well. Thus intermediaries are not an option, neither for the customer nor for the company. It can be said that the company needs to be in control of the entire value chain (Interview Apr 4 2012).

According to Göran and Lars there could be inducements to be close to the customer to shorten for instance lead times and cut down stock costs. As in China, the company has moved parts of the organization to be closer to the customers and cut down production costs. Establishing a production unit in China was due to request from a customer moving its production there. This was supported by another branch within PMC Group which already possessed a production unit in the country (Interviews, Apr 4 2012).
4.2.6 Cooperation When Entering a Market

There is no extensive cooperation outside the organization but within the group they work together. Earlier the group was called Dacke group, at that time the companies operated the markets more or less alone because there was little demand for different total solutions. Now the group has changed owners and name to PMC Group. The demand of total solutions has increased continuously since the company started and now the PMC Group companies try to combine resources to deliver total solutions. This increased demand among customers can according to Göran be seen as a result of the trend of reducing the amount of suppliers. To deliver a complete solution is in line with PMC Groups business plan. Efforts are now focused on building strategy groups to fill this gap of demand. The group implements this step by step, it takes time to build this kind of cooperation as well as complex knowledge. Further Göran says that it is less problematic to develop this kind of solutions among existing customers and by doing so increase sales, it is more expensive to find new ones. This way of delivering a complete more complex system satisfying a number of a customer’s needs is also a way of being better than your competitors. This is the main cooperation used when entering markets. It has also been a matter of following a customer abroad (Interview Apr 4 2012).

4.2.7 Resources with Foreign Knowledge

Today PMC Cylinders only use for example the Swedish Trade Council to contribute with information about different markets and their business culture. This was the case when entering the Japanese market. The company has only used an agent once when entering the Finnish market. The main reason was to get help with language translation and general knowledge about the market (Interview, Apr 4 2012).

PMC Cylinders has transferred one of their employees to the company in China. The company chose this person because he has important production skills and speaks English fluently since this is his mother tongue. On top of this his spouse is from Asia and knows the culture as well as the language very well. PMC Cylinders saw this as an asset to make this transfer easy for them and to bridge the different barriers. Therefore she was offered a job at the company which she accepted (Interviews, Apr 4 & Apr 7 2012).

4.2.8 Existing Business Leading to New Business

The German market was entered as a result of cooperation with one of the customers in Great Britain. The company utilized these connections and contacts in order to reach new customers. Later on this resulted in new contacts with new customers in new markets for instance Japan says Lars (Interview, Apr 4 2012).

The production unit in China was initiated after an inquiry from one of the customers. At the same time another subsidiary in PMC Group wanted to follow one of their customers to Asia. This led PMC Group to start up a company in that market to match the intentions of the subsidiary. According to Göran (Interview, Apr 4 2012) PMC Cylinders was hesitant, but later made up the mind and followed to China.

4.2.9 New Markets

PMC Cylinders has no specific market that they want to enter at the moment. PMC Cylinders is relatively small, but they are in the front line within PMC Group when it comes
to exporting. The focus of PMC Group is according to Göran in Northern Europe, but PMC Cylinders with its greater experience keeps looking all over Europe. Further Lars says that it is often through coincidence that PMC Cylinders finds or enters new markets. Lars believes that this is at least partly because PMC Cylinders is a well known supplier with good reputation in the industry that later leads to new customers and markets. Lars states that the vast Russian market hopefully will be entered but later on. One of PMC Cylinders customers is already operating in the country which might be an opportunity. But at the present the company believes that there are too big cultural differences as well as too much corruption (Interviews, Apr 4 2012).
5 Analysis

The analysis in this chapter was performed by comparing the empirical data relatively the theoretical framework. The intention was to write the different paragraphs in a way allowing them to be read independently. Thus the analysis was done chronologically according to the market entries.

5.1 Internationalization

In the theoretical chapter there was a discussion that suggested that the Psychic distance, Entry modes and Network models were interdependent, (3.4). This is also the outcome of the analysis.

![PEN Framework](image)

Fig 5.1 PEN Framework

5.2 Close Markets

5.2.1 Norway Denmark Finland

The Norwegian and Danish markets were hardly chosen, they were considered almost domestic with cultures similar to the Swedish. This can be explained by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) and their reasoning regarding psychic distance and the Uppsala schools observations that companies tend to begin their internationalization by exporting to neighbour countries. The psychic distance can be further described by Hofstede (1980) four dimensions which describe national norms in the initial markets as similar to the Swedish.
The short geographic distance with short transportation means that there is no big benefit in building a production unit in these markets. Further as a small company with limited resources this no equity mode (Gooderham & Nordhaug, 2003) makes it both easier as well as less risky. Hollensen (2011) defines this as a hierarchical mode, direct export, meaning that the company is in control of the entire value chain. This is in line with Görans reasoning that the products are too sensitive to be handled by intermediaries. Further it is a way to handle risk by being present in a variety of markets.

Finland, which was considered a little more different from Norway and Denmark, was initially approached by the use of an agent. This is according to Hollensen (2011) an intermediary mode. This agent helped in accessing networks (Ford et al., 2006) as well as reducing the psychic distance by learning about cultural differences (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). These differences are partly explained by Hofstede (1980) who observed a significant difference among Finnish people being more uncertainty avoidant. But when summarized the differences are quite small. Later on when experience was gained the agent was excluded.

By entering these new markets the company created connections and began to build networks. Ford et al. (2006) and the reasoning about actor bonds is what began to evolve. These bonds and the mutual dependencies that were evolving also reduced risks.

5.2.2 Close Markets Summary

Closer markets like the Nordic countries are considered almost domestic. It is interesting to see that here networks are less important and the entry mode is the simplest; export. Thus there are relatively weak connections between the three parts of the PEN framework.

5.3 Medium Distance Markets

5.3.1 Great Britain

The company felt according to Göran and Lars (Interviews, Apr 4 2012) that the knowledge of English culture as well as language in the organization was good. To enter this market was seen as a natural and relatively easy step. This is also in line with the reasoning about psychic distance as well as the Uppsala school Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) and the reasoning about an incremental internationalization. This perception of cultural similarity is also described in Hofstede’s (1980) dimensions. But there are some interesting differences. Britains are significantly more masculine and slightly more individualistic than Swedes. Thus the psychic distance is somewhat larger than the initial markets.

This short but a little longer geographic distance with relatively short transportation means that there is still no significant benefit in establishing local production. An argument might be shorter lead times. Still being a small company, even if the company has expanded and reached some economy of scale, resources were still quite small. The use of this no equity mode (Gooderham & Nordhaug, 2003) made it both easier as well as less risky. Hollensen (2011) defines this as a hierarchical mode, direct export, meaning that the company had control of the entire value chain. This is in line with previous reasoning that the products are too sensitive to be handled by intermediaries. Further it is a way to spread risks by operating in a number of markets.
The English market was the gateway to the world. New connections were initiated with new large customers who sub-sequentially led to other markets like Germany and Japan. What Göran (Interview, Apr 4 2012) describes as a requisite that the customer needs must fit PMC Cylinders in turn generated an interdependency. This can be seen as what Ford et al. (2006) describe as actor bonds and resource ties. These bonds and ties contributed in bringing the partners closer to each other; thus it can be said that this affected the psychic distance in reducing it. Further activity links developed since logistics became more critical and complex; now the company was selling farther away than the Nordic countries.

5.3.2 Germany and Europe

Göran (Interview, Apr 4 2012) mentioned that when the company entered the British market they had already considered the German market but it was excluded partly because a lack of language knowledge. This is also an example of psychic distance (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). But there was an attempt using a trading company to overcome barriers. This is according to Gooderham and Nordhaug (2003) a non equity mode meaning less risk and according to Hollensen (2011) an intermediary mode. But this failed. According to Göran (Interview, Apr 4 2012) this was mainly because the customers wanted a direct contact. Thus the company should have used a hierarchical mode like company sales people (Hollensen, 2011) ensuring that direct connection. This is interesting since according to Hofstede’s (1980) dimensions there is difference regarding higher masculinity and higher uncertainty avoidance. This uncertainty avoidance could be reflected in the German customers demand for direct contact; the trading company was an obstacle. Thus the psychic distance can be said to have been larger than perceived.

As a result of the British connections the company later entered the German market via a customer. This can be described as a result of actor bonds (Ford et al., 2006). Trust and loyalty as well as ability to deliver to the existing British customer led to recommendations (Göran, Interview, Apr 4 2012). This may have been important since Germans as argued above are considered more uncertainty avoidant. This proven ability to deliver bridged this distance and made the entry successful. Further the decision to have a direct contact with the customer also contributed.

Traditionally Swedish and German companies have according to the respondents (Interviews, Apr 4, April 7 2012) traded extensively. The initial failure and the later success indicate that this tradition per se is no guarantee to succeed. Maybe Swedish companies perceive a shorter psychic distance than they should. Further networks as well as reputation are of essence. As reasoned above this might be because of a higher uncertainty avoidance.

As in markets previously discussed the company’s as well as the customer’s need for direct contact require hierarchical modes such as direct export (Hollensen, 2011). This also makes sense since the goods are transported a relatively short distance. Further activity links (Ford et al., 2006) developed since logistics became more critical and complex; involving different means of transportation.

The company’s network was further developed since contacts in the German market led to Japanese customers.

5.3.3 Medium Distance Markets Summary

Markets at a medium psychic distance like Great Britain and Germany are more difficult to enter due to longer psychic distance. Here we have seen that networks begin to matter. The
building of network in Britain by attending a trade fair and make connections made it possible to sell in the country. These networks later on led to connections with German customers. It is interesting to see that the initial failed attempt to enter the German market was due to not realizing to use proper entry mode. This time however the established network and proven record among British customers contributed in opening the German market.

Here it can be seen that according to the introduced PEN framework the interdependency between psychic distance and networks becomes clear. Regarding Germany it can also be said that the noted uncertainty avoidance implied a specific entry mode.

### 5.4 Long Distance Markets

#### 5.4.1 Japan

Now the psychic distance (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) begins to grow substantially. According to Göran (Interview, Apr 4 2012) the company was very well aware of that and sought help from the Swedish Trade Council in order to learn about the Japanese culture. This is also the interpretation of Hofstede’s (1980) dimensions where every dimension is different with masculinity as the most extreme of differences. Further there is an obvious long geographic distance.

With strong uncertainty avoidance (Hofstede, 1980) it might not be a surprise that the Japanese market was entered thanks to network connections via an existing customer. Actor bonds are according to Ford et al. (2006) built upon social bonds. These build over long time and create trust. Thus PMC Cylinders saved time. The activity links (Ford et al., 2006) became more important than before since now logistics became even more critical since more actors were involved among a longer geographic distance. Further activities like quality control became more important; a failure in quality would mean significant losses.

According to Lars and Göran (Interviews, Apr 4 2012) the company continued to use a non-equity mode (Gooderham & Nordhaug, 2003) in form of a hierarchical mode, direct export (Hollensen, 2011). This might seem odd since long transports and long lead times result in increased inventory cost. However Lars (Interview, Apr 4 2012) stated that PMC Cylinders succeeded in competing with the local companies so well that local companies preferred PMC Cylinders products. Thus the network grew. This contributed partially to establishing production in China to supply the Asian market. Thus the hierarchical mode was developed from export to local production (Hollensen, 2011).

#### 5.4.2 China

The psychic distance (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) is greater than relatively Japan mostly because a different political system. According to Göran (Interview, Apr 4 2012) the company was very hesitant to enter the market due to cultural differences.

Later the company established a local production unit. Within PMC Group another subsidiary had an existing local production unit. The companies joined efforts can according to Ford et al. (2006) be described as first of all actor bonds since there was a mutual trust thanks to being parts of the same group. Resource ties (Ford et al., 2006) were established by sharing facilities but the activity links are less important since the two companies serve
different lines of business. However the PMC Group as a whole benefit from this by the
ability to share benefits, experiences, knowledge and costs. This makes the group stronger.
But one activity link of importance is that the logistics to supply the Asian markets is less
complex with shorter lead times and less inventory.

The big difference for PMC Cylinders is that now the company has developed the hierar-
chical mode (Hollensen, 2011) by establishing a local production unit, referred to as an eq-
uity mode (Goodeham & Nordhaug, 2003). This can also be seen as an alliance (Hollensen,
2011; Goodeham & Nordhaug, 2003) meaning that the companies share resources as well
as risk. Further the production costs have decreased resulting in higher margins.

According to Peter and Lars (Interviews, Apr 4, Apr 7 2012) the company transferred an
employee with broad technical skill and fluency in English. His spouse was also employed;
this was very important when bridging the psychic distance (Johanson & Wiedersheim-
Paul, 1975; Johanson & Vahlne, 1977) since she is Asian with knowledge of culture as well
as language.

5.4.3 Long Distance Markets Summary

Markets at a long psychic distance (Johanson & Wiedersheim-Paul, 1975; Johanson &
Vahlne, 1977) like Japan and China resemble the medium as networks are concerned. Both
markets were entered thanks to existing network connections. One big difference is that
the network is even more important. In this case the existing subsidiary unit in China made
it possible to establish local production. This was also the key to the entry mode chosen,
alliance, thus there is a strong connection. Another network issue is the access to an em-
ployee’s spouse familiar with the language and culture. Thus the psychic distance is bridged
by different means simultaneously. This is also what the PEN framework implies.

5.5 The PEN Framework, a Summary

To summarize it can be said that the interdependency among the theories that build up the
framework grow stronger as the psychic distance increases. Further it can be seen that net-
works tend to be the most important component when bridging the psychic distance. Net-
works also appear at different levels, within the company, between companies and between
individuals. The entry mode seems to be dependent on network connections and the ability
to combine resources. However it should be stated that this analysis regards a specific
company in a specific business. The result could be different in another company or busi-
ness.
6 Discussion

This chapter introduces a model that PMC Cylinders can use when entering a new market.

6.1 How Can the Psychic Distance be Reduced?

As discussed above (3.1.2) the psychic distance can be an obstacle that is hard to overcome. Networks seem to be crucial in overcoming big psychic distance. PMC Cylinders has used its existing networks as well as developed new ones to be able to enter new more distant markets. A certain pattern has been observed during the analysis. With increasing psychic distance networks and entry modes are more important, this results in the model below. The model is a summary of successful internationalization strategies. The model is to be seen as a structured approach when entering new markets.

*The model is not a claim for an ultimate solution or absolute truth.* It is merely a suggestion for this particular company. Other companies in other businesses may or may not be able to apply the model. This is because different businesses for instance require different amount of investment, focus on different customers in different markets and possess varying amounts of resources.

![Decision Tree](image)

Fig 6.1 Decision Tree
Step 1. The answer to this question decides whether the company has to consider network connections or is able to enter the market immediately.

Step 2 a. With longer psychic distance networks are more crucial when entering a market than a market with shorter psychic distance. The company’s experience is that the longer the distance the more important are the networks. There was no network connected with the British market when the company wanted to enter, but the network was quite extensive when entering the Chinese market.

To enter the British market it was sufficient to make the connection by visiting trade fairs and customers. The more distant markets like Japan and China required extended networks. Japan was the result of customer network in Germany and China thanks to network within PMC Group as well as their customers.

Step 2 b. This is less complicated since this will be almost like a domestic market. This was the case in the Norwegian and Danish markets. Here initial networks were less important, they developed over time.

Step 3 a. Developing the existing networks is done by combining the resources efficiently. It is also a matter of choosing an entry mode that is optimal relatively the network’s resources. This was done when the company combined resources with a sister subsidiary in the Chinese market resulting in an alliance.

Step 3 b. When there is need for new networks the company has to build them themselves or with help from for example consultants like Net4Business (2012). One way of doing this is to visit a relevant trade fair in order to find customers. Another is to make personal visits. PMC Cylinders used these methods when creating networks in the British market. Next step is 3 a.


6.2 Close Market But Not Close

Here is a case regarding a possible market entry in the Russian market and how it could be handled.

Russia is according Lars a huge potential market. One of PMC Cylinders customers is already established in the country but according to Lars (Interview, Apr 4 2012) the company finds the cultural barriers hard to overcome. It is impossible to go there and just do business. This can according to Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) be described as a big psychic distance. The fact that a customer is operating in the country can according to Ford et al. (2006) be regarded as an existing actor bond that could be used.

As the Russian market is concerned the psychic distance is big (Step 1). The company possesses a network in the market (Step 2). It is a customer that is operating in the country. This network should be investigated, developed (Step 3 a) and the existing resources combined in an effective way. The result should be an entry mode that is effective and generates revenue. This is what the company did when entering the Chinese market. This way of combining network resources and finding the optimal entry mode will result in a market entry (Step 4). Thus the psychic distance has been reduced.
7 Conclusions and Critics

This chapter describes the outcome of the purpose and critical issues regarding the investigation.

The purpose was to investigate a company’s internationalization processes and find out how to bridge the psychic distance in order to facilitate internationalization.

The first part of the purpose was fulfilled in chapter 5, where the internationalization processes of PMC Cylinders were analysed with the P.E.N. framework. Then certain patterns were found; with increased psychic distance networks as well as entry modes became increasingly connected relatively each other. This affected the company’s internationalization processes, with networks standing out as especially important. Another issue is that the complexity and customization of the products influence how the markets have been entered. Therefore PMC Cylinders prefer hierarchical entry modes.

The second part of the purpose was fulfilled in chapter 6 where a model was introduced. This model gives a structured approach how to enter a new market. Starting in the perceived psychic distance it implies a path where networks as well as entry modes are taken into consideration. The result is that the use of networks as well as proper entry modes might bridge the psychic distance. The patterns observed in the analysis are the basis for the model. Further the model stresses the increased importance of networks with increased psychic distance.

This case study’s main constraint is that it concerns only one company in a specific line of business. Further the number of markets studied is limited. The method also has its drawbacks; a larger number of respondents within the organization could have been interviewed. The fact that the company only uses hierarchical entry modes is perhaps the most critical issue. The analysis would have been more interesting with a company using different entry modes simultaneously.
8 Further Research

Here suggestions for further research are presented.

Since we have performed a case study the result is company specific. Therefore there are a number of ideas regarding what matters could be investigated; here are a few.

First a number of similar companies should be studied in order to see whether the observations are applicable within the same line of business. Further similar companies operating in other markets and/or using other entry modes could be investigated. It would also be interesting to see whether the company’s size matters. Also, since this company is from the entrepreneurial Gnosjö region it would be interesting to compare relatively companies from other parts of Sweden.

Another approach might be to study and compare different businesses; mechanical, textile, electronics and so on. It would also be interesting to compare companies from a perspective of investments meaning how much investment is required for a foreign establishment. One could for instance investigate a continuum ranging from heavy mechanical manufacturing to electronics. Another could be to study how the complexities of products affect the choice of entry mode.

It would also be interesting to see how service companies act when internationalizing. Interesting approaches could be how different levels of knowledge intensity affect the internationalization process. Further the kind of knowledge could be studied; there might be differences between say services of a power plant relatively IT services.

An interesting approach could also be to compare Sweden relatively for example New Zealand and Australia since these countries are far away geographically but perceived quite close.
References


