Institutions, Transaction Costs and Entry Mode Decisions: The Case of Swedish SMEs in India

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Level and semester: Master of Science, Spring 2013
Acknowledgements

We devoted the previous weeks to our master thesis and got a very interesting and broad impression of the topic. Our special thanks goes to Dr. Susanne Sandberg, our supervisor. She always helped and supported us regarding questions and problems. Her door was always open for us and we amazingly noticed how fast she gave us valuable comments and answered to our mails. She assisted us substantially during the entire thesis and always guided us in the right directions.

We would also like to express our appreciation to Prof. Hans Jansson and Dr. Joachim Timlon who inspired us with their lectures and contributed by emphasizing the importance of institutions and transaction costs. We would not have been able to link these topics without their valuable ideas.

During the master thesis seminar we were able to get different opinions about our topic and ideas from our fellow students Emma, Julien, Lina and Malin. These new thoughts helped us to increase the quality of our thesis. Furthermore, we want to thank Dr. Mikael Hilmersson who supported us during the seminar with his expertise.

We are also very thankful for the interviewees, Jörgen Johansson from Norden Machinery AB, Anders Jönsson from Slipnaxos AB, Olle Berggren from Håkansson Sågblad AB and Roger Axelsson from Hedin Lagan AB who gave us their precious time and answered all our questions. They are the ones who gave us the input for our empirical chapter and made it possible that we could complete our thesis.

Sebastian Laier

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Kalmar, Sweden, 2013-05-29
Abstract

In the current third wave of internationalization companies from mature markets are investing in emerging markets and increase their foreign activities. For this internationalization process, companies need to enter the market with an appropriate entry mode strategy. Prior research focused mainly on MNC entry modes and also on factors as ownership, location or internalization advantages and not on SMEs and transaction cost theory. This thesis deals with the topic of institutions, transaction costs and entry mode decisions of Swedish SMEs in India.

The purpose of this thesis is to understand the managerial perceptions about the influence of institutions on the degree of linkage specificity with which the transaction costs will be explored. This will lead to further knowledge about certain entry mode decisions of Swedish SMEs for the Indian market. This was studied with a qualitative research strategy using a multiple case study method. The empirical data was conducted via secondary data and primary data was collected via interviews with the sales responsible of the four case companies Norden Machinery AB, Slipnaxos AB, Håkansson Sågblad AB and Hedin Lagan AB. Main findings of the research were that institutions are perceived differently by the managers and therefore the institutions dissimilarly influenced the perceptions of the transaction costs. Furthermore, the study revealed that some managers decided their entry mode on the base of the perception of the transaction costs and some managers did not consider transaction costs when entering new markets. All in all it can be stated that transaction costs influence the entry mode of companies. The research is limited by the fact that transaction cost theory in general neglects factors as production costs.

Managerial implications are that transactions costs should not be neglected as they help to choose a more successful entry mode and that the assets specificity and the behavioral uncertainties need to be taken into account when deciding upon an entry mode. Theory profits from this thesis as it proved that transaction costs influence entry mode decisions and that the linkage specificity is an important factor to include when combining transaction costs theory with entry mode decisions.

Keywords: SME, India, Institutions, Asset Specificity, Behavioral Uncertainties, Entry Modes
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1 Introduction
This thesis puts emphasis on the topic of “Institutions, Transaction Costs and Entry Mode Decisions: The Case of Swedish SMEs in India”. The authors will present relevant background information as the concepts of institutions, degree of linkage specificity, transaction cost theory, entry mode choices and managerial perceptions. Furthermore, a problem discussion will be presented in which the path from institutions to entry mode decisions of small and medium sized enterprises (SMEs) is examined and related to prior research. Finally, the problem definition will be formulated. An outline of the paper will be given in order to lead the reader structurally through the thesis.

1.1 Background
Currently a third wave of internationalization of companies is in progress in which multinational corporations (MNCs) from mature markets are investing in or doing business with China, India, Russia as well as central and eastern Europe (CEE), also named as emerging country markets or transition economies. An increasing foreign direct investment (FDI) between the continents is apparent. Especially, the opening up of India and China; and the integration of the CEE countries in the European Union (EU) supported this development. China and India account for one-third of the world population and have a great potential when becoming integrated into the world economy. MNCs discern lucrative opportunities and constantly invest in these markets (Jansson, 2007a).

Nevertheless, the focus has been on MNCs in relation to the third wave of internationalization (Coviello and McAuley, 1999); while SMEs are also frequent actors in the globalization process but have been neglected so far (Sandberg, 2012). Therefore, this thesis focuses on SMEs entering the Indian market.

Companies need to have an appropriate internationalization strategy, for example, concerning the entry mode, the entry time, the location and choosing the right business partners (Dunning and Lundan, 2008). Brouthers (2002), found out that companies basing their entry mode decision on institutions and transaction costs enunciate an enriched choice while at the same time adding value and developing a company’s capabilities.
**Small- and medium sized enterprises**

SMEs, companies with less than 250 employees and a turnover less than 50 million Euro or a total annual balance sheet less than 43 million Euro, are an interesting field to examine as in the EU 99 percent of the companies are classified as such (EU, 2005). They also face the increased competition and are constrained to do international business (Korsakienė and Tvaronavičienė, 2012). The general situation about all European SMEs is that 30 percent are importing, 26 percent are exporting and two percent are doing FDIs (EU, 2010). According to an EU study, European international SMEs create more jobs than non internationalized businesses, are more innovative and have a better performance in terms of turnover (EU, 2010). The market entry mode decision is a challenge for SMEs when doing international business since the overall performance is highly related to it (Lu and Beamish, 2001; Brouthers, 2013). According to Brouthers (2013), the decision about the entry mode is influenced by several factors as transaction costs and institutions (Brouthers, 2013).

**India**

India is an emerging market which offers companies opportunities to participate in the market growth (Singh, Garg and Deshmukh, 2010). The Indian market is especially interesting as the size of the country is enormous and also the predicted future growth rates are high (EU, 2011). India has for example distinct advantages for investors over China, such as the demographic development (the younger age cohorts) (Wolf et al, 2011). The EU is interested in increasing the investments of European SMEs in India. Therefore, they support SMEs in investing in the “Key-Market India” by assessing market potentials, examining options and reviewing measures to help to access the market (EU, 2011). Entering India is not only relevant to be present in the Indian market, but also to use India as a global hub, e.g. with production facilities or distribution centers to also deliver to other countries as Pakistan or other countries. This is favourable as India is well prepared to be a hub as it is a multicultural democratic society with a free press (Raghuram, 2005). Already seven percent of the European SMEs are involved in international business with India (EU, 2011). Entering the Indian market is challenging but also promising due to the industrial and trade liberalization of 1991-1992 and the efforts of the government in attracting investors through promotional policies (Singh, Garg and Deshmukh, 2010).
In the following, background information about institutions, the degree of linkage specificity, transaction costs, entry modes and managerial perceptions are given in order to set a foundation for defining the research problem.

1.1.1 Institutions
According to Jansson (2007a) an institution is defined as “a social order or pattern that has attained a certain state or property” (Jansson, 2007a, p. 37). In other words, institutions are groupings underlying different rules and regulations. Besides the SME which forms an institution, several other institutions are influencing the success of companies when operating internationally (Jansson, 2007a).

Jansson (2007a) states in “The Basic Institutions Model” that the financial, labor and product and service market as well as the government are relevant institutions due to the direct influence on the SME. Nevertheless, the authors identified the financial, labor and product and service market as industry and sectoral specific which may not be utilized due to different companies that will be interviewed characterized by a dissimilar market situation and external environment. The chosen institutions, on the other hand, may be used to describe and evaluate several companies since general information about the country in focus, India, is provided.

The analyzed institutions of the Indian market are the government, the country culture and the religion. The government is an important institution as it is responsible for providing an environment for companies to do business (Larsson and Venkatesh, 2010). Governments use restrictions (Han and Ogawa, 2009) or projects, among others, to do that (Isham, Kaufmann, and Pritchett, 1997). Governments are also facing problems as corruption (Polajeva, 2011) or a high level of bureaucracy (Figueiredo, 2010). Also the institution country culture is important to analyze as it significantly influences business decisions as for example market entry modes (Kogut and Singh, 1988). According to Hofstede’s dimensions different countries have different cultures regarding the power distance, the individualism versus collectivism, the masculinity versus femininity, the uncertainty avoidance and the long term versus the short term orientation. Decisions are strongly influenced by the named dimension of country culture which underlines their importance (Steenkamp and Geyskens, 2012). Religion is an institution of great significance since a notable increase in various types of formal and informal religious groups among company employees have been recorded. The desire to express religious beliefs at work may be noted and managers have to evaluate the direct impact of religious or spiritual
behavior on other employees, employee safety and customers as well as on productivity (Cash et al., 2000).

The before described institutions have been chosen because the Indian government is characterized by its instability resulting in fast changes of economic regulations and the poor cooperation between the state as well as the central government which directly affect business accomplishments in India. In addition, tensions with Pakistan over Kashmir, China over border conflicts and with Burma and Bangladesh concerning sharing of river waters and illegal immigrants, impact economic and political issues of the country (Budhwar, 2001). The country culture is of great significance due to the aspect of cultural distance which may be defined as the differences of cultures between the home and the host country; directly influencing operations in the host country (Tihanyil et al., 2005). Since India is the birthplace of three of the world’s main religions, as Hinduism, Buddhism and Sikhism; it may be seen as a deeply spiritual tradition and is rated high in everyday life, shaping the social, political and economic landscape of the country (Budhwar, 2001).

1.1.2 Degree of Linkage Specificity
The degree of linkage specificity represents the relationships between the institutions and the transaction costs (Jansson, 1994). Analyzed linkages are asset specificity and behavioral uncertainties.

Asset specificity as defined by Williamson (1991) is “the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrificing productive value” (Williamson, 1991, p.281). Asset specificity can be separated in the three parts site specificity e.g. when natural resources are only available at a certain location or are expensive to transport, physical asset specificity, e.g. specialised machines, human asset specificity, which is determined by the education of the employees (Williamson, 1991) and time specificity i.e. a short distribution channel and closeness to the customer (Malone et al., 1987).

The second linkage, the behavioral uncertainties, means that opportunistic behavior due to self interest of employees affects businesses. This uncertainty leads to the problem of unpredictability of the behavior of individuals in foreign countries (Williamson, 1985). Behavioral uncertainties are especially a problem of SMEs as they have less opportunities to
establish control systems, which would help to decrease the uncertainties, due to their smaller size and limited resources (Lu and Beamish, 2001).

1.1.3 Transaction Costs
Transaction costs are costs for participation in the market. They can be grouped in ex-ante (before the contract is made) costs as search as well as information costs and ex-post (after the contract is made) costs as enforcement costs (Holtbrügge and Welge, 2010). According to Jansson (1994), transaction costs may be divided into three categories: information costs, bargaining costs and enforcement costs. Information costs are the costs associated with collecting information in order to identify and to appraise adequate business (Hennart, 1993). Bargaining costs, on the other hand, are resource costs occurring when participating in negotiations including time and costs for legal and insurance issues (Stavins, 1995). In other words, costs which evolve between the transacting parties during the negotiation phase (Alt and Shepsle, 1990). Changes in environmental circumstances and new market information lead to raising threats for static relationships. Therefore, participants of long-term relationships have to constantly renew contractual agreements (Dahlstrom and Nygaard, 1999). Enforcement costs usually appear after the contract was set and aim at the sanctioning of trading partners who do not perform according to the discussed terms (Hennart, 1993). The transaction costs of SMEs are differently distinct in comparison to MNCs as they are dissimilar regarding the firms resources (HR and material). Therefore, SMEs often face higher costs because of a smaller scale and scope and less experience than MNCs (Nootbeboom, 1993).

1.1.4 Entry Modes
Different entry modes facilitate different levels of control over the foreign operation. Control in this context may be defined as the power over certain operational and strategic decisions (Pan and Tse, 2000). Entry modes may be divided into equity based and non-equity based entry modes. Equity based entry modes include wholly owned operations which may be separated into greenfield investments and takeover acquisitions (Pan and Tse, 2000). SMEs open up new facilities in the foreign market with a greenfield investment and acquire an existing operation in the foreign market when doing a takeover acquisition (Cavusgil et al., 2002). Another form are equity joint ventures; here, a company either acquires partial ownership of another company; or two and more sponsors bring given assets to another independent legal entity and receive lots of the profits earned (Hennart, 1988).
Non-equity based entry modes are contractual agreements such as licensing, research and development (R&D) contracts as well as alliances and direct as well as indirect exports (Pan and Tse, 2000). Companies can have direct (dyad) relationships with the customers and also export indirectly (triad) while using intermediaries as agents or distributors (Sandberg, 2012).

1.1.5 Managerial Perceptions
Managers have to collect and interpret information to get an opinion about the external and internal environment in order to make decisions and formulate a strategy (Sawyerr, 1994). Therefore, managers need to have knowledge about their own firm as well as the external environment (Mammana et al., 2013). According to Hodgkinson (2007), who explained managerial perceptions based on cognitive psychology, cognitive anthropology and social cognition, perceptions are shaped by past experiences and learning.

According to Anderson and Paine (1975), managerial perceptions are subjective and do not always reflect the reality and therefore problems as incorrect decisions occur. An example for incorrect managerial perception is that Malaysian managers unnecessarily divested their business as they perceived that due to imports, caused by the globalization, their business will be negatively affected (Mammana et al., 2013).

1.2 Problem Discussion
1.2.1 The Path from Institutions to Entry Mode Decisions of SMEs
A company has to select an appropriate entry mode when entering a new international market (Burgel and Murray, 2000). According to Lu and Beamish (2001), the entry mode type impacts the performance of SMEs. Consequently, it might be stated that choosing the right entry mode may lead to performance implications for SMEs (Nakos and Brouthers, 2002).

Transaction cost theory is highly related to the entry mode choice due to the costs that occur when searching for new business partners in a foreign environment (Hennart, 1991). According to Brouthers and Brouthers (2000); Delios and Beamish (1999); Kogut and Singh (1988), the transaction cost theory will gain value by adding institutional as well as cultural aspects to the analysis since, especially institutions, enhance the understanding of entry mode decisions (Kogut and Singh, 1988).
Firstly, institutions are an extension of the transaction costs theory because they refer to relevant conditions in the macro and micro level that influence a company (Delios and Beamish, 1999). Secondly, Brouthers and Brouthers (2000) point out that the cultural context is of high significance to evaluate managerial costs as well as uncertainties in the target market. North (1990) states that it is essential to combine the institutional theory with the transaction cost theory because institutions provide the structure in which transaction costs may arise. Institutions differ in every country and provide conditions in which the decision of entry modes only based on transaction costs is not valid anymore (Roberts and Greenwood, 1997). Governments of certain host countries may have legal barriers for foreign direct investments in order to increase the local ownership. These rules and regulations could restrict the company’s capabilities and have to be considered, even though transaction costs may be low for a certain entry mode choice (Roberts and Greenwood, 1997). The institutional contexts in different countries constitute a company’s ability to exploit and enhance its capabilities (Brouthers, 2002).

The extended transaction costs model does not only integrate the traditional transaction costs approach but links it to the institutional framework. A link between the two concepts is established via the degree of linkage specificity which implies two main causes for transaction costs: asset specificity and behavioral uncertainty (Williamson, 1985). Managerial perceptions about institutions, linkage specificity and transaction costs are integrated in the model since they impact managerial decision making (Prakash and Law, 2011) because perceptions differ from the real world (Anderson and Paine, 1975).

1.2.2 Prior Research
The foundation of transaction cost theory was led by Coase (1937), who identified that there are costs for participating in the market as search, information, bargaining and decision costs. Brown (1976) shows, those multinational companies exist, when internal transaction costs are lower than buying externally. Dunning (1988) developed the eclectic paradigm which explains the decision about the foreign entry mode with ownership, location and internalization (OLI) advantages. A new perspective about transaction cost theory was given by Williamson (1981) who argues that transaction costs are also related to the concept of bounded rationality of Simon (1972) and therefore factors as behavioral assumptions need to be considered. A link between transaction costs theory and institutions is drawn by Jansson (1994). It is shown that the goal, to be efficient, is reached by the reduction of transaction costs which is influenced by
linkages to institutions (Jansson, 1994). The article of Brouthers and Nakos (2004) emphasizes, that the performance of SMEs is better when they decide their entry modes on the basis of transaction costs. Brouthers (2002) analyzed that when European companies base their entry mode decision on transaction costs or institutional aspects, they come to a more value added based decision. Hennart (2010) further developed Brouthers (2002) entry mode analysis by discussing the influence of transaction costs on international business and proves the relationship between entry modes and transaction costs. Within this context Brouthers (2013) analyzed, that firms which select their entry mode by assessing transaction costs and institutional variables, perform better (financial and nonfinancial) than other firms making the choices with other variables.

Meyer (2001) presented a related concept, also integrating institutions, transaction costs and entry mode choices of MNCs entering transition countries. He proved that changing and unstable institutions (e.g. the government) increase transaction costs and influence the entry mode decisions of MNCs. Thereof, companies need to adapt their strategies to changes of institutions.

The focus of this thesis is similar to the mentioned research of Meyer (2001) but as the analysis of Meyer only focused on transition countries and did not examine the linkages between institutions and transaction costs or SMEs the authors see a research gap in this field. Furthermore, Anderson and Gatignon (1986) see limitations in the traditional transaction cost approach as the considerations about, e.g. governments are not considered to the full extent (Anderson and Gatignon, 1986). This also underlines the need for research which relates transaction cost theory and institutions. The research gap becomes obvious as Marinescu (2012) also points out that the economic performance is highly related to transaction costs and institutions but in his studies entry modes and the mentioned linkages are not in the focus (Marinescu 2012). Previous research regarding transaction costs theory mostly focuses on MNCs and uses a quantitative research strategy. The authors see a lack of research about SMEs and the managerial perceptions of them. The qualitative research strategy in the transaction costs theory for SMEs enables new sights on the managerial perceptions which have not been researched yet and therefore will fill the research gap. According to Argawal and Ramaswami (1992), the research gap is especially important in the Indian market as a market entry may generate higher returns due to the market imperfections but also requires a thorough analysis due to a complicated market entry process.
According to Nakos and Brouthers (2002), companies could use Dunning’s OLI framework to analyze foreign market entries of SMEs but further research is needed to support managers to make financially superior entry mode choice decisions. Nakos and Brouthers proved, that the OLI framework of Dunning is not completely applicable for SMEs as not all variables of the ownership advantage are statistically relevant for SMEs (Nakos and Brouthers 2002). Managers profit from a transaction cost analysis as the uncertainty evaluation which influences the managerial costs when entering new foreign markets is decreased by also considering institutions as culture (Brouthers, 2002). Furthermore, the consideration of transaction costs provides managers a model to choose the best governance structure (Poppo and Zenger, 1998). According to Williamson (2010), the research about transaction cost theory stands on a broad scientific base, but there is still the need for future research in this field.

Nevertheless, there are some limitations when researching about transaction cost theory which also this thesis cannot overcome. The basic assumption of transaction cost theory is that the production costs are equal in every market and this aspect limits the validity of transaction costs theory in general. Also, the assumption that the marginal costs are decreasing is arguable concerning the repetition of the transactions (Holtbrügge and Welge, 2010). In spite of the critique, transaction costs theory is still one of the most influential approaches in social science (Carter and Hodgson, 2006).

1.3 Problem Definition
Transaction costs related to institutions is a current topic in research in order to decide on a high performance based entry mode. A new area of research will be to describe the linkage of institutions and transaction costs related to the entry mode of SMEs in the Indian market as it is not covered by prior research yet. Therefore, the authors will put their main emphasize on this topic.

Main Research Question: How do managerial perceptions about the influences of institutions on transaction costs impact the entry mode decision of Swedish SMEs in India?

Sub-Question 1: How do managers perceive the influence of institutions via the linkage specificity on transaction costs of Swedish SMEs in India?
Sub-Question 2: How do managers perceive the impact of transaction costs on the entry mode decision of Swedish SMEs in India?

The purpose of this thesis is to understand the managerial perceptions about the influence of institutions on the degree of linkage specificity with which the transaction costs will be explored. This will lead to further knowledge about certain entry mode decisions of Swedish SMEs for the Indian market.

1.4 Outline of the Paper

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<th>Chapter</th>
<th>Section</th>
<th>Description</th>
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<tr>
<td>1</td>
<td>Introduction</td>
<td>In the first chapter the authors give useful background information and elaborate the research problem leading to the problem definition which defines the research question and the purpose of the thesis.</td>
</tr>
<tr>
<td>2</td>
<td>Methodology</td>
<td>In the second chapter, the methodology of the thesis is presented with a focus on the approach and motivations on the chosen concepts.</td>
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<tr>
<td>3</td>
<td>Literature Review</td>
<td>The third chapter defines the main concepts (institutions, degree of linkage specificity, transaction costs, entry modes and managerial perceptions) and the theoretical framework and synthesis used.</td>
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<tr>
<td>4</td>
<td>Empirical Data</td>
<td>In the fourth chapter, the empirical data which was collected through interviews with companies and from internet sources will be presented.</td>
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<tr>
<td>5</td>
<td>Analysis</td>
<td>The fifth chapter will analyze the outcome of the interviews by applying the theoretical framework and synthesis and considering empirical data introduced before.</td>
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<tr>
<td>6</td>
<td>Conclusions</td>
<td>In the sixth chapter a conclusion based on the previous chapters will be given resulting in answering the research questions.</td>
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Figure 1: Outline of the Paper
2 Methodology

The methodology gives an overview of the techniques used to write this thesis, how the interviews were conducted and to which extent this study may be considered to be valid and reliable.

2.1 Research Approach

This thesis is constructed as well as tested by an abductive approach (Dubois and Gadde, 2002). All in all, it might be stated that any kind of research is available in a pure form; rather it is influenced by both deductive and inductive approaches (Carey, 2009). If both concepts are unified, the researcher goes back and forth between data and theory, also known as abductive reasoning (Dubois and Gadde, 2002). The concepts of deductive and inductive reasoning will be described more detailed in the following in order get a better understanding of abduction.

Inductive reasoning is most commonly used for qualitative research strategies in which theories are discovered and not tested. The procedure begins with an observation and/or assessment of data as well as other information which is being enacted or collected. In a next step, patterns or trends are identified which build the foundation to create provisional hypothesis or sets of statements. Finally, a theory is being developed that helps or explains what has been discovered (Carey, 2009).

Deductive reasoning begins with a theory which is later rejected, reformed or confirmed (Carey, 2009). An important aspect is the hypothesis which is represented by statements of testable attributes. The statements are constructed from personal experience and build with support of a theory discovered during the literature review. The hypothesis leads to the observations which are facilitated by methods of empirical research; and finally to an assessment of the hypothesis. This approach is common for science based and quantitative research (Bryman, 2004).
Initially, the authors used a deductive approach since the theoretical framework was developed while looking into the theory but before any empirical data gathering was carried out. Research question and problem were formulated based on the theoretical framework. Throughout the process of working with the theoretical framework and data collection, the authors utilized inductive reasoning since adaptations to the theoretical framework had to be carried out once while reading more about the theoretical background (choice of institutions had to be revised) and another time after the empirical data was collected (managerial perceptions were added) in order to illustrate a clearer approach in answering the research question.

Abductive reasoning gives the researcher a broad understanding of the interaction between theory and empirical data, also named systematic combining which adds that the before named is a continuous process. Consequently, theory cannot be understood without the knowledge of empirical findings and vice versa (Dubois and Gadde, 2002). This may also be summarized as the advantage of abduction as Alvesson and Sköldberg (2009) point out; abduction includes understanding and aims to find patterns. Therefore, abduction is not only a combination of induction and deduction but also adds new, important attributes.
All in all, a planned abductive approach with support of systematic combing was carried out since the author’s intention was from the beginning to start with a draft of a theoretical model which would be developed and adapted more specifically, the deeper the authors looked into the research field and got a broader understanding of the link between theory and empirical data. Consequently, a more precise answer to the research question was able to be found. Alternative concepts were not utilized since induction lacks to achieve an external connection, meaning the underlying structure does not become part of the whole, deduction misses to point out underlying patterns (Alvesson and Sköldberg, 2009).

2.2 Research Strategy
This thesis is based on a qualitative research strategy since an interpretative approach is followed which asks and answers a research question (Van Maanen, 1983) as developed in chapter one. According to Yin (1984), qualitative research can firstly be described as an endeavor to avoid any commitment to theoretical frameworks or hypotheses before data has been gathered; secondly, a detailed observation of and involvement in research of a natural setting in which case studies occur is carried out. Therefore, the aim of qualitative researchers is to see the world through the eye of the people they analyze (Bryman and Bell, 2007).

The choice of an abductive research approach underlines the argument of using a qualitative strategy since the authors are not committed to any theoretical framework which allows them a lot of flexibility in their research and the freedom to capture the essence of this study. An organization is the center of focus of this thesis and may be defined as “a social unit of people that is structured and managed to meet a need or to pursue collective goals” (Business Dictionary, 2013b). Consequently, human beings and processes related to them, common for the field of social science, are being examined. Compared to natural science where the area of research is objects, human beings can interpret and create a meaning of their environment (Bryman and Bell, 2007). The authors want to capture manager’s thoughts, opinions and decision making contexts in order to understand the basis of their actions and to find out in which ways they perceive that transaction costs, influenced by institutions impacted the entry mode choice. Hence, the qualitative research strategy supports the authors intend.

The alternative would have been to use quantitative strategies which are carried out by collecting data and evaluating it with statistical or experiential testing methods of hypotheses
The use of quantitative strategies has been avoided due to the context which is being removed (Meehl, 1978) and the limited development of data due to static hypothesis testing (Kauber, 1986). Consequently, the authors would not have been able to capture the social aspect of managerial perceptions with this technique. All in all, qualitative data has fewer explanations of statistics than quantitative data, since data from theories is utilized offering richer explanations of the cause of occurring phenomena (Marcus and Robey, 1988).

Nevertheless, shortcomings of qualitative research strategies may also be pointed out, such as the subjectivity which unconsciously changes findings due to personal relationships of the authors to the interviewees or due to the authors’ own view of what is and is not important leading to a certain tendency in results. The authors formulated a precise research question and problem and conducted interviews with managers which the authors did not know in advance to overcome this difficulty. Further, studies may be challenging to replicate due to the authors own interpretations which varies from person to person. The question of generalizability always arises within qualitative research because not a representative number of cases are being examined. Nevertheless, the population should not be generalized in qualitative research strategy, but rather the theoretical inferences are being assessed regarding generalizability (Bryman and Bell, 2007).

### 2.3 Research Method

Yin (2009) distinguishes five common research methods such as: experiments, surveys, archival analysis, histories and case studies. The criteria upon which each method is being selected are, firstly, the type of research question which is asked; secondly, the extent to which the researcher has control over behavioral events; and thirdly, the degree of focus on contemporary events. This thesis is based on a case study method because the research question is asked in a “how” form since the authors want to develop an understanding of managerial perceptions of transaction costs when deciding for a certain entry mode. Further, the authors have no control of behavioral events but focus on contemporary events. According to Yin (2009), “a case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009, p. 18). The authors investigate a contemporary phenomenon since a closer look is taken at the current entry mode and transaction cost situation of Swedish SMEs. A real life context is given, since existing SMEs
are the center of focus which all have operations in the Indian market. All in all, case study research covers the logic of design, data collection techniques, and certain approaches to data analysis. It is used to integrate contextual conditions in the research (Yin, 2009).

This case study is descriptive due to the illustration of the complexities which made companies decide for a certain entry mode. Further, influences on the entry mode choices will be understood and differences of opinions of the interviewees will be described (Merriam, 1998). Furthermore, this thesis also has explanatory elements since the authors want to answer a “how” question after having described the necessary research data, by explaining the perceived influence of institutions on transaction costs and its impact on entry mode choices (Yin, 2009).

Nevertheless, case study research also evinces limitations which are closely linked to those of qualitative strategies and will therefore only be discussed shortly. Firstly, the sensitivity and integrity of the researcher may influence the case study due to reliance on own instincts and abilities throughout research. Secondly, biases may affect the final report (Merriam, 1998). Thirdly, results are generalizable to theoretical frameworks and not to populations (Yin, 2009).

2.4 Research Design

This thesis is based on a multiple or comparative case study design since four cases are analyzed. The unit of analysis may be a holistic design focusing on a single unit of analysis, while an embedded case study deals with multiple units of analysis. The authors chose an embedded case study design because the center of analysis is not just the company in Sweden and its manufacturing sites but also cultural, governmental and religious aspects related to another unit; either subsidiary or agents, located in India which have to be embedded in the analysis of the Swedish SME. Further, a “replication” design is followed in order to gather robust findings (Yin, 2009). This is being insured by choosing case companies based on the same criteria, using the same interview guidelines and always interviewing the responsible manager for the Indian market from the sales department of each SME, in order to predict related results (literal replication) for a company’s entry mode behavior in the Indian market. The alternative would have been to predict contrasting results for anticipatable motives (theoretical replication), whereas here dissimilar companies would have been chosen in order to deduce variety (Yin, 2009).
The authors decided to use a multiple case study design due to several advantages which may be exploited. Firstly, interpretation can be carried out more precisely, the more case companies have been chosen (Merriam, 1998). Secondly, multiple case studies give better explanations due to replication of phenomena (Yin, 1993). Thirdly, by using several cases, the evidence becomes more convincing and the overall study is more robust (Herriott and Firestone, 1983). These aspects are of importance due different managerial perceptions that are investigated; the authors get a broader view of incidents and may find behavioral similarities by using several cases and performing a precise interpretation. A negative aspect about multiple case studies is the need of extensive resources and the fact that it is rather time consuming (Yin, 2003). The authors were informed about the workload of multiple cases and made a list of possible companies before the start of the thesis. Further, the authors are convinced that a time range of around two month is accurate to choose a multiple case design.

The alternative would have been to carry out a single case study which is mainly used to test theory that has defined a clear set of propositions. The single case can determine whether the propositions may be considered as true or have to be revised. Furthermore, single case studies usually present an extreme or unique case which is typical or representative of a common circumstance (Yin, 2003). The aim of this thesis is not to test theory, rather to investigate tendencies of managerial perceptions. Furthermore, SMEs are common in Sweden and cannot be considered as unique, also due to the great number of them. Especially the entry mode choice and the Indian market are not typical characteristics of every SME and cannot be considered as a representative characteristic. Consequently, a single case study would not be appropriate to investigate the given inquiry.

2.5 Case Selection

Sampling is the gathering of samples of a small group of research participants or sub-quantities which are representative and reflect a wider population in order to make generalizations (Carey, 2009). Most qualitative research is not representative but includes purposeful samples (Royse, 1991), also referred to as non-probability sampling by Merriam (1998). The aim is to discover, understand and gain an insight; therefore a sample must be selected from which most may be learned (Merriam, 1998). Further, selection criteria have to be defined which reflect the purpose of the study. It is imperative to also state within qualitative research why and how the sample was selected and utilized as part of the research (Carey, 2009).
The criteria for selecting suitable case companies were based on the following characteristics: the company had to be a Swedish SME in accordance to the definition of the EU, further the company had to be a manufacturing company; IT or consulting would not have been appropriate since the authors also needed information regarding the specialization of the machines. In addition, the company had to have operations in India.

Seven types of purposeful sampling are common; such as typical, unique, maximum variation, convenience, snowball, chain and network samples. This thesis is a snowball sample since companies were contacted that were found on the internet and somewhat interlinked to each other, recommended by a sales responsible of one company or because it was a supplier of another company which did not meet the needed attributes (Merriam, 1998). The sample is to some extent a convenience sample since time, expenses, location and availability of the responsible mattered. The authors had to conduct the interviews within two weeks after the theoretical framework was established. Therefore, companies were selected that fulfilled the above named criteria and which were located geographically close to the authors’ place of work. Further, the traveling to the companies had to stay within a certain budget and the responsible person for the Indian market who was also knowledgeable of local circumstances had to be interviewed in order to get suitable information. Therefore, the sample was selected because it fulfilled all relevant characteristics.

**Interview Information**

The first interview was carried out with Jörgen Johansson, sales manager and responsible for the South American, African and Asian (incl. Indian) market of Norden Machinery AB. The interview was conducted at Norden Machinery AB headquarters in Kalmar at the 2nd May 2013 from 10:30 a.m. till 11:30 a.m.

The second interview was carried out with Anders Jönsson, sales manager and responsible for India, Russia, Turkey, Egypt, South Arabia, Malaysia and Indonesia (while some of these countries are characterized by rather small sales) of Slipnaxos AB. The interview was conducted at Slipnaxos AB headquarters in Västervik at the 8th May 2013 from 14:00 p.m. till 15:00 p.m.
The third interview was carried out with Olle Berggren, managing director and sales manager of India and Chile of Håkansson Sågblad AB. The interview was conducted at Håkansson Sågblad AB headquarters in Åmål at the 13th May 2013 from 11:00 a.m. till 12:00 a.m.

The fourth interview was carried out with Roger Axelsson, sales manager and responsible for United Kingdom, United States, Germany, Benelux States, China, India and Poland, Czech Republic as well as Slovakia of Hedin Lagan AB. The interview was conducted at Hedin Lagan AB headquarters in Lagan at the 14th May 2013 from 14:00 p.m. till 15:00 p.m.

### 2.6 Designing the Interview Guide

Interviews are defined as a “conversation with purpose” (Dexter, 1970, p. 136). Person to person interviews are the most common procedure in conducting information and were used by the authors; another technique would have been group interviews, whereas the responsible person for the Indian market was adequate for the given case (Merriam, 1998). Interviews may be divided into three types depending on the amount of structure: highly structured or standardized, semi-structured and unstructured or informal interviews. The interview guide is a summary of prepared questions (Merriam, 1998).

The authors decided to collect data with the use of a semi-structured interview guide. Semi-structured interviews are a mix of more and less structured questions in which individuals define their world in own ways. Since the authors implement qualitative research; it is essential to capture opinions, experiences and interpretations from managers who are regularly in contact with the Indian business environment. It is of high significance to give the responsible of the companies enough freedom to explain their thoughts but also some restraints to stay in the research field in order to conduct the answers to the topic needed. Semi-structured interviews allow the authors to conduct detailed and relevant information as needed for case studies. The questions ensure flexibility in the wording and a list of questions is explored (Merriam, 1998). Secondary questions may also be asked for clarification or to further develop an interesting point of view. The interview guide was very closely developed in accordance with the theoretical framework of the authors. Every important aspect of the theory is found or reflected in an interview question. Therefore, the authors ensured that all relevant areas are covered and can be picked up in the analysis chapter. The authors tried to paraphrase technical terms as much as possible in order for the interviewee to understand the questions immediately.
and not to let confusedness emerge. Questions related to Hofstede’s terminology are delineated in detail for better comprehension. The interview guide starts with rather structured fact questions, common for semi-structured interviews (Merriam, 1998), for which the interviewee should have a response immediately. The decision for such a start was to give the interviewee and the interviewer some time to get to know each other and to open up for the more important questions that would follow. The interview guide was only designed in English since none of the authors have fluent Swedish skills. This made it even more important to express the questions explicitly. The interview guide was only sent to the companies in advance if they wanted to make sure that they had enough knowledge to answer the questions. Otherwise the thesis topic was explained when calling the responsible person for an appointment.

Highly structured or standardized interviews have a predetermined wording and order of questions and are collected in oral forms. This form of interview was not utilized since it is primarily used to collect sociodemographic data in which the same language and vocabulary is used by the interviewees. It would have been too narrow for this thesis in order to gather all relevant information and to capture thought styles since no perspectives of participants are given (Merriam, 1998).

Unstructured or informal interviews ask open-ended questions which are flexible and exploratory, similar to a conversation. This kind of interview was not conducted since the authors had knowledge about the phenomenon which is the basis of research in order to ask relevant questions. Furthermore, the authors did not feel experienced enough to deal with the great flexibility and divergent viewpoints that need to be handled (Merriam, 1998).

2.7 Data Collection

Data collection in case studies involves three types: interviewing, observing and analyzing documents. Usually two of the three concepts dominate while the third is a supporting attribute. In this thesis, interviewing and analyzing dominates. According to Patton (1990), multiple sources of data collection, triangulation, is essential in order to validate and cross-check findings. Therefore, primary as well as secondary sources are the basis for the author’s literature review (Carey, 2009). Biases were reduced by testing tolerance for contrary findings as much as possible (Yin, 2003).
2.7.1 Primary Data
Primary sources are gathered from “hands on” experience and research methods as group meeting or interviews (Carey, 2009). It is raw material which is not influenced by an opinion or position; therefore mostly truthfulness due to the closeness to the event (Cooper and Schindler, 2011). The empirical data was collected by semi-structured interviews in which the responsible person of the Swedish SME who had most contact to the Indian operations was asked to answer questions of a prepared interview guide by the authors. The interviews were recorded with approval of the respondent in order to transliterate the answers later and to fully focus on the interview questions in case further questions for specification had to be asked.

2.7.2 Secondary Data
Secondary sources are interpretations of primary sources and can be found in encyclopedias, textbooks, handbooks, magazines as well as articles (Cooper and Schindler, 2011). Secondary sources have been used to develop the theoretical framework. Scientific articles as well as textbooks and internet sources were utilized to gain further information. All in all, secondary sources were analyzed to extract important findings.

2.8 Data Analysis
As stated earlier, an abductive research approach (Alvesson and Sköldberg, 2009) is carried out which is also reflected in the analysis. The authors start by linking theory with the empirical data, in order to develop an understanding of certain patterns or as Yin (2009) states, pattern matching is carried out. Pattern matching is common for descriptive as well as explanatory case studies (Yin, 2009). Within the analysis chapter, both sub research questions are being analyzed. For the first sub-question the perceptions of institutions, linkage specificity and transaction costs have been analyzed separately before patterns were found between the institutions and the transaction costs which are explained by the linkage specificity. The second research question searches for patterns between the transaction costs and the entry modes of the case companies which is done with the results of research question one regarding transaction costs. In a next step, a reflective analysis is used which is common for case study research. The researchers make decisions based on their own intuition and personal judgment by analyzing the linked theory and data rather than on technical procedures (Gall et al., 1996). The authors are convinced that this procedure gives a structured overview of the modalities. It is of great significance that the authors firstly understand the link between theory and data before they can make any interpretations and add their own opinion. The sub-research questions are analyzed
before the overall research question. Results of the analysis are presented in the conclusion chapter.

2.9 Research Design Quality

Validity and reliability are needed to judge the quality of research design which represents a logical set of statements (Yin, 2009) and ensures that information was retrieved in an ethical manner (Merriam, 1998). Nevertheless, the relevance of validity and reliability concerning qualitative research is questioned because, for example, validity refers to measurement issues which are not being implemented. Consequently, reviewers claim for redefinition of the given terms (Brymann and Bell, 2007). Therefore, a second position regarding this topic may be discussed. Researchers propose an alternative approach considering different criteria from those commonly used in quantitative research as trustworthiness and authenticity. While trustworthiness addresses four criteria which are parallel to quantitative research methods (such as credibility, transferability, dependability and confirmability); authenticity focuses on the wider political research area (Lincoln and Guba, 1985; Guba and Lincoln, 1994). All in all, these alternative approaches did not have an impact on the assessment of qualitative research and it is still evaluated by validity and reliability criteria (Pratt, 2008). Even though, alternatives exist for qualitative research, they are still not as promising (Brymann and Bell, 2007). As mentioned before, an abductive research approach is carried out in this thesis. Since Merriam (1998) supports an inductive approach and Yin (2003) a deductive approach due to generalization of theories; both views will be utilized in order to ensure credibility.

2.9.1 Construct and Internal Validity

Construct validity is an additional credibility variable, added by Yin (2003) which ensures that correct operational measures for the studied theories are used. Yin (2003) names to utilize multiple sources of evidence, establish a chain of evidence and to have informants reviewing the case study draft. Multiple sources of evidence are given since the authors conducted several interviews, recorded them and transliterated directly after the interview in order to have documentation which may be reviewed continuously and provide exact information. Further, the theoretical framework was constructed on multiple sources of research results from secondary data. A chain of evidence is given since case study questions are highly interlinked to the case study report via a protocol and a data overview. In addition, the author’s supervisor always gave constructive feedback to the draft. All in all, this thesis constructs validity.
Within internal validity it is tested whether a match between the observations and the developed theoretical framework exists (Brymann and Bell, 2007). To ensure internal validity the method of solution pattern matching may be utilized in which an empirically based pattern is compared with a predicted pattern (Trochim, 1989). Pattern matching is carried out by the authors since the results of the empirical data are compared and collated with recent research results, models were developed and theory tested by going back and forth between empirical data and theoretical framework. Alternative tactics could be explanation building, addressing of rival explanations and the use of logic models (Yin, 2009).

According to Merriam (1998), six measures can be used in order to ensure internal validity. Firstly, triangulation which means that multiple sources of data are used in order to cross-check findings. Secondly, member checks in which data is brought back to the person as a source from whom it derived and asking for plausibility of results. Thirdly, long-term observation may be carried out to investigate the phenomenon over a long-term period. Fourthly, peer evaluation to become feedback for results and data analysis. Fifthly, collaborative modes of research in which participants are actively involved throughout the study. Sixthly, researcher’s biases have to be given where the researcher’s theoretical orientation is stated at some point of the paper (Merriam, 1998).

As mentioned before, triangulation is assured and member checks were carried out with interviewees who were contacted after the interview in case details which were thought of at a later stage had to be clarified and checked. A long-term observation was just possible in the time range of the thesis, meaning approximately eight weeks. Peer evaluation was given regularly in the thesis seminars where the authors discussed interim results with fellow students and the supervisor. The authors are aware that these reviews were only given by a limited number of participants and have to be considered carefully. The authors build and revised a theoretical framework which stated their orientation. Subjectivity is balanced due to two researcher’s points of views and thought styles which are integrated and have been discussed thoroughly. All in all, a high degree of internal variability is given in this study.

2.9.2 External Validity
External validity focuses on the extent of generalizability of the results. Case study research is an analytical generalization in which events are generalized to a broader theory (Yin, 2009). As Merriam (1998) states, external validity is the extent to which the situation of the case study
can be applied to other contexts. In order to ensure generalizability, descriptions have to be made very detailed and have to be thick in order for other researcher to emulate the setting if wanted. Further, typicality has to be documented, meaning a clarification of how typical the given case or company is to others and multisite designs must be used to have a wide range of different situations which may then be applied to a broader context (Merriam, 1998).

The empirical data chapter provides the reader with a very detailed description of the interviews made. Since all interviews were recorded, the authors had the possibility to write about every aspect elaborated in the interviews. Further, company characteristics are described and compared leading to an outline for every company. The asset specificity in the theoretical framework serves as a variable to give further specification on the degree of standardization of equipment and human resources needed for the production process. Therefore, companies may find similar characteristics to their own in the cases and apply the author’s results to their case based on their own companies. Since several companies were interviewed, different situations were analyzed which may be applied to a wider context. All in all, the thesis ensures external validity.

2.9.3 Reliability
A case study is reliable if errors and biases are minimized (Yin, 2009). Merriam (1998) states reliability is the extent to which the results of a research can be replicated, meaning will the same findings occur if the study is carried out again? To ensure reliability different techniques have to be considered. Firstly, the researcher has to state the own point of view and on which ground the interviewees were chosen, an extensive outline of them and the social context from which they emerge (LeCompte and Preissle, 1992). A second technique is triangulation and thirdly, an audit trail should be propounded where the authors state how data was collected, how categories were extracted and which basis for decision making was used (Yin, 2009). Yin (2003) suggests to document by using a case study protocol or by developing a case study database.

The introduction of this thesis gives the reader an overview of the field in which the authors specialized their research, such as Swedish manufacturing SMEs which have certain operations in India. These attributes are further developed in the following chapters as the theoretical synthesis, the empirical data, analysis and conclusion. The social context, on the other hand finds a description in the empirical data chapter. Triangulation is used in terms of secondary
data and primary data since four companies are focused on. Nevertheless, the authors only interviewed one responsible per company and only got his perceptions on the situation examined which might not always represent the company’s line of action. Further, the authors do not have control to which extent the interviewees were honest when answering certain questions. If the authors felt that some questions were not answered appropriately, they asked developing questions which might have let the interview in different directions depending on the case. This could be a negative aspect when using a semi-structured interview guide. A strength, on the other hand, were the face to face interviews which allowed the authors to analyze the interviewees gestures and comments. A case study protocol was made to ensure a stable procedure with which the goals were kept in mind. Reliability is given with some limitations.
3 Literature Review

In this chapter, the authors will introduce a literature review regarding institutions, transaction costs, degrees of linkage specificity, entry modes and managerial perceptions. The theories are combined in a next step, leading to a model which is used in the analysis to answer the research questions.

3.1 Institutions

According to Scott (1987), there are several definitions for institutions. They have in common that they view institutionalization as: “a social process by which individuals come to accept a shared definition of social reality“ (Scott 1987, pp. 496). This thesis is based on the definition of Hodgson (2006) who describes institutions as a social life which is filled with human interaction and activity; regulated by structured rules.

Besides the SME which forms an institution, several other institutions are influencing the success of companies when operating internationally; for example the societal institutions as business mores, the legal and political systems or the product and service as well as the labor market. Institutions influence each other since different groupings may be embedded into another. Three levels of institutions exist, such as micro institutions which are formed by SMEs, building the center of actions, meso institutions which directly influence the SME and macro institutions which indirectly influence the SME. In the following the assumed most relevant institutions are the government, country culture and religion which will be described further; forming meso institutions in the given case (Jansson, 2007a). According to Keohane and Martin (1995), institutional theory is a necessity to understand the environment but the theory is not always valuable and contributing as it neglects factors as the different interests of the stakeholders.

3.1.1 Government

A government is defined as a group which governs a community and sets as well as administers public policy (Business Dictionary, 2013a). Governments are responsible to create an appropriate environment to do business. They do that indirectly via their vision and policies to foster human resources, quality of life, infrastructure, access to capital (banks) or providing international linkages among others. They also create a business environment via governmental incentives as import tax benefits, import duty benefits, grants or ownership rights. Governments are responsible to allow or forbid and therefore steer the degree of international
business. Governments use restrictions to limit foreign ownership or subsidies to support it (Larsson and Venkatesh, 2010). There are often restrictions in core industries as banking, insurance, medicine, or aviation. Common restrictions are the prohibition of fully owned subsidiaries and the constraint to do a joint venture (Han and Ogawa, 2009).

Governmental regulations are also important to support businesses. Governments often have the problem that bureaucracy makes them inefficient. Due to this inefficiency governments cannot provide companies with an ideal business environment and slow down the economy (Figueiredo, 2010). One of the most important regulations is the regulation regarding the protection of intellectual property rights because companies which plan to invest need security (Larsson and Venkatesh, 2010). Other important regulations of governments are environmental regulations as many stakeholders are involved and they are responsible for sustainability and long term growth (Levi, 2011). Laws regarding carbon emission and energy efficiency are methods to sustain the growth (Ürge-Vorsatz, Koeppel and Mirasgedis, 2007).

An important problem governments have to deal with is corruption as it negatively influences the country's sustainable growth (Polajeva, 2011). The extensive research e.g. from transparency international which investigated the corruption in different countries underlines the importance of this topic (Transparency International, 2013a).

Governmental projects also influence companies. Companies often profit directly and indirectly from governmental projects as improving the infrastructure, agriculture and energy or water supply (Isham, Kaufmann, and Pritchett, 1997).

### 3.1.2 Country Culture

There are several ways to define and measure country culture. The two most common frameworks are from Hofstede and Inglehart. The authors of this thesis decided to use the framework of Hofstede as the primary application domain are managers and work related values which are measured whilst Inglehart focuses more on sociology and political science where social norms are measured (Steenkamp and Geyskens, 2012).

Hofstede (2013c) defines country culture as followed: “Culture is the collective programming of the mind distinguishing the members of one group or category of people from others” (Hofstede, 2013c). Societies are historically shaped by their country culture which has
influence on business as for example the ownership mode (family owned or public) (Chakrabarty, 2009). This is strongly related to the culture or the company's international strategy, e.g. marketing activities (Jiang and Wei, 2009).

Hofstede (2013b) divides the country culture into five oppositional parts: power distance (PDI), the individualism versus collectivism (IDV), the masculinity versus femininity (MAS), the uncertainty avoidance (UAI) and the long term versus the short term orientation (LTO).

- A high power distance means that people in the society are accepting the unequally distributed power which is expressed by accepting a hierarchical order.
- Individualism represents a loosely-knit social framework and persons are characterized as only caring for themselves and their immediate family members. Collectivism means that persons prefer a tightly knit framework where an “in-group” (e.g. relatives) looks after each other without expecting particular rewards but the exchange of loyalty.
- Masculinity represents an aim-orientation and heroism while feminism puts a focus on life quality, cooperation and consensus.
- Uncertainty avoidance stands for the degree of uncomfortableness because of the unpredictable future.
- The last dimension is long term orientation which expresses the societies search for virtue. Long term orientation is, among others, expressed by savings and investments (Hofstede, 2013b).

### 3.1.3 Religion
Religion may be defined as the body of persons cohering to a particular set of beliefs and practices (Dictionary.com, 2012). A notable increase in various types of formal and informal religious groups among company employees have been recorded. Consequently, the desire to express religious beliefs at work may be noted due to the request to wear religious jewelry, dress or to thematize faith at work. These manifestations may reflect a person’s need to disclose religious freedom or are institutionally anchored. Managers have to evaluate the direct impact of religious or spiritual behavior on other employees, employee safety and customers as well as on productivity. Especially efficiency issues and effectiveness of the production processes should be the focus. Diversity programs which address religious diversity support to sensitize other employees of different religious perceptions through discussions as well as trainings in order to encourage a positive mindset towards religious freedoms. Policies have to
be introduced, if the practice of religious freedom causes major disturbance among other workers and in the department which then hinder productivity issues (Cash et al., 2000).

3.2 Degree of Linkage Specificity

Linkage Specificity may be divided into asset specificity and behavioral uncertainty and will be described in the following.

3.2.1 Asset Specificity

Asset specificity as defined by Williamson (1991) is “the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrificing productive value” (Williamson, 1991, p.281). To sum up, it analyzes the extent to which assets may be used by competitors. Highly specific assets, such as site specificity, physical asset and human asset specificity are difficult to imitate (Williamson, 1981). Malone et al. (1987) add time specificity which is the ability of the firm to have a short distribution channel in order to reach the customer as fast as possible. Asset specificity may create transaction costs due to new foreign investments (Brothers and Nakos, 2004). Carney (1998) distinguishes between generic (low asset specificity) and firm specific assets (high asset specificity). Low specific assets are characterized by generally available information which does not need a high protection and has relatively low protection related transaction costs (Williamson and Ouchi, 1981). Switching costs related to low specificity are also low since one might easily find and train a new foreign agent, for instance (Anderson and Gatignon, 1986). Highly specific assets, on the other hand, require firm specific knowledge which needs to be protected from competitors and has therefore higher transaction costs (Williamson and Ouchi, 1981). According to Carney (1998), they should be internalized by the company since they require a long process of development and adjustments by the suppliers until they achieve the producer’s needs (Malone et al., 1987). Therefore, switching costs are rather high, if a foreign agent is involved (Klein et al., 1990).

3.2.2 Behavioral Uncertainties

Behavioral uncertainties may be defined as the inability of a company to predict future behavior of individuals or companies (Williamson, 1985). As mentioned, behavioral uncertainties affect business negatively e.g. through cheating, falsification of information or the shirking of responsibility of employees (Williamson, 1985). According to Klein et al. (1990), many employees have a great personal or self interest, leading to behavioral uncertainty which can be decreased by implementing control mechanisms as hierarchical ownership. Klein et al. (1990) also point out, that in case of a market failure, the control of behavior will demand high
financial efforts. According to Anderson and Gatignon (1986), companies can also control the behavior through monitoring the inputs. The control of foreign operations is time demanding and needs specific knowledge. Another finding is that the control of the behavior is easier in home markets than in foreign ones because of the management’s knowledge about the domestic environment. Therefore, the transaction costs regarding control are higher in foreign markets (Anderson and Gatignon, 1986). The control of employee behavior e.g. intermediary becomes easier as soon as companies are getting more experienced in a market (Chang and Rosenzweig, 2001). Besides control, companies also have the opportunity to use incentives to decrease the problem of behavioral uncertainties. These incentives are reducing the payoffs from opportunism and are aligning the interest of the employee to the company (Wathne and Heide, 2000). Behavioral uncertainties are also relevant when doing business with other companies as it also negatively affects intra-firm cooperation (Meuleman et al., 2006).

### 3.3 Transaction Costs

Transaction costs; the costs for participating in the market, are costs for organizing economic activities. These costs arise because individuals or companies cooperate in order to be more efficient (Hennart, 1993). In the following information costs, bargaining costs and enforcement costs are described. Transaction cost theory is one of the most influential theory in business but the theory also has its weaknesses. A major concern about the transaction cost approach is that researches do not measure the costs itself but focus more on other variables as asset specificity which is also used in this thesis (Hodgson, n.n). Another weakness of transaction cost theory is that it only focuses on the reduction of the transaction cost itself and neglects other important factors as production costs (Lee and Liu, 2006). Furthermore, the transaction cost approach basically neglects the company’s capabilities (Madhok, 1998). As illustrated in Figure 5, the three types of transaction costs are occurring differently; before, during and after a contract has been made.
3.3.1 Information Costs

The overall aim of owning and getting new information is to increase efficiency by using the market. The market can be used to gather or reveal information. Gathering information (e.g. from competitors or customers) is important in order to decrease the input for a certain output by the recombination of resources (Alchian and Demsetz, 1972).

The gathering of relevant information is costly as it demands a time-consuming search and interpretation of information. The search is time-consuming as information may not be public, difficult to find, hard to understand or not reliable. Sources for information can be objective such as information from rating agencies or it may be subjective such as information from business partners or customers. Information about markets can, for example, be gathered from the Operations Risk Index (ORI) to analyze risks about several factors as political stability, inflation or labor costs (Holtbrügge and Welge, 2010). Important information which are searched by companies are information about potential and alternative business partners (Holtbrügge and Welge, 2010).

Revealing information helps companies to support stakeholders (e.g. suppliers) in order to get better inputs (Alchian and Demsetz, 1972). The revealing itself is not costly but the exchange and sharing of information bears risks as poaching (information are used for other purposes) and misappropriation which are expensive to avoid e.g. through contracts (Clemons and Hitt, 2009). The costs for sharing information are dependent on the frequency and the volume of the
exchanged information and can be lowered by implementing joint information sharing systems e.g. with suppliers (Piontkowski and Hoffjan, 2009).

Spending money to gather information is also important in terms of bargaining. Possessing relevant information decreases the time of negotiations and increases the bargaining efficiency which means to lower costs (Malatesta, 2012).

3.3.2 Bargaining Costs
Bargaining costs may be defined as all costs associated with determining a mutual agreement (Alt and Shepsle, 1990). These costs evolve when companies with different aims enter a contract (Muthoo, 1999). The bargaining costs constitute a big share of the overall transaction costs and the performance of bargaining is important as it is directly related to the profitability of a firm (Malatesta, 2012). Costs for setting up contracts as preparation, negotiating and writing an agreement occur and also influence the ongoing transaction costs as enforcement costs (Dyer, 1997).

Costs for bargaining also arise after a contract has been made (ex-post). Contacts need to be adjusted according to new developments after some time and disputes have to be regulated. This is expensive because many stakeholders as lawyers, managers as well as engineers may be included into the dispute resolution process. Common examples for dispute resolutions are issues regarding auditing and arbitration as there is a high dispute potential. It is important to bargain efficiently and invest time and money in bargaining before setting up a contract as managers and engineers tend to avoid ex-post disputes because they are in strong working relationships with the other party (Argyres and Mayer, 2007). A possibility to decrease the bargaining costs is to repeat the transactions. With the economies of scale and scope the company gets more experienced and has opportunities to correct transactions (Dyer, 1997).

3.3.3 Enforcement Costs
Enforcement costs occur when a party of a contract is not satisfied with its outcomes and wants to change the situation e.g. with the help of the legislation. Contracts can ensure enforcement as performance is specified and sanctions are negotiated. But there is the challenge of incomplete contracts, which exists because of the uncertainty of the future and mistakes due to time and cost restrictions, which increase the enforcement costs. Contracts are sometimes seen as “unfair” and can be challenged by courts which also increase the enforcements costs (Klein, 1980). If the problem of enforcement cannot be solved in a market, companies have the
opportunity to forward integrate the business or change their entry mode e.g. using an intermediary (Klein, Frazier and Roth, 1990).

3.4 Entry Modes
The decision to internationalize is accompanied by the choice of a certain entry mode in order to access the foreign country. A distinction between equity and non-equity modes of entry can be made whilst further categories exist within the two modes (Pan and Tse, 2000) which mainly differ in terms of costs and benefits (Sharma and Erramilli, 2004). Equity-based modes of entry can be differentiated between wholly owned operations and equity joint ventures. Non equity modes, on the other hand, are contractual agreements as well as export strategies (Pan and Tse, 2000). According to Anderson and Gatignon (1986), equity modes of entry need a high resource commitment in the foreign location. Hennart (1988) adds further characteristics as a substantial investment for an independent operation, on-going direct management and a constant interaction with local parties. Significant attributes of non-equity modes are no establishment of an independent operation abroad and relationships between the parties are specified and fixed with a contract. Major dissimilarities between the parties are related to resource commitment, risk, return and control, among others (Pan and Tse, 2000). Especially contrary levels of resource commitment foster contrary levels of control; high levels of control decrease the flexibility of certain entry strategies (Ghauri and Cateora, 2010). Special types of equity and non-equity modes of entry will further be outlined in the following.

3.4.1 Equity Modes
Equity modes of entry are FDI which foster two main decisions. Firstly, are all or just parts of the investment owned; and secondly, is the investment set up from scratch or is an existing entity being acquired (Kogut, 1991).

Greenfield Investment and Takeover
The case of a full ownership implies a Greenfield investment in which a new plant is set up or an acquisition, meaning the purchase of a local company (Kogut, 1991). A Greenfield investment may take some time but the investment can be in line with the development of the operation. Advantages lie in the SMEs own decision of a beneficial location while profits and control are directed by the mother company. Disadvantages might be faced in any bureaucracy aspects as well as regulations. Advantages of an acquisition or Takeover are the avoidance of bureaucracy issues as well as the dereliction of rules and regulations. Nevertheless, a
disadvantage could be the location of the acquired company which might be insufficient concerning the closeness to the customer. Human resources could lack in professionalism or human rights are not taken for granted. The SME has also less control and might have to deal with dilution of profits (Cavusgil et al., 2002).

**Equity Joint Ventures**
Partial ownership, on the other side, is a joint venture in which assets of companies are being combined. Joint ventures are a special type of ownership sharing. The equity is owned by two or more companies which decided upon a common form of participation in the foreign market. Depending on the equity share; joint ventures can be classified as majority, minority or 50-50 ventures. Risk as well as capital is being shared and each other’s company’s strengths can be utilized (Cavusgil et al., 2013), while a fast cross-cultural integration can be achieved (Chang and Rosenzweig, 2001). Problems occur if more than one party is involved in the decision making process (Cavusgil et al., 2013) or if the partner’s interests differ at some point (Chang and Rosenzweig, 2001). One party must have the dominant role in order to make decisions for business success (Cavusgil et al., 2013). Joint ventures are carried out because it might be the only entry mode allowed by the foreign government or it is the company’s preferred mode due to the affinity to limited risk and the wish for flexibility in expanding or terminating the investment depending on performance (Kogut, 1991). All in all, alliances generate new resources and capabilities which constitute additional rents that would have otherwise not been available (Kogut, 1988).

**3.4.2 Non Equity Modes**
Non equity modes of entry consist of export strategies, licensing agreements, R&D contracts and alliances.

**Export**
Export strategies may be divided into a direct as well as an indirect form. A direct export involves a direct sale to the customers abroad, while an intermediary helps selling services or products in the foreign market when exporting indirectly. Intermediaries are important middlemen since they establish the vulnerable connection between individuals and companies which are essential for doing business (Peng and York, 2001). Trabold (2002) characterizes them as the link between buyers and sellers in a geographical distant market, since they support to reduce knowledge gaps, uncertainties and other risks (Li, 2004). Furthermore, intermediaries
contribute to cost savings because tasks can be performed more professionally and strategically due to country specific knowledge which the companies themselves do not entail (Li, 2004). Peng and Ilinitsch (1998) name lower search and negotiation costs in distant markets related to the intermediary; while Acs and Terjesen (2006) add overall higher transaction costs caused by the intermediary as a negative aspect as well as the loss of control (Blomstermo et al., 2006). To sum up, a lower level of risk, control and resource commitment is given (Johanson and Wiedersheim-Paul, 1975).

According to Peng and Ilinitsch (1998), intermediaries are beneficial for SMEs with a lack of resources and foreign market knowledge. These companies usually follow a risky as well as uncertain path to establish abroad (Peng and Ilinitsch, 1998). SMEs which have a clear competitive advantage at their home base, on the other hand, do not have the need for an intermediary (Hessels and Terjesen, 2008).

Advantages of an export strategy are the quick response to market opportunities, easy coordination of the administration of the sold products and also governmental support as subsidies (for a sales office) are often provided by governments (Young et al., 1989) as well as overall better control mechanisms (production home in the home market) (Holtbrügge and Welge, 2010). Negative aspects are the product suitability and the market information, e.g. about the customer demand which is due to the distance to the foreign market not ensured (Young et al., 1989). Furthermore, an exchange rate risk exists and problems of a smaller after sales business due to the distance (Kutschker, 2006).

**Licensing Agreements**

Licensing agreements are utilized to lease technical know-how, trademarks, copyrights and other intellectual property since the license gives access to know-how or permission to manufacture and sell products against payment of compensation abroad. Long-term relationships usually exist or will be established between the licensor and the licensee (Cavusgil and Ghauri, 1990).

**R&D Contracts**

R&D contracts are outsourcing agreements in R&D between companies. This procedure of foreign market entry opens up possibilities for companies to access the best locations for innovations at low costs, such as attaining IT and R&D facilities in India. Nevertheless, three
drawbacks occur which have to be considered. Firstly, R&D is characterized by an uncertainty and multidimensionality which makes it difficult to negotiate and enforce the contracts; while delivery time and costs are rather uncomplicated to calculate, quality issues are difficult to assess. Secondly, competitors are nurtured; and thirdly, core capabilities can be lost if companies rely too much on outsiders (Peng, 2009).

Alliances
Strategic alliances normally consist of two or more companies which utilize each other’s strengths in order to achieve targets at efficiently lower costs (Hess and Rothaermel, 2011). The coherent companies need a common objective. Weaknesses from one partner are compensated by strengths of the other partner. The alliance is being acceded to reach common objectives which would be too costly, risky or time intensive if achieved solely. Therefore, a synergistic relationship evolves from which both or more parties benefit (Cavusgil et al., 2013).

3.5 Managerial Perceptions
Managerial perceptions are defined as: “the process by which people translate external cues into a rational and integrated idea of the world around them” (Lindsay and Norman, 1977, p. 384). The problem with managerial perceptions is, that they can be different from the real word about external (environment) and internal (company) characteristics (Anderson and Paine, 1975). Managers face the problem of bounded rationality and therefore their decision making process is influenced in accordance to their perceptions (Prakash and Law, 2011).

Manager’s perceptions are subjective as there is an uncertainty about the “real world”. The less uncertainty there is, the less the managerial perceptions differ from the “real world”. These subjective perceptions influence the strategic decisions of the managers as for example entry mode decisions (Anderson and Paine, 1975). According to Ortiz, Ortiz and Ramirez (2012), export behavior of SMEs can be strongly impacted by managerial perceptions which underline Anderson and Paine’s (1975) research about the managerial perception’s influence on entry modes. Furthermore, managerial perceptions strongly influence competitive response to rival actions as, for example, competition intensity, substitution threads and the buyer’s power are often seen distorted (Giaglis and Fouskas, 2011).
Managerial perceptions impact the overall strategy of a company and can be grouped into the three parts: selectivity (the separation of information which will be used), closure (the combining of information to a “meaningful whole”) and interpretation (the use of the information with previous knowledge) (Anderson and Paine, 1975). According to Mezias and Starbuck (2003), organizational activities are dependent on managerial perceptions. They proof in their research that perceptions are often incorrect and identified common errors as incorrect perceived industry changes or incorrect perceptions regarding sales development and suggest countermeasure as education and training. According to Richards (1973), manager’s perceptions are impacted e.g. by contentions in their own departments and therefore managers perceive risks as business, financial, technological, scale or organizational risks biased because of incorrect estimations or the suppression of contrary information. This leads to incorrect strategic decisions and as a result of these a strategic failure becomes more likely.

3.6 Theoretical Synthesis

3.6.1 Managerial Perceptions of Transaction Cost Theory Model
Jansson (1994) describes that marketing strategies (e.g. first mover advantage, linkage strategy), which are in the framework of the governance form, are influenced by factors as the basic goal of a company, the degree of linkage specificity, non-economic institutions and the reduction of transaction costs, among others. The model explains that the linkage process is related to the three types of transaction costs, information costs, bargaining costs and enforcement costs. The strategies follow an economic logic which is expressed by transaction costs (Jansson, 1994).

The created model (Figure 6) is supported by the before described theory of Jansson (1994) in order to identify the impact of institutions on transaction costs with support of the degree of linkage specificity to understand a SMEs entry mode choice. Institutional theory is being combined with transaction cost theory because institutions provide the structure in which transaction costs may arise (North, 1990) and only change slowly (Nooteboom, 1993). Institutions differ in every country and provide circumstances in which the decision of entry modes only based on transaction costs is not valid anymore (Roberts and Greenwood, 1997). A link between the institutions and transaction cost theory is established via the degree of linkage specificity which implies two of the main causes for transaction costs: asset specificity and behavioral uncertainty (Williamson, 1985).
The model starts to examine each institution separately. Within the theoretical framework, certain characteristics have been named as each institution was introduced. Firstly, the impact of every characteristic on the most suitable linkage specificity will be evaluated. Secondly, the evaluated linkage specificity will constitute the degree of transaction costs which answers the first research questions. Further, the model evaluates to which extent managers perceive transaction costs and its influences when entering a foreign market which is the answer to the second research question. Entry mode choice is essential when entering a new foreign market (Burgel and Murray, 2000), since it impacts the performance of SMEs (Lu and Beamish, 2001). Figure 6 aims to answer the main research question in that it shows, institutions influence transaction costs positively or negatively via the linkage specificity; whilst transaction costs impact the entry mode decision.

![Managerial Perceptions of Transaction Cost Theory Model](image)

**Figure 6: Managerial Perceptions of Transaction Cost Theory Model**

### 3.6.2 Supporting Theory - The Basic Institutions Model

As described before, the authors use the institutions theory in order to identify the impact on transaction costs and further on entry mode choices. Therefore, the “Basic Institutions Model” is used and will be described in the following.

Institutional theory examines the world from the perspective of regularities and rules which differ in society and therefore lead to different social groupings, characterized by certain regularities and rules. Each grouping builds an institution while several institutions influence each other. The organization of one institution influences the institutions with which it
interacts. The company is the central institution which is influenced by internal rules as well as by rules of outside institutions.

According to the basic institutions model, institutions may be divided into three levels of different rules: micro institutions (the SME), meso institutions (e.g. organizational field) and macro institutions. The major difference between the levels is the impact on SMEs. First rectangle institutions as organizational fields directly influence the SME and are directly influenced by second rectangle institutions, also named societal institutions in the outer cycle which are one directional; meaning they influence the SME indirectly via the organizational fields but are itself not impacted by other institutions (Jansson, 2007a).

The authors chose to place the elaborated institutions in the second rectangle due to the direct influence of these on the SME. Consequently, the “Basic Institutions Model” will have the form as illustrated in Figure 7.

![Figure 7: Adapted “Basic Institutions Model” (Jansson, 2007a)](image-url)
4 Empirical Data

The empirical data chapter will give an overview of the before named institutions adapted to the Indian market context as well as a presentation of four case companies with which interviews have been carried out.

4.1 Institutions in the Indian Market

The named institutions are considered to be first rectangle institutions which directly influence the SMEs operations in India (Jansson, 2007a).

4.1.1 Government

India is a democracy with about 1.2 bn. inhabitants (July 2011 est.) (Mundi, 2012). Its legal structure is founded on the 1950 constitution which is modeled after the British parliamentary system with interrelated executive, legislative and judicial power. The legislative branch; the parliament consists of the Council of States (consisting of 245 seats; six year terms) and the People's Assembly (545 seats; five year terms) (CIA, 2013). The United Progressive Alliance (UPA), consisting of several parties, created the coalition (UPA) after the elections in 2009 to rule the country (CIA, 2013). Pranab Mukherjee is president and Manmohan Singh (UPA) is prime minister of India. The government’s aim is to improve the growth of the economy and also a participation of the whole society in the growth. Important projects are to improve the situation of workers (e.g. farmers, factory workers) and the equal treatment and a better education of women and persons of all religions as well as improvements of the underdeveloped infrastructure.

India’s trade policy is slowly changing from a protectionist to a liberal approach. Until the 1990’s the trade tariffs, restrictions on imports and foreign investments were high. With liberalization through the reforms in the 1990’s the gross domestic product (GDP) ratio increased and India became one of the fastest growing countries in the world which underlines the importance of analyzing the government. Nevertheless, India is still protecting the local economy by raising tariffs or restricting foreign investment (e.g. retail trade) (Worldbank, 2013).

Furthermore, the administration of the Indian government is very bureaucratic which is an obstacle for business in India. The bureaucratic structures of the government are responsible for delays when doing business and they also foster the corruption (Rajeshwar, 2009).
According to UPA, corruption is one of the most important issues in the Indian government (Auswärtiges Amt, 2012). A current example of the government’s awareness about corruption is the cooperation between the British government (Prime Minister David Cameron) and the Indian government (Manmohan Singh) by investigating a suspicious deal between Agusta Westland, an European helicopter company, and the Indian air force (BBC, 2013a). Nevertheless, the Indian government did not meet the demand of the people to introduce an anti corruption authority and therefore fostering the fight against corruption (Auswärtiges Amt, 2012). According to the Corruption Perceptions Index of Transparency International, which ranks countries according to their degree of corruption in the public sector, India is ranked 94th out of 174 countries (Transparency International, 2012). Transparency International also points out that measures of the government against corruption positively influence the reduction of poverty and the development of India (Transparency International, 2013). Another problem besides corruption is the complex legal system, which the current government is still supporting, even though it is leading to a very slow system of dispute resolution (BBC, 2006). After a big environmental catastrophe in 1994 (in Bophal where several tons of toxic insecticide polluted a river), the environmental policies of India got stricter. Since 1984 the governments fostered laws and regulations in order to protect the environment. On the other hand, the government’s first priority is to foster the economic growth and not to protect the environment. This prioritization led to the fact that the regulations can still be seen as weak (Stuligross, 1999).

Since 1995 India is member of the World Trade Organization (WTO) and protects intellectual property rights (IPR) in accordance to the “Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)” (Embassy of India, 2013). But according to IPO (2013), it is still difficult to enforce the laws according to TRIPS and the awareness regarding IPR is still low which is especially a problem for SMEs which want to invest and create employment (IPO, 2013).

4.1.2 Country Culture
Storti (2007) states that considerations about the country culture are essential for western companies when doing business in India. Therefore, Hofstede’s dimensions of country culture about India are shown in the following.
- In India the power distance is high (77) while the power in the society and organizations is centralized. Employees want to have clear directions and criticism up the hierarchy ladder is uncommon.

- India is a collectivistic (48) country where employer/employee relationships are based on loyalty of the employee and a high protection by the employer.

- The Indian society has a tendency to masculinity (56) which is underlined by the fact that Indians showing visual symbols of success as status symbols in the workplaces.

- Indians accept imperfectness and therefore the uncertainty avoidance (40) is not high. Furthermore, Indians are patient and the tolerance for unexpected is high as it is seen as a variety in the job.

- India is a long term orientated (61) nation which is underlined by the religious concept of karma where time does not play a role. The long term orientation is also expressed by forgiving unpunctuality or changing plans (Hofstede, 2013a).

Figure 8 shows the dissimilarities regarding the country culture between India and Sweden in order to underline the cultural differences between the countries. These differences are, according to Johanson and Vahlne (1977), responsible for a lack of knowledge and are important for the decision making and the internationalization process of a company (Johanson and Vahlne, 1977).
4.1.3 Religion
Religion is a very strong institution in India with a strong influence on Indian inhabitants and business activities (BBC, 2013b). Religion and business is highly interrelated because the Indian people stick more to religious values than to values set up by the government (Dehejia and Dehejia, 1993).

The seven main religions and also the caste system play an important role regarding job positions. Hierarchies among the religions are often influencing the position of the employees in a company. This causes problems when managers from western countries are going to India and command tasks to the Indian employees. Another problem occurs when western companies want to hire local employees and need to consider religion or caste (Pio, 2007). According to Harriss-White (2005), religious affiliation also influences the acquisition of contacts and workforce, the financing, the establishment of reputation and the information flow of companies. The religions in India are manifested in companies and have created norms and values leading to special management styles and organizational culture which are different from western companies. The spirituality (mainly of the Hindus) also affects business as the employees want to achieve their own religious goals as, for example, to benefit the society. This could be not in line with the companies aim to create value for their stakeholders (Christopher, 2011).

4.2 Case Companies
4.2.1 Norden Machinery AB

*Company Background*
Norden Machinery AB is a Swedish company located in Kalmar operating in the tube filling branch. The company offers products as tube filling machines, pack systems or cartoning machines, among others, in different segments as, for example, the cosmetics, pharmaceuticals or toothpaste segment. The company was founded in 1980 but originates from the company Arenco which already produced tube filling machines in 1934. Today; Norden Machinery employs 225 employees and has about 1400 customers in 60 countries. Norden Machinery has an export rate of 97 percent of its machines which illustrates the internationality of the company. About 130 to 150 machines are produced per year and about 5000 machines of Norden Machinery are continuously in use by their customers (Norden Machinery, 2013a). In
2008 Norden Machinery was acquired by the Italian Coesia Group which bonds about 60 operating units (Norden Machinery, 2013b).

**Norden Machinery in India**

The company started its business with India in the 1950’s by exporting to the country. In the 1980’s Norden was owned by a tobacco company called “Swedish Match” which initiated a joint venture with the Indian tobacco company “ITC”. Within this joint venture Norden Machinery started to manufacture several kinds of tube filling machines together with their partner in India. The reason for starting the joint venture was an import tax increase of 400 percent. The import tax stabilized and Norden Machinery left the joint venture after three years and started to export from Sweden with several agents. The former joint venture partner is still selling the tube filling machines without permission of Norden Machinery and uses their intellectual property. Since 2010; Norden Machinery exports its products to India with two agents located in Mumbai who are supported by a local subsidiary of Coesia. The Indian office consists of two employees who provide sales and technical services as well as training to the Indian customers. The interview was carried out with Jörgen Johansson, sales manager and responsible for the South American, African and Asian (incl. Indian) market of Norden Machinery AB.

**Institutions**

**Government**

The Indian business environment was described as “strange” in how the Indians define and do business as the company has to deal with problems such as a high level of bureaucracy. This bureaucracy causes delays, for example, at the customs since the employees at the customs are insecure of how to process imported machines because of complicated trading rules. Difficulties also evolve in case of guarantee duties for Norden Machinery. Products have to be shipped back from India to Sweden but are usually hold back by customs. The Indian government is not providing a adequate business environment from the Swedish perspective since government responsible do not act in the expectations of Norden Machinery regarding several issues as tax issues or certificates for their machines. The company sees the problem of transfer prices as a difficulty by dealing with governmental regulations. Another problem is corruption among governmental members which regularly causes delays of deliveries. The government has also not implemented any regulations which allow the customers to be corrupt and expect bribes. Nevertheless, Norden Machinery profits from the support of Coesia as they
deal with difficulties regarding the government. The company is not affected by any kind of governmental projects.

Country Culture
Norden Machinery is negatively affected by India’s high power distance. The agents do not show any self initiative; consequently, the Swedish employees do not value the high power distance. Furthermore, the company is missing criticisms of their Indian agents. The company would prefer flat hierarchies as in Sweden in order to react faster to the market dynamism. The company sees Indians as individualistic and has experienced a low degree of loyalty among Indian workforce since a high employee turnover is common, in average an Indian employee changes its workplace every one to two years. The masculinity is also a problem as the employees take unnecessary risks which are costly for the company. The low level of uncertainty avoidance is negatively affecting the company since the Indians are characterized by a high patience. Consequently, customers, for example, often wait too long until they decide to maintain their equipment, leading to a breakdown of the machines. Therefore, Norden Machinery has to repair their machines instead of maintaining them which is more lucrative for the company. Also the agents are very patient and often wait too long until they react e.g. regarding asking the customer further questions. Further, Indian customers act short term orientated as they do not spend money and time for machine maintenance.

Religion
Norden Machinery is aware of doing business with religious countries, but in comparison to, for instance Pakistan, where employees or customers take their time for praying, it never negatively influenced the business in India. Religion in India is ambivalent but the company only experienced blessings of machines by customers.

Linkage Specificity
Asset Specificity
The machines of the company are very specialized and unique as they are tailor made for their customers. The company's strength is to build these machines in close contact with their customers in order to satisfy different needs. The machines are technically advanced and need to be manufactured by skilled workforce. Also the sales and technical teams, which are based in India need to be highly trained and knowledgeable. At Norden Machinery, foreign agents are trained for at least two month at the headquarters in Sweden. Also the usage of the machines
requires a high degree of knowledge from the company’s customers. The delivery of Norden Machinery´s products to India takes in average about six weeks which is in comparison to other markets as Africa (four weeks) a moderate time. The company and their customers are satisfied with these delivery times but Mr. Johansson also stressed, that the earlier the customers get the machines, the more satisfied they are. The company also experiences delays when shipping their products, especially within the transport between the ships and the trucks. Other common reasons for delays are problems with the customs.

**Behavioral Uncertainties**

Norden Machinery often experiences opportunistic behavior in India, especially, for instance, from their own employees, business partners, customers and other stakeholders. The employees try to bargain a higher salary when they realized that there was an information asymmetry between them and the head office. The Swedish site of Norden tries to interfere as little as possible and has therefore hardly control over the behavior of their Indian employees since they want to accept the dissimilar norms and values of the Indian society. Furthermore, Norden Machinery does not want to lose their Indian employees due to strict control mechanisms. Losing employees is very costly as they are highly trained and have the direct customer relationships.

**Transaction Costs**

**Information Costs**

It is very difficult to collect information about the Indian market. The company tries to get information directly from their customers and also by following the developments of their competitors in the Indian market. They also gather and exchange information on trade fairs and by talking to business partners in the packaging industry which have the same customers but different products. The company misses support from the governmental authorities in India as well as from the Swedish-Indian trade council. They have to gather all relevant information, e.g. about tax and contract law on their own. To get this information the company hires a Swedish and not an Indian lawyer because the Indian lawyers are very likely to be corrupt. The company also experiences problems by getting information from the government as they often receive different answers to the same question which causes uncertainty in the company. The exchange of information with the Indian customers is very different from the Swedish. Indian customers prefer to talk to a person while Swedish customers also accept digital information exchange. Nevertheless, the costs for exchanging information are seen lower as in Sweden.
since the Indian customers usually do not have any follow up questions and accept the Swedish solutions while Swedish customers are more demanding. The company faces difficulties in protecting the information in India as they made negative experiences with their joint venture there. The company tries to share as little confidential information as possible with the Indian stakeholders as they do not see a way to protect their information.

**Bargaining Costs**

Norden Machinery gathers information for bargaining processes in Sweden as well as in India. They face the problem that they often do not understand what the other party expects while bargaining. The sales personnel do not feel well prepared when bargaining because usually unexpected incidents occur while bargaining with Indians. They often face the problem that bargaining is very difficult as the Indians often try to cheat or bribe. Setting up contracts is also a complicated process in India since they do not want to accept the standard agreement which is provided by Norden Machinery. The customers sometimes provide their own contracts which are not acceptable for European standards. To fight an agreement might extent the negotiations. Norden Machinery tries to have the same contract partners for a long period and therefore the contracts are often renegotiated (about prices and delivery times) and not completely renewed.

**Enforcement Costs**

The company often deals with incomplete contracts regarding IPR or unfair contracts due to changing conditions. Enforcing contracts is a delicate topic for Norden Machinery. They only try to enforce the contracts with smaller unimportant customers and accept the shortcomings of bigger companies. Due to the company’s policy which states delivery after payment, enforcing contracts usually regards small amounts of money. The company does not get any support by the government. Only the Swedish lawyers are involved in the process.

The company did not consider transaction costs when choosing their initial entry mode and also not when they changed the entry mode from the initial joint venture to export. Further, the company does not plan to change the entry mode again as the responsible believe that the IPR in India is not strong enough and it would be very difficult to train Indian employees to achieve the same quality level as in Sweden. (Jörgen Johanson, 2013)
4.2.2 Slipnaxos AB

Company Background
Slipnaxos is the largest producer of grinding wheels in Northern Europe and mostly involved in the grinding of products as steel, automotive components, ball bearings, tools and crystal glass. The company is part of Winterthur technology group and 3M. It has its headquarters in Västervik, Sweden. The company has over 100 years of experience and was founded in 1895. 70 percent of its sales are exported. Today Slipnaxos has 190 employees (Slipnaxos, 2013).

Slipnaxos in India
Slipnaxos does not have any own employees in India. The company cooperates with agents who work for Petro Engineering in Chennai. Jo and Harry Peters (father and son) are the general managers and responsible agents; they have five employees. Precolm which is a sister company of Slipnaxos, located in Austria, has three agents in Pune. Slipnaxos started its first exporting operations to India in the 90s with Petro Engineering. Exporting was and is the only entry mode of Slipnaxos to the Indian market. The Indian market is promising for Slipnaxos since it acts as a supplier for the automotive, tool and steel industry. Further, several industries are growing and developing in India, for example, Scania India needs a lot of parts from other companies as Slipnaxos and the agents started a cooperation with SKF India in the beginning phase. The economy in the domestic market is therefore perceived as really promising. Two to three years ago discussions fostered the management of producing blades for grinding wheels in India, since 3M took over the responsibility in this field; consequently, there is a chance this subsidiary might be established at some point. The interview was carried out with Anders Jönsson, sales manager and responsible for India, Russia, Turkey, Egypt, South Arabia, Malaysia and Indonesia (while some of these countries are characterized by rather small sales) of Slipnaxos AB.

Institutions
Government
The government does not provide any kind of business environment. IPR has not been a big discussion for Slipnaxos; no copying of ideas or patents has been experienced so far in the Indian market. Nevertheless, it is known that there are companies operating in the Indian market from the same industry. Slipnaxos knows about the worldwide competition and if an improved product would enter the market, the competitors will analyze the improvements and copy within approximately six months. However, this is not a characteristic typical for the
Indian market but may be applied in every country the company operates in. The company is insecure concerning environmental regulations since they do not know what the government expects. Slipnaxos perceives India as highly corrupt. Since the company is with 3M, they ensure enforcement of anti corruption rules and transparent transaction. All order deliveries are carried out with payment in advance; thereafter the agent gets paid. Slipnaxos has no full control of how the agents spent the money. Nevertheless, all agreements are performed according to fair business. When it comes to the exporting component of the deal, the customer takes the responsibility as soon as the products are at the harbor in Sweden. Difficulties are experienced with return goods at the customs. Further, Slipnaxos is not affected by any kind of governmental projects.

Country Culture
Slipnaxos states that their agents show a lot of self initiative since an increase of sales is also their benefit due to the commission they obtain. They experienced the collectivist mind-set vice versa; Indian employees join and leave a company fast since they do not have a lot of patience. Masculinity, on the other hand is definitely given because of the high value of status symbols and the affinity of taking risks. Due to the uncertainty avoidance of its Indian agents and customers, Slipanxos’ Swedish employees need a lot of patience, tolerance and flexibility. In Sweden, a time is set for a meeting; Indians only clarify an appointment by meeting before or after lunch. Planning cannot be carried out precisely and meetings might be cancelled at short notice. Costs evolve due to a needed reorganization of procedures, e.g. flights and so on.

Religion
Slipnaxos agents are Christians and go to church at the weekends; not during the week, so that the work is not affected. Not long ago, Jo Peters retired and is now a holy person concerning prayers.

Linkage Specificity
Asset Specificity
Specialized grinding wheels are sold to Slipnaxos customers, around 80 to 90 percent are tailor made and Slipnaxos needs standardized machines to adapt to customer’s needs. Workers for handling might be unskilled but technicians for the machines and lines need to be well educated and trained. 95 percent of goods sent to India are sea freight which needs six to eight weeks to arrive at the customer. This is considered to be an average delivery time.
Opportunistic Behavior

The agent receives twelve percent commission on every sold product. Further, a high competition with customers may be recorded. It is important for Slipnaxos to get customers for their reference. Nevertheless, the company does not want to reduce the price. Therefore, the company suggests the agents to lower their commission to be more competitive but usually they are not willing to do so. The agents only sell products linked to steel and Slipnaxos is convinced that they do not sell any competitor’s products; though they cannot control this issue. Once there has been a problem with the agents and a customer asked to replace them. The Slipnaxos responsible met an agent suggested by that customer but an agreement was not able to be established. Consequently, the agents were not replaced and Slipnaxos trained their agents while frequently visiting the customers with them in order to also improve the service capabilities of them.

Transaction Costs

Information Costs

Slipnaxos collects all relevant market information via the agents. Furthermore, the company works closely together with machine builder companies in Europe which also provide them with market knowledge. Trade fairs, on the other hand, are costly and very narrow in the branch. Therefore, direct contact with potential customers is preferred. Just lately, the company received a call from an Indian trade fair organization asking for participation. One big fair is offered in Germany which is yearly participated; there Slipnaxos also has the chance to get informed. Further, Slipnaxos does not have any difficulties in collecting market information due to support of 3M which does financial checks of customer companies and search for fair companies. No help of consultants is needed. In addition an insurance by Exportkreditnämnden (EKN) is made for the value of the exported goods. Information protection is carried out by coded information which is used when developing a new wheel, for example. Regular product developments have to be carried out in the grinding industry and the competition the company had to face last year with its main competitor was tough for the company. Hence, information protection is definitely needed.

Bargaining Costs

Especially the bargaining with governmental projects is shaped by difficulties, since tenders are invited. The agents do not bargain themselves in this case; rather they get support by Swedish managers. Usually the agent is at the tender meeting and a Swedish responsible is
connected via telephone conference. Nevertheless, governmental competition is mainly based on price while Slipnaxos is manufacturing high quality products which led to a very special customer group valuing quality. Good dialogue is needed with companies while Indians usually try to reduce the price. Contracts are set up by payment in advance, meaning that the order is shipped when the product has been paid. Furthermore, bargaining is an ongoing process and needs to be adapted to changes in new developments and demands. Bargaining is a long process nowadays and is performed in several steps. Firstly, Slipnaxos will send an offer to the customer who has many offers from different companies for the same product. Secondly, the customer will get in contact with the local agent to reduce the price. Thirdly, the companies with the most promising offers are invited to the customer for one day to have an extensive discussion about the benefits of the products which have to be presented. Customers carry out purchases with a whole committee since three years. Before that time, only one manager was responsible for the purchase who had a lot of freedom and could take bribes. Corruption may be reduced and a fair company established due to a committee decision. Payment and shipping terms are not experienced as problematic as long as there is a contract. If customers are established, they would order regularly and the process becomes similar to European bargaining.

**Enforcement Costs**

No incomplete or unfair contracts have been experienced so far. Nevertheless, the Indian customers like to cheat the Swedish management by using quantity discount; meaning that they order 2000 pieces but only want 50 shipped. Nevertheless, Slipnaxos only allows shipment in one lot. Also in this case, no support by the government may be expected. EKM insurance, as mentioned before, also plays an important role related to enforcement costs while this insurance is not needed for Swedish customers. Slipnaxos does not have any court experience so far. All in all, everything takes longer in India, the first contact might be now and the first contract may be in three to five years.

Transaction costs were not considered by the management when deciding for export as the suitable entry mode and the company does not have any plans to change the entry mode in the near future as the agent has the knowledge about the customers. The company fears, when losing the agent, to also lose the knowledge of the agent and therefore would have difficulties with the customer contact. (Anders Jönsson, 2013)
4.2.3 Håkansson Sågblad AB

Company Background
Lars Håkansson developed a patent for a new hardening method in 1980. Thereafter, his son Gustav took over the business and every responsibility linked to the hardening department. Later he and his brother, Bror Håkansson merged his company and his brother’s company Håkansson Industrier AB and established Håkansson Sågblad which became the first non-American company manufacturing hardened band saw blades with a flexible back. In 1946 Gustav Håkansson invented the induction hardening technique which is a special treatment for band saw blades. Today, the company has 40 employees in Sweden and is led by the chief executive officer (CEO) Olle Berggren. Around 90 percent of its products are exported and the company’s puts its emphasis on high quality, competitive prices and short delivery times (Håkansson Sågblad, 2013).

Håkansson Sågblad in India
Håkansson Sågblad has 20 employees in India. The company opened a subsidiary (building rented from a private owner) which functions as a factory and sales office in Chennai, in 2010; before they exported to the country with support of an agent. The reason for an own subsidiary is the growing market volume where the company saw its potential for own business. They also have a subsidiary in Chile. The interview was carried out with Olle Berggren, managing director and sales manager of India and Chile of Håkansson Sågblad AB.

Institutions
Government
The government provides a supportive business environment for the company in terms of tax incentives and reduction of import costs since the company is registered as a manufacturing company. Other governmental incentives are not noticed. A high bureaucracy is very common in India and the agent used to deal with it. Now the agent has become the general manager of the subsidiary in Chennai and is still involved with all difficulties concerning that topic. For instance, the company needs three different banks since each has a dissimilar task; one bank only makes international transfers, another bank only carries out transfers to domestic customers and a third banks solves import formalities and tax attributes. To sum up, it is a very complicated system. Hence, the company receives support from an Indian lawyer in Chennai and the Swedish export council in Delhi which has the task to support foreign companies with
governmental regulations. Häkansson Sågblad is not aware of any kind of environmental protection regulations which have to be considered. Corruption is an issue which Häkansson Sågblad does not accept; nevertheless they are confronted by it mostly from governmental companies. In order to become a supplier to the government; bribery is necessary and this procedure is named “sales probation”. All in all, corruption is a huge problem with which the agent used to deal; now the general manager takes up these issues from which Häkansson Sågblad wishes to be excluded. However, they are aware of the necessity in order to get important customers. Bribes occur at all employee levels, from the machine operator to the manager. Häkansson Sågblad is not affected by any governmental projects.

**Country Culture**

Concerning the power distance, Häkansson Sågblad sees a lot of self initiative among their workers who are young men between 20 to 30 years old. They are dedicated to the company and proud to be employed by a Swedish company. Consequently, they lifted a Swedish flag, painted the Swedish national colors on boxes and work as long as there are orders, even if they have to stay longer. The Indian employees are not critical, however, Berggren believes that they rather do not state their opinion because they are afraid to lose their employment. Concerning the collectivist mind-set, it might be stated that Häkansson Sågblad’s employees in India are with the company since the opening two and a half years ago. They seem to be loyal which might be traced back to the fair treatment by the company. Even if the Indian employees take risks, Häkansson Sågblad does not perceive it as a problem or negative issue. The company made negative experiences regarding uncertainty avoidance since at the beginning of the production in India the employees accepted imperfectness and did not work precise in the production and the management. The employees are also punctual and if they do not come to work they usually call in advance. All in all, the subsidiary is let by Indian employees.

**Religion**

All of the employees are Hindus. They arranged a praying table in the factory on which they put different gods. The company was not aware if they also pray during the working day. Nevertheless, the company bought the religious equipment needed and supports their religious beliefs. They also do not experience any difficulties related to the religion; whereas the company pointed out that the general manager might have a different perception but Berggren does not know it. All employees in the Indian subsidiary were hired by the general manager.
who contacted friends, sports colleagues or close family contacts. Hence, they are all very loyal to each other.

**Linkage Specificity**

**Asset Specificity**

The equipment, meaning machines in India are the same machines with the same regulations as needed for Sweden. They are standardized machines which need semi-skilled workers to handle them. In order to set up the Indian subsidiary, two Indian employees visited the Swedish factory for one week two times and trained the other employees in India with their knowledge. Workers do not need a university degree but rather some kind of short introduction to machine usage. Blades are prepared in Sweden and sent half fabricated to India, meaning products are semi-produced in Sweden and finalized in India. Therefore, no purchasing has to be carried out in India. The products need around two weeks to reach the customers by railway from the Indian subsidiary. In the future, it might be the intention to use India as a hub but the bureaucracy issues concerning re-exporting parts to other countries in Asia need to be clarified. Håkansson Sågblad also owns a storage department in India.

**Opportunistic Behavior**

Opportunistic behavior has not been experienced so far. All of the employees receive a monthly salary. When working with the agent, he received a commission but his contract is also based on a fixed salary now. If a salary raise is needed, negotiations are met and a common agreement is arranged.

**Transaction Costs**

**Information Costs**

The CEO of Håkansson Sågblad visits the Indian subsidiary two times a year and schedules a sales meeting to gather all relevant information about the development. The CEO has a common discussion with the employees about current issues of the market. Further, he visits trade fairs and has been at one in Bangalore in January this year where relevant knowledge can be gathered. These trade fairs are seen a valuable and cheap source to get information and to make contact with potential customers. The company does not work with consultants but rather asks own staff for market information while the general manager worked in the given industry since 20 years. They do not feel the need to protect information since they are the only
producing company in India with that kind of product. In China, on the other hand, there are a lot more companies which regularly copy improvements but they are not located in India.

*Bargaining Costs*

The Swedish responsible of Håkansson Sågblad are not involved in the bargaining process with the Indian customers. This is carried out by the regional sales manager who concludes the contracts with the customers based on Indian laws. It might take up to one year until a contract is made due to ongoing re-negotiations. The payment is an obstacle in India since it takes very long. Håkansson Sågblad has employed a responsible to collect debts. It might take a year till a customer pays for the products purchased. Payment in advance is not an alternative since the customers would change to the competitors which offer products before payment.

*Enforcement Costs*

Håkansson Sågblad experienced unfair contracts as their customers try to avoid to pay on time and the full amount of the invoice and also to “interpret it differently”. The usual enforcement time in India is 90 to 120 days; while it takes 30 days in Sweden and around 60 to 90 days in China. India is considered as the worst country by Håkansson Sågblad when it comes to enforcement mechanisms. On the other hand, the company seldomly has to go to courts to enforce the contracts as they have “other ways”, for example, to not deliver further products to the customers, in order to get the payment of their customers.

Håkansson Sågblad did not consider transaction costs when opening the subsidiary in India, the company rather contemplated the market potential. Expanding thoughts will be based on future growth. Nevertheless, the currency is a real obstacle at the moment. Starting in October 2010 the Indian rupee dropped 20 to 25 percent towards the Swedish currency. This issue takes all profits from the Indian subsidiary since products there would get more expensive but the company would not be competitive selling them for a higher price. Consequently, expanding thoughts will also consider currency issues. (Olle Berggren, 2013)

### 4.2.4 Hedin Lagan AB

*Company Background*

Hedian Lagan AB is a Swedish company located in Lagan operating in the press and fabrication industry. The company offers products as heavy load handling to lift heavy obstacles, splitters and modul separators to maintain press dies, coil tipper to turn heavy
weighted goods and tug trucks. The company mainly operates with lifting, turning and transport of heavy and geometrically demanding loads. It was founded more than 30 years ago, has about 30 employees and is operating globally. Their main customers are MNCs as Vestas, Siemens, ABB, BAE, Sonaca, Boeing, Caterpillar, Volvo, Jaguar and Magna (Hedin Lagan, 2013).

**Hedin Lagan AB in India**
The company exports to India for approximately five years and works with two agents for one and a half years. The complicated bargaining processes as well as cultural, language and customer knowledge contributed to the decision to choose export as an entry mode. The agent is located in Vadodara, Gujarat in India. The interview was carried out with Roger Axelsson, sales manager and responsible for United Kingdom, United States, Germany, Benelux States, China, India and Poland, Czech Republic as well as Slovakia of Hedin Lagan AB.

**Institutions**
**Government**
Hedin Lagan AB does not have positive experience related to the government since it does not provide an appropriate business environment. The company is producing very safe machines but they perceive the Indian regulations as inscrutable. The company is affected by corruption but lets the agents deal with all issues related to that topic and does not have direct contact to any corrupt deals. Nevertheless, the company does not know what their agents are doing and could imagine that parts of the commission is used to bribe officials as well as customers. The company sees that as problematic since they want to do business according to Swedish laws and ethics. The bureaucracy, especially concerning export and import issues are perceived as highly complicated and time consuming. Hence, the company also lets the agents solve all problems related to bureaucracy. Hedin Lagan is not affected by any governmental projects.

**Country Culture**
Hedin Lagan does not believe in a high power distance in India. They got to know their agents via ABB, an international customer in India who recommended the agents with experience. The agents show self-initiative and do not need clear directions; further they are innovative and Hedin Lagan gives them the freedom to develop their own rules in service and maintenance. Nevertheless, Hedin Lagan keeps track of the agents by having them send an enquiry list, a visit report, a price list and a reference list of customers regularly. Furthermore, a collectivistic
mind-set is given due to the loyalty shown by the employees and no negative experience has been made so far. No practical knowledge has been gathered concerning the masculinity in India but Hedin Lagan expects their agents to be aim orientated as they want to make deals in order to get commission. Uncertainty avoidance is very common in India and a lot of patience is needed, especially concerning the relationship with the customers and their decision making processes. This was also a major reason to enter the Indian market with support of agents. Long term orientation is given and unpunctuality is normal in the business environment which is seen as problematic and expensive.

**Religion**
Hedin Lagan is not aware of the religious beliefs of their agents and has not experienced any difficulties or problems related to it.

**Linkage Specificity**

*Asset Specificity*
The machines of Hedin Lagan are standardized in order to produce partly customized products for their customers. The engineering part is the specialty of Hedin Lagan and makes them unique. Therefore, processes could never be completely externalized because the company relies on their Swedish engineers. The line workers, on the other hand, do not need to be as skilled. Resources are procured from Sweden and the final products are exported to India within four to six weeks by ship freight.

*Behavioral Uncertainty*
The company has not experienced any behavioral uncertainty of their agents or customers. Nevertheless, the agents receive a fixed commission when selling the products which gives the Swedish headquarters control of turnovers.

**Transaction Costs**

*Information Costs*
The company collects their information via their agents in India as well as from trade fairs in Europe. The company does not actively collect any information about their competitors or other stakeholders. They see major difficulties in collecting market information themselves as they perceive a high distance to the Indian market, especially culturally and language wise. Therefore, they do not feel knowledgeable enough to actively participate in the information
collection process and do not even try. Hedin Lagan only gets help from their agents and does not try to get support from consultants or governmental organizations. They basically exchange information with their agents via phone calls which are carried out regularly. As the agents have a lot of knowledge about the market and are trained from Hedin Lagan AB, they do not need to receive a lot of information as well as instructions from the company to sell the products. The information exchange is perceived as quick and uncomplicated. Hedin Lagan does not protect their information; neither does it have agreements with their Indian agents about it. Nevertheless, they see the risks in case other companies would get the information they share with the agents.

**Bargaining Costs**

Hedin Lagan made negative experiences when bargaining with Indian customers. The company had to cope with long bargaining processes, partly up to one year for a single deal, when they still exported their products without any agents. They did not receive any help because they did not have the knowledge of whom to contact in the foreign market. They always felt insecure by bargaining in India as they did not know how to shorten the bargaining process. Nowadays the agents are responsible for all kinds of bargaining with the customer. The agents are only provided with a standard agreement from Hedin Lagan and do not get more support by the company. They are responsible for adjusting the contracts as well as for resolving disputes. As the customers are mainly MNCs, they do not change the contract partners often. The contacts are therefore used more than once and also the spare part service is included.

**Enforcement Cost**

In comparison to most other markets Hedin Lagan did not experience any incomplete or unfair contracts in India yet. This is because they mostly use their own standardized contracts which are only slightly modified by the agents. The company never had to enforce a contract in India but in case a customer would not pay the invoice Hedin Lagan would not trust an Indian lawyer and would consult a Swedish lawyer. Furthermore, Hedin Lagan already rejected orders of customers as they thought that the customers are not liquid enough to pay the machines. They did that because the company was afraid of the difficult and long lasting enforcement in India. The company does not have any knowledge about enforcement times but expects them to be very long.
Hedin Lagan decided to change their entry mode from export without any agents to export with agents because of the high transaction costs regarding the bargaining costs. The company felt helpless to avoid the “never ending” or not constructive negotiations. Therefore, they hired the agents to deal with all the problems related to the bargaining. The company does not plan to change their entry mode in the near future as they are satisfied with the performance of the agents and because they do not have the knowledge to do export without the agents or building own facilities. In the long term Hedin Lagan could imagine to build own facilities in case the market is continually growing and they would get support from experts. (Roger Axelsson, 2013)

4.3 Summary of Case Company Characteristics

<table>
<thead>
<tr>
<th>Company</th>
<th>Product</th>
<th>Founded</th>
<th>Year of Entry in India</th>
<th>Entry Mode Development in India</th>
<th>Employees / Sweden/India</th>
<th>Location / Sweden/India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>Tube Filling Machines</td>
<td>1934</td>
<td>1950’s</td>
<td>Export → Joint Venture → Export</td>
<td>225/2 (Agents)</td>
<td>Kalmar/Mumbai</td>
</tr>
<tr>
<td>Stigmecc AB</td>
<td>Grinding Wheels</td>
<td>1895</td>
<td>1990’s</td>
<td>Export</td>
<td>190/7 (Agents)</td>
<td>Västerås/Centralen</td>
</tr>
<tr>
<td>Hällgrenn Sieghol AB</td>
<td>Saw Blades</td>
<td>1944</td>
<td>1990’s</td>
<td>Export → FDI</td>
<td>40/20</td>
<td>Ãmål/Centralen</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>Lifting Machines</td>
<td>1983</td>
<td>2008</td>
<td>Export</td>
<td>30/2 (Agents)</td>
<td>Lagan/Alkappari</td>
</tr>
</tbody>
</table>

Table 1: Summary of Case Company Characteristics
5 Analysis

The analysis will provide the reader with a detailed interpretation of the theory related to empirical data and the author’s voice. Firstly, the perceptions of institutions, linkage specificity and transaction costs will be analyzed. Results from this part are the foundation to analyze the “Impact of Institutions on Transaction Costs” in part 5.2 and the “Impact of Transaction Costs on Entry Mode” in part 5.3.

5.1 Perceptions of Institutions, Linkage Specificity and Transaction Costs

5.1.1 Government

Business Environment

Governments are responsible to provide an appropriate business environment for local and foreign companies by providing infrastructure, access to capital (banks) or international linkages, among others (Larsson and Venkatesh, 2010).

Johansson from Norden Machinery does not experience an adequate business environment in India since government responsible do not act supportive regarding several issues as tax incentives or certificates for machines (Johansson, 2013). The government does not provide any kind of business environment for Slipnaxos (Jönsson, 2013) and Hedin Lagan (Axelsson, 2013); while Berggren from Håkansson Sågblad experiences a supportive business environment for the company in terms of tax incentives and reduction of import costs since the company is registered as a manufacturing company by the government (Berggren, 2013).

The exporting companies as Norden Machinery, Slipnaxos and Hedin Lagan do not experience any kind of appropriate business environment; while Håkansson Sågblad, having a subsidiary in the country, gets support by the government. Consequently, the creation of a business environment by the government might be led back to the degree of commitment by the company in the country. The government has an interest to get inward FDI in order to increase, for example, the employment in the country to raise the tax yield. Since equity modes of entry by foreign companies offer more advantages for India itself than non-equity modes, the country is attentive to provide an appropriate business environment.
**Regulations**

Important governmental regulations concern protection of intellectual property rights (Larsson and Venkatesh, 2010) and environmental protection (Levi, 2011). IPR protection in India is still low which is a problem for SMEs wanting to invest and create employment (IPO, 2013). India is still in a changeover phase from protectionism to a liberal economy. This process is still in development and led to unstable regulations concerning foreign businesses (Worldbank, 2013).

Norden Machinery sees the problem of transfer prices as a difficulty by dealing with governmental regulations (Johansson, 2013). IPR has not been a major issue for Slipnaxos; no copying of ideas or patents has been experienced so far in the Indian market. The company is insecure concerning environmental regulations since they do not know what the government expects (Jönsson, 2013). In the opinion of Håkansson Sågblad, governmental regulations are shaped by complicity. Hence, the company receives support from an Indian lawyer in Chennai and the Swedish export council in Delhi which has the task to support foreign companies with governmental regulations. Håkansson Sågblad is not aware of any kind of environmental protection regulations which have to be considered (Berggren, 2013). Hedin Lagan perceives the Indian regulations as inscrutable in safety matters (Axelsson, 2013).

Norden Machinery, Slipnaxos and Hedin Lagan have experienced restrictions by the government regarding transfer prices, environment and safety. Håkansson Sågblad also faces complicated regulations but gets support from external organizations. Therefore, different perceptions are common concerning governmental regulations. This shows us that the process from a protectionist country to a liberal is not complete yet and uncertainty among the Swedish companies is common. The degree of the effect and the way of how to deal with them might depend on the entry mode and the use of a local agent.

**Corruption**

Corruption negatively influences a country’s growth and needs to be addressed by the government (Polajeva, 2011). Especially, corruption is a significant obstacle when doing business in India (Auswärtiges Amt, 2012).

Norden Machinery experiences corruption among governmental members which regularly causes delays of deliveries (Johansson, 2013). Also Slipnaxos perceives India as highly
corrupt. The company tries to follow anti corruption rules and transparent transaction as much as possible; also 3M has an eye on this issue. All order deliveries are carried out with payment in advance; thereafter the agent gets paid. Slipnaxos has no full control of how the agents spend the money (Jönsson, 2013). Corruption is an issue which Håkansson Sågblad does not accept; nevertheless they are confronted by it mostly from governmental companies. In order to become a supplier of the government; bribery is necessary and this procedure is named “sales probation”. All in all, corruption is a huge problem with which the agent used to deal; now the general manager takes up these issues from which Håkansson Sågblad wishes to be excluded. However, they are aware of the necessity in order to get important customers (Berggren, 2013). Hedin Lagan is affected by corruption but lets the agents deal with all issues related to that topic and does not have direct contact to any corrupt deals. Nevertheless, the company does not know what their agents are doing and could imagine that parts of the commission is used to bribe officials as well as customers. The company sees that as problematic as they want to do business according to Swedish laws and ethics (Axelsson, 2013).

Corruption impacts all companies operating in India. Since also the government is involved in corruption and bribery as Norden Machinery and Håkansson Sågblad state, rules and regulations against any kind of dishonest business conduct cannot be expected. Swedish companies rather want to do business according to fair rules and ethics which is why they have their local employees dealing with this issue. Due to the geographical distance it is difficult to keep track of any kind of foully behavior of the Indian employees. Therefore, three of four companies point out that there is a chance their employees are engaged in bribery. All in all, corruption is a present topic when doing business in India, it may be considered as an obstacle since transaction processes might not be as transparent as the Swedish company would like them to be.

**Bureaucracy**

However, bureaucracy often evolves in governmental processes which might decelerate a company’s procedures and have negative impact on the creation of a business environment (Figueiredo, 2010). Bureaucracy is high in India and often causes delays as well as corruption (Rajeshwar, 2009).

The processes of Norden Machinery in India are slowed down due to a high level of bureaucracy which causes delays, for example, at the customs since the employees there are
insecure of how to process imported machines because of complicated trading rules or in terms of guarantee duties (Johansson, 2013). Slipnaxos also has to deal with a high bureaucracy of return goods at the customs of the harbor (Jönsson, 2013). A high bureaucracy is very common in India and the general manager of Håkansson Sågblad in India deals with this issue (Berggren, 2013). Hedin Lagan experiences bureaucracy, especially concerning export and import issues; these are perceived as highly complicated and time consuming. Hence, the company also lets the agents solve all problems related to bureaucracy (Axelsson, 2013).

All case companies have to deal with a very high bureaucracy caused by the government. Exporting companies as Norden Machinery, Hedin Lagan and Slipnaxos experience delays and therefore decelerated processes at the customs. Håkansson Sågblad only stated that bureaucracy occurs and that they receive a lot of support by the local general manager who knows the country and its rules. Equity modes of entry have a higher chance of overcoming the bureaucracy issues due to general managers who have a high commitment for the company and are paid based on a fixed salary instead of commission. Payment based on commission may lead to the motivation to make contracts and sell goods instead of dealing with bureaucratic issues, since time spent for this is not paid.

**Governmental Projects**

Governmental projects may help companies in a country to carry out business more effective due to an improvement of infrastructure or water supply (Isham, Kaufmann, and Pritchett, 1997). The Indian government has several governmental projects in order to improve the infrastructure and equal treatment, among others (Worldbank, 2013). Norden Machinery, Slipnaxos, Håkansson Sågblad and Hedin Lagan are not affected by any kind of governmental projects (Johansson, 2013; Jönsson, 2013; Berggren, 2013; Axelsson, 2013).

Even though, some of the author’s case companies have been in India for quite some years, no company has ever gotten in contact with governmental projects. Projects could influence operations in India negatively due to rules that would have to be considered in operations. This aspect might rather influence companies with an equity mode of entry due to the higher market commitment.
Summary Perceived Governmental Influence

Table 2: Perceived Governmental Influence

<table>
<thead>
<tr>
<th>Business Environment</th>
<th>Regulations</th>
<th>Corruption</th>
<th>Bureaucracy</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
</tr>
<tr>
<td>Håkansson Sågblad AB</td>
<td>positive</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
<td>negative</td>
</tr>
</tbody>
</table>

5.1.2 Country Culture

Power Distance

The first dimension of country culture is according to Hofstede (2013b) the power distance which reflects the acceptance for unequal distributed power. The power distance in India is high which is expressed by the employees need for clear directions, a lack of criticism and a lack of feedback from lower hierarchies (Hofstede, 2013a).

Norden Machinery feels negatively affected by the high power distance of their Indian agents due to the slower processes caused by the hierarchic behavior of the agents (Johansson, 2013). In comparison to that, Slipnaxos does not experience problems with the high power distance as the agents show a lot of self initiative and do not need clear directions for every decision (Jönsson, 2013). Håkansson Sågblad also experienced a high self initiative of their employees but, on the other hand, the employees also do not criticise the company (Berggren, 2013). Hedin Lagan did not perceive a high power distance because their agents are seen as innovative and show a lot of self initiative. Nevertheless, the company controls the activities of the agents by a defined process in order to exchange information (Axelsson, 2013).

This shows us that the companies perceive the power distance unequally which is not always in line with the theory. This might be caused by the control mechanisms the companies have implemented. Slipnaxos’ agents profit from working also without clear directions as their salary is based on sales. Håkansson Sågblad´s employees highly identify with the Swedish headquarter which might also cause more self initiative at the workplace. Hedin Lagan´s agents
are monitored via the predefined process which motivates them to work as the headquarter demands. All in all, the authors see that the theory about the high power distance is valid but the power distance decreases when control mechanisms are implemented.

**Individualism versus Collectivism**

The second dimension of country culture is, according to Hofstede (2013b), individualism versus collectivism while individualism which means that people mainly care for them and collectivism means that people prefer to life in a tight framework with other people. Hofstede (2013a) states that India is more a collectivistic country where people are rather loyal and want to be protected by their employer but also show individualistic characteristics as the results are in between the individualistic and collectivistic dimension.

Norden Machinery and Slipnaxos experience a low loyalty of their employees as they have a high employee turnover while Håkansson Sågblad experienced a low employee turnover and Hedin Lagan never experienced any dishonest behavior (Johansson, 2013; Jönsson, 2013; Berggren, 2013; Axelsson, 2013).

This result underlines that the theory is not distinct in India regarding the dimension of individualism versus collectivism. It shows that the perceptions about the mindsets are different. The perceptions about the collectivist mindset of Håkansson Sågblad may be explained by the high identification of the employees in the Indian factory, since they are proud to work for a Swedish company. It may be explained for Hedin Lagan with the little experience the managers had made and their answer is only an assumption. Norden and Slipnaxos perceive an individualistic mindset which might be explained by a lower wage which decreases the loyalty. This argument may be underlined by Slipnaxos idea that the agents should decrease their commission to make a deal instead of lowering the prices of the product.

**Masculinity versus Femininity**

The third dimension of country culture is according to Hofstede (2013b), masculinity versus femininity, while masculinity is expressed by venturesome behavior and femininity by a focus on life quality. According to Hofstede (2013a), India is a masculine society as the people have a need to show their success.
Norden Machinery and Slipnaxos perceive their Indian agents as highly masculine since they tend to take unnecessary high risks (Johansson, 2013; Jönsson, 2013). Håkansson Sågblad, also experience a masculine behavior of their employees regarding a high tendency to take risks even though the risks were never seen as too high (Berggren, 2013). Hedin Lagan perceives their agents in India also as masculine as they are aim orientated since they want to make deals with new customers (Axelsson, 2013).

All the case companies perceive their Indian employees as masculine while only Norden Machinery and Slipnaxos see this as problematic. The fact that Håkansson Sågblad and Hedin Lagan did not perceive any problems may be caused due to the fact that risky decisions can have negative impacts on the long run but the companies are not long enough in India to realize it; meaning that a deal might show its consequences after years instead of right away.

**Uncertainty Avoidance**

The fourth dimension of country culture is, according to Hofstede (2013b), uncertainty avoidance which is expressed by the degree of uncomfortableness because of the unpredictable future. Hofstede (2013a) emphasizes that India is a country with a low uncertainty avoidance because Indians accept imperfections and are very patient.

Norden Machinery perceived a low uncertainty avoidance and is negatively affected by the slow reactions of the Indian employees as well as their customers (Johansson, 2013). Slipnaxos is also negatively affected by the low uncertainty avoidance as the Swedish employees need a lot of time to deal with the Indian’s negative time management (Jönsson, 2013). Håkansson Sågblad also perceived low uncertainty avoidance at the beginning of their production in India as the employees accepted imperfectness (Berggren, 2013). Hedin Lagan did not experience uncertainty avoidance from the agents but perceived a low uncertainty avoidance with their customers as their customers are very patient (Axelsson, 2013).

This shows us that all the managers made negative experiences with the low uncertainty avoidance. This is in line with Hofstede's research (2013a). The fact that all managers perceive the same characteristics underlines the unambiguousness of this topic. A low uncertainty avoidance may lead to extended processes which may be time consuming and costly for the company. Furthermore, it fosters uncertainty concerning deals and partners.
**Long Term Orientation vs. Short Term Orientation**

The fifth dimension of country culture is, according to Hofstede (2013b), long term orientation vs. short term orientation which reflects the time horizon for searching for virtue. Hofstede (2013a) points out that India is a long term orientated country which is expressed by the unimportance of time where unpunctuality, for example, is forgiven.

Norden Machinery perceives the Indians as short term orientated as the customers often wait too long to maintain their machines and the employees do not criticize (Johansson, 2013). Slipnaxos, Håkansson Sågblad and Hedin Lagan perceive Indians as long term orientated as they are often unpunctual and do not care about time (Jönsson, 2013; Berggren, 2013; Axelsson, 2013).

Only Norden Machinery’s perception about orientation horizon is in line with Hofstede. The short term orientation might be influenced by a lack of liquid assets of the customers; they do not maintain the machines which negatively affects the company due to a lower sales volume. The other company’s perceptions about the long term orientation might be caused due to negative experiences regarding punctuality. Especially business meetings are often delayed or customer meetings cancelled on short notice.

**Summary Perceived Country Cultural Influence**

<table>
<thead>
<tr>
<th></th>
<th>Power Distance</th>
<th>Collectivism vs. Individualism</th>
<th>Masculinity vs. Femininity</th>
<th>Uncertainty Avoidance</th>
<th>Long Term vs. Short Term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>high</td>
<td>individualism</td>
<td>masculinity</td>
<td>low</td>
<td>short</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>low</td>
<td>individualism</td>
<td>masculinity</td>
<td>low</td>
<td>long</td>
</tr>
<tr>
<td>Håkansson Sågblad AB</td>
<td>low</td>
<td>collectivism</td>
<td>masculinity</td>
<td>low</td>
<td>long</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>low</td>
<td>collectivism</td>
<td>masculinity</td>
<td>low</td>
<td>long</td>
</tr>
</tbody>
</table>

Table 3: Perceived Country Cultural Influence

**5.1.3 Religion**

**Awareness and Impact of Religious Beliefs**

An increase of religious groups among employees has been recorded. Employees might feel the need to express their beliefs differently during working hours leading to safety or productivity
austerities. Diversity programs or policies might be implemented in order to keep track of uncontrollable restrictions due to beliefs (Cash et al., 2000). Especially in India, a great importance of religious beliefs may be recorded, putting this institution higher than governmental rules (Dehejia and Dehejia, 1993). Consequently, the belongingness to a certain religious group may also influence one’s position in a company and has to be considered when hiring Indian employees (Pio, 2007). Religions might also create values and norms in a company leading to a specific management style that has to be accepted and which might not be in line with Western perceptions (Christopher, 2011).

Norden Machinery does not rate religious importance as high as, for example in Pakistan. Until today they have not had any difficulties or problems related to the religion of their agents (Johansson, 2013). Slipnaxos is aware of the religious beliefs of their agents; thus has never experienced any distractions by it during working hours. Since one of their agents retired and became a holy person, the importance of religion in India may be underlined for this case (Jönsson, 2013). Håkansson Sågblad’s employees in India are Hindus and arranged a praying table in the subsidiary. In this case it has to be noticed that the former agent employed all employees. The employees were known by him through family or sport. It has to be pointed out that all employees belong to one religion, Hinduism. It may be assumed that this is not a coincidence (Berggren, 2013). Hedin Lagan is not aware of the religious beliefs of their agents and has not experienced any difficulties with it (Axelsson, 2013).

Two of four Swedish sales managers are aware of the religious beliefs of their Indian employees but have never experienced any disputes with it. Two companies do not know the religious beliefs of their employees in India and it shows that disagreements related to religion have not been an issue for these companies so far. Only Håkansson Sågblad has invested in religious equipment and it might be questioned if the employees were chosen due to their religious affiliation and not their profession since they all belong to one religious group. Therefore, it is concluded that religion plays a role in India to some extent according to theory but did not cause any difficulties for the case companies. Consequently, control mechanism or diversity programs did not have to be implemented.
**Summary Perceived Religious Influence**

<table>
<thead>
<tr>
<th></th>
<th>Awareness of Religion</th>
<th>Impact of Religion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Håkansson Sågblad AB</td>
<td>yes</td>
<td>medium</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

Table 4: Perceived Religious Influence

**5.1.4 Linkage Specificity**

**Asset Specificity**

Asset Specificity concerns the degree of specificity for site, physical, human (Williamson, 1981) and time assets (Malone et al., 1987). Low specific assets are characterized by generally available information which does not need a high protection. Highly specific assets, on the other hand, require firm specific knowledge which needs to be protected from competitors (Williamson and Ouchi, 1981). According to Carney (1998), they should be internalized by the company since they require a long process of development and adjustments by the suppliers until they achieve the producers needs (Malone et al., 1987).

The machines of Norden Machinery are very specialized and unique as they are tailor made for their customers. The machines are technically advanced and need to be manufactured by skilled workforce. Also the sales and technical teams, which are based in India, need to be highly trained and knowledgeable about the machines as well as the end-users. The delivery of Norden Machinery’s products to India take in average about six weeks (Johansson, 2013). Specialized grinding wheels are sold to Slipnaxos customers, around 80 to 90 percent are tailor made and Slipnaxos needs standardized machines to adapt to customer’s needs. Workers for handling might be unskilled but technicians for the machines and lines need to be well educated and trained. Most goods are send to India by sea freight which needs six to eight weeks to arrive at the customer (Jönsson, 2013). Håkansson Sågblad uses standardized machines which need semi-skilled workers to handle them; meaning a two week employee training is adequate in order to understand the procedure. Workers do not need a university degree but rather some kind of apprenticeship. Blades are prepared in Sweden and sent half
fabricated to India, meaning products are semi-produced in Sweden and finalized in India. No purchasing has to be carried out in India since products are shipped semi-produced to the country and finalized in India. The products need around two weeks to reach the customers by railway from the Indian subsidiary (Berggren, 2013). The machines of Hedin Lagan are standardized in order to produce partly customized products for their customers. Especially the engineering part is the specialty of Hedin Lagan and this makes them unique. Therefore, processes could never be completely externalized because the company relies on their Swedish engineers. The line workers, on the other hand, do not need to be as skilled. Resources are procured from Sweden and the final products are exported to India within four to six weeks by ship freight (Axelsson, 2013).

Only Norden Machinery utilized highly specialized machines which require skilled workforce; while the other three companies manufacture their goods with standardized machines utilizing unskilled workers. The technicians of Håkansson Sågblad and the engineers of Hedin Lagan need to be skilled to some extent. All companies procure their resources in Sweden and the delivery time needs in average six weeks until the product reaches the customer in India; only Håkansson Sågblad has a shorter distribution time. According to theory, Norden Machinery should internalize their production in order to ensure protection from competitors while the other three companies do not acquire a high degree of protection and could externalize parts of their production as Håkansson Sågblad.

**Summary Perceived Asset Specificity**

<table>
<thead>
<tr>
<th>Company</th>
<th>Machines</th>
<th>Employees</th>
<th>Resources</th>
<th>Time to Customer</th>
<th>Asset Specificity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>specialized</td>
<td>skilled</td>
<td>Sweden</td>
<td>6 weeks</td>
<td>high</td>
</tr>
<tr>
<td>Stopnaxos AB</td>
<td>standardized</td>
<td>unskilled</td>
<td>Sweden</td>
<td>6-8 weeks</td>
<td>low</td>
</tr>
<tr>
<td>Håkansson Sågblad AB</td>
<td>standardized</td>
<td>unskilled</td>
<td>Sweden</td>
<td>2 weeks</td>
<td>low</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>standardized</td>
<td>unskilled</td>
<td>Sweden</td>
<td>4-6 weeks</td>
<td>low</td>
</tr>
</tbody>
</table>

Table 5: Perceived Asset Specificity
Behavioral Uncertainty

Behavioral uncertainty is the inability to predict the future and it affects business negatively through opportunistic behavior of employees (Williamson, 1985). It can be decreased by implementing control mechanisms which are costly (Anderson and Gatignon, 1986).

Norden Machinery experiences a high behavioral uncertainty as they perceive opportunistic behavior of several stakeholders. Control mechanisms are not implemented as they see this kind of behavior as part of the Indian culture which they want to accept and because they are afraid of losing customers when controlling the agents. Nevertheless, the agents receive a commission which is seen as a method to control them (Johansson, 2013). Slipnaxos did not experience opportunistic behavior from their customers yet but they had long discussions about the commission for the agents. The company can control the behavior of them only through the commission they receive (Jönsson, 2013). Håkansson Sågblad did not perceive any kind of opportunistic behavior so far and also does not have any kind of control mechanisms (Berggren, 2013). Hedin Lagan also did not perceive any opportunistic behavior but is able to control the agents via the commission.

Norden Machinery is the only company with a high level of opportunistic behavior, even though the company has implemented high control mechanisms; this leads to a high level of uncertainty. The other two exporting companies have a low level of opportunistic behavior and control their agents, as Norden Machinery by commission payment and pre-defined processes. Only Håkansson Sågblad has a low behavioral uncertainty evolved by a low level of opportunistic behavior and control. This may be explained by a higher level of trust of the employees and especially the general manager with whom a long relationship has been fostered. The other companies only have an agent; this relationship may not be as close as the one Håkansson Sågblad has and therefore needs to be controlled. Norden Machinery’s high opportunistic behavior may be repatriated to the less successful control mechanisms. Control mechanisms should steer future employee behavior and lower behavioral uncertainty.
Summary Perceived Behavioral Uncertainty

<table>
<thead>
<tr>
<th></th>
<th>Opportunistic Behavior</th>
<th>Control Mechanisms</th>
<th>Behavioral Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>low</td>
<td>medium</td>
<td>medium</td>
</tr>
<tr>
<td>Häkansson Sägblad AB</td>
<td>low</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>low</td>
<td>high</td>
<td>medium</td>
</tr>
</tbody>
</table>

Table 6: Perceived Behavioral Uncertainty

Summary Perceived Linkage Specificity

<table>
<thead>
<tr>
<th></th>
<th>Asset Specificity</th>
<th>Behavioral Uncertainty</th>
<th>Linkage Specificity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>low</td>
<td>medium</td>
<td>medium</td>
</tr>
<tr>
<td>Häkansson Sägblad AB</td>
<td>low</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>low</td>
<td>medium</td>
<td>medium</td>
</tr>
</tbody>
</table>

Table 7: Perceived Linkage Specificity

5.1.5 Transaction Costs

Information Costs

Information costs are costs related to the collecting, exchanging and protecting of information which is done with several stakeholders and can cause difficulties. The information is important in order to make contracts (Holtbrügge and Welge, 2010). Getting new information which is related to spending money is important in order to have information for the bargaining process (Malatesta, 2012).

Norden Machinery perceives difficulties in collecting relevant information for the Indian market. They spend money by going to trade fairs in order to get information. They do not get any external help and try to get all information on their own. In comparison to the high costs of getting information, the costs for the information exchange in India are seen as low.
Furthermore, the company spends money in order to protect confidential information (Johansson, 2013). Slipnaxos gets basically all information related to India from their agents. In addition, the company works together with customers in Europe who provide them with information in India. Trade fairs are seen as expensive but are visited (Jönsson, 2013). Håkansson Sågblad perceives information costs as low because they only feel the need to visit their factory in India twice a year to keep track of the sales. Furthermore the visit of the trade fairs is seen as cheap as the costs for it are very low in India (Berggren, 2013). Hedin Lagan also visits trade fairs (only in Europe) and tries to get as much information from their agent as possible because they do not feel knowledgeable enough to get the information themselves.

This shows us that costs for information are perceived differently from the case companies in the Indian market due to the fact that the company’s willingness to get information, the effort they put in and the own contribution is very dissimilar. The companies which put a lot of effort in dealing with information perceived high costs while the companies which have a lower involvement in information getting have lower costs.

**Bargaining Costs**

Bargaining costs may be defined as all costs associated with determining a mutual agreement (Alt and Shepsle, 1990). Costs may evolve for setting up contracts as preparation, negotiating and writing an agreement occur and also influence the ongoing transaction costs as enforcement costs (Dyer, 1997).

Norden Machinery gathers information for bargaining processes in Sweden as well as in India. They face the problem that they often do not understand what the other party expects while bargaining leads to a feeling of not being prepared. Bribes and corruption are common in the bargaining process with the Indians. Setting up contracts is also a complicated process in India since they do not want to accept the standard agreement which is provided by Norden Machinery. To fight an agreement might extent the negotiations. Contracts are often renegotiated with established contract partners (Johansson, 2013). Especially the bargaining with the government is shaped by difficulties, since tenders are invited which the local agent attendants, while a Swedish responsible follows on the phone. Good dialogue is needed with companies because Indians usually try to reduce the price. Contracts are set up by payment in advance, meaning that the order is shipped when the product has been paid. Furthermore, bargaining is an ongoing process and needs to be adapted to changes in new developments and
demands. Bargaining is a long process nowadays and is performed in several steps. Corruption may be reduced and a fair company established due to a committee decision. If customers are established, they would order regularly and the process becomes similar to European bargaining (Jönsson, 2013). Bargaining at Håkansson Sågblad is carried out by the regional sales manager who concludes the contracts with the customers based on Indian laws. It might take up to one year until a contract is made due to ongoing re-negotiations. Payment in advance is not an alternative since the customers would change to the competitors which offer products before payment (Berggren, 2013). Hedin Lagan had to cope with long bargaining processes, partly up to one year for a single deal, when they still exported their products without any agents. They always felt insecure by bargaining in India as they did not know how to shorten the bargaining process. Nowadays the agents are responsible for all kinds of bargaining with the customer. The agents are only provided with a standard agreement from Hedin Lagan and do not get more support by the company. They are responsible for adjusting the contracts as well as for resolving disputes. Contract partners are not often changed (Axelsson, 2013).

The case companies perceive the Indian bargaining process as highly complicated and time consuming which is probably why Håkansson Sågblad as well as Hedin Lagan completely excluded their Indian headquarters from this process and entrusted the information seeking to their Indian employees. Slipnaxos needs to be partly informed since Swedish representatives attend governmental tenders and Norden Machinery regularly collects information in both countries to have a say. Only Norden Machinery is highly involved in the bargaining process with their Indian customers and never feels prepared for it since surprises always occur especially related to bribery and corruption. Slipnaxos feels prepared when being able to establish a dialogue with its contracting partners. Hedin Lagan felt so unprepared that the bargaining process became a major task of the agents. Norden Machinery, Slipnaxos and Hedin Lagan provide their Indian employees with agreements for the customers while only Håkansson Sågblad’s Indian employee sets up contracts based on Indian law. All companies are aware of their regular customers with which re-negotiations are constantly made. Either new customers are added but contract partners are not often changed. Resolution dispute is considered as normal by the companies until an agreement is met; nevertheless court disputes never occurred. Only Norden Machinery is completely and Slipnaxos is partly involved in the bargaining process which contributes to higher costs, while the other two companies externalized this process which lowered their costs.
Enforcement Costs

Enforcement costs occur when companies solve unsatisfied outcomes of contracts. This often happens when contracts are incomplete or unfair (Klein, 1980).

Norden Machinery faces difficulties regarding incomplete and unfair contracts in India but enforcement is only done with smaller companies. Furthermore, the company tries to only deliver after payment. Therefore, only smaller amounts of money need to be enforced (Johansson, 2013). Slipnaxos did not have to enforce a contract as they did not experience any unfair or incomplete contracts yet (Jönsson, 2013). Håkansson Sågblad has problems with incomplete contracts as their customers try to interpret them differently which cause costs for the company. Further, costs evolve as the enforcement time is very long (Berggren, 2013). Hedin Lagan did not experience any enforcement in India yet but they are aware of the difficulties as they rejected unsecure customer orders.

Slipnaxos and Hedin Lagan perceive the enforcement costs as medium while Håkansson Sågblad perceives them as low and Norden Machinery as high. Norden Machinery’s high enforcement costs are related to IPR needed by the company and low trust resulting in addressing Swedish lawyers instead of Indian lawyers. The other companies perceive enforcement costs as lower due to more trust in partners and the country. Further dissimilarities concerning enforcement costs are explained by differences in contracts and whether own or customer contracts are used. Furthermore, a payment in advance has a positive influence on the perception of enforcement costs. A negative influence on enforcement costs has the effect of losing big customers.

Summary Perceived Transaction Costs

<table>
<thead>
<tr>
<th>Company</th>
<th>Information Costs</th>
<th>Bargaining Costs</th>
<th>Enforcement Costs</th>
<th>Transaction Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Slipnaxos AB</td>
<td>high</td>
<td>medium</td>
<td>medium</td>
<td>medium</td>
</tr>
<tr>
<td>Håkansson Sågblad AB</td>
<td>low</td>
<td>low</td>
<td>medium</td>
<td>low</td>
</tr>
<tr>
<td>Hedin Lagan AB</td>
<td>medium</td>
<td>low</td>
<td>medium</td>
<td>medium</td>
</tr>
</tbody>
</table>

Table 8: Perceived Transaction Costs
5.2 Impact of Institutions on Transaction Costs

The “Managerial Perceptions of Transaction Cost Theory Model” states that there is a relationship between institutions, degree of linkage specificity and transaction costs. Institutions indirectly influence the transaction costs via the degree of linkage specificity and determine the transaction costs. In order to explain the author’s results of the different levels of transaction costs of the case companies; certain patterns of the named institutions will be evaluated.

The perceptions about governmental regulations, corruption and bureaucracy affect all case companies negatively and therefore raise their transaction costs. Since the same results were recorded for all companies they are valued commonly. The perceptions about governmental projects did not have any impact on the company’s transaction costs. The business environment, however, is perceived positively by Håkansson Sågblad and negatively by the other three companies which might be repatriated to the way shorter distribution time of their products and a lower level of opportunistic behavior. This aspect lowers the transaction costs for Håkansson Sågblad while it raises costs for the remaining companies.

Indian’s masculinity as well as low uncertainty avoidance are commonly perceived by all companies and raise transaction costs due to the need of the companies to be informed and prepared to control risky behavior of Indian employees. A low uncertainty avoidance might increase costs because of the time demanding processes. Slipnaxos, Håkansson Sågblad and Hedin Lagan perceive a low power distance in India while Norden Machinery perceives it as high. A high power distance may raise transaction costs due to the need of clear directions by Norden Machinery’s Swedish responsible. This can be explained by a high asset specificity due to the usage of specialized machines by Norden Machinery which are more complicated to understand in comparison to the standardized machines as the other companies have. An individualistic mindset is perceived by Norden Machinery and Slipnaxos in India. These companies do not consider their agents as loyal and need to implement control mechanisms which foster high transaction costs. This is also reflected in the linkage specificity, the degree of behavioral uncertainty by both companies; while Norden Machinery has a high level of behavioral uncertainty and Slipnaxos a medium degree; therefore, this attribute has a higher impact on the level of transaction costs on Norden Machinery than on Slipnaxos. Håkansson Sågblad and Hedin Lagan perceive a collectivist mindset and can fully trust their Indian
employees. This lowers their transaction cost level and is also reflected in the degree of behavioral uncertainty; whereas Hedin Lagan’s transaction costs are perceived slightly higher due to the implemented control mechanisms. Only Norden Machinery perceives the Indians as short term oriented which causes transaction costs due to no foresight of their customers. This can be explained due to the high specialized products which are not maintained enough by their customers which increase the transaction costs in terms of information costs. In comparison to that, the other case companies perceive the Indians as long term orientated. These companies have standardized machines or products which might be repaired by the customers itself. The Swedish companies do not need to be necessarily contacted for spare parts and have, therefore, lower transaction costs in terms of information.

Only two of the four companies have knowledge about the religious beliefs of their Indian employees. Slipnaxos is aware of it but does not perceive any difficulties while Håkansson Sägblad perceives a direct impact on their business. Especially employees of the same religion lower transaction costs due to fewer disputes about different religions and therefore less control mechanisms and no diversity programs. This is also reflected in the behavioral uncertainty of the company which is perceived as low.

5.3 Impact of Transaction Costs on Entry Mode
The “Managerial Perceptions of Transaction Cost Theory Model” also states that there is a relationship between transaction costs and entry mode choices. The transaction costs directly influence the mode with which a company enters a new foreign market. In order to explain the entry mode choice of the case companies; certain patterns of the before evaluated transaction costs (Table 8) will be examined.

**High Transaction Costs: Norden Machinery**
Equity modes of entry need a high commitment in the foreign location (Anderson and Gatignon, 1986). Norden machinery has a low resource commitment in the Indian market. The company states that they did not consider transaction costs when deciding their entry mode. Nevertheless, they say that a major reason for exporting is the weak IPR in India (Johansson, 2013). This shows us that the company is afraid of increasing commitment because enforcement costs will rise in case competitors steal their intellectual property in India when doing an entry mode with a higher commitment since the company offers highly specialized
products. Even though the transaction costs are already perceived as high, the company would face even higher transaction costs when entering the Indian market with an equity mode. Another reason for using a non-equity mode is that the agent is knowledgeable and Norden Machinery would face higher transaction costs when operating without the agent. The knowledge and contacts of the agent would get lost and the information could be taken by the agent and used for competitors.

**Medium Transaction Costs: Slipnaxos and Hedin Lagan**

When exporting indirectly to a foreign market, intermediaries are helping to sell their services or products (Peng and York, 2001). According to Peng and Ilinitsch (1998), intermediaries are beneficial for SMEs with a lack of resources and foreign market knowledge since these companies usually follow a risky as well as uncertain path to establish abroad (Peng and Ilinitsch, 1998). Hedin Lagan faces the problem of a lack of knowledge about the Indian market. This lack of knowledge created high transaction costs especially regarding the bargaining process for the company. Because of this the company hired agents to deal with the bargaining process (Axelsson, 2013). This shows us that the company would face high costs for gathering information for the bargaining process as they are completely unknowledgeable. Therefore, the company decided their entry mode due to the high perceived bargaining costs in case of other market entry modes.

Slipnaxos has worked with its Indian intermediaries since entering the foreign market. Transaction costs were not considered within this choice. The result of perceived medium transaction costs underlines the decision of exporting with an intermediary. Furthermore, the company is dependent on the knowledge of the intermediary (Jönsson, 2013). The company has high information costs but is able to keep bargaining and enforcement costs on a medium level. Enforcement costs would rise if business is carried out without the intermediary because they do not have any knowledge about it so far as the agent is taking care of these issues. Bargaining costs would also increase as the company has only experience with governmental tenders and not the regular customer bargaining process.

**Low Transaction Costs: Håkansson Sågblad**

A full ownership entry mode implies a Greenfield investment in which a new plant is set up or an acquisition, meaning the purchase of a local company (Kogut, 1991). A Greenfield investment is time intensive but may be in line with the development of the operation.
Advantages are the decision of a beneficial location while profits and control are directed by the mother company (Cavusgil et al., 2002). The company states that they did not consider transaction costs but rather the market potential when entering the Indian market. They first started operations in India by exporting with support of an agent (Berggren, 2013). Even though transaction costs were not considered by the company, they perceive low transaction costs compared to the exporting companies. Advantages are closely linked to the choice of the location and the control of the mother company, whereas it saves a lot of transaction costs due to the close relationship to the long known agent and now general manager, who decreases the information costs due to a lot of professional and country specific knowledge. In this case, transaction costs are perceived lower compared to non-equity modes of entry due to closeness to the market.
6 Conclusions

The final chapter of the thesis answers the main research question, addresses implications for managers, limitations of the study and future research ideas.

SMEs have been neglected in research related to the third wave of internationalization (Coviello and McAuley, 1999) but are frequent actors in the globalization process (Sandberg, 2012). India is one of the main countries in focus due to its high population and substantial market potential (Jansson, 2007a). When entering India, the appropriate entry mode is essential for a company’s future success in that market (Lu and Beamish, 2001). Transaction costs are highly related to the entry mode (Hennart, 1991) and will gain value by adding institutional aspects (Kogut and Singh, 1988). This area of research has been, till date, tested by quantitative research and focused on MNC’s. This study, however, thematizes a qualitative research strategy and integrates managerial perceptions related to the before named discussion. Therefore, the main research question of this thesis is: How do managerial perceptions about the influences of institutions on transaction costs impact the entry mode decision of Swedish SMEs in India?

Only one company perceives a helpful business environment in India, while the three remaining companies perceive this as negative. The government gains advantages due to equity modes of entry which leads to a more supportive business environment for this entry mode compared to non-equity modes of entry. The regulations of the Indian government are from all companies perceived as complicated and inscrutable. Companies with an equity mode of entry have the knowledge of where to get support while the non equity mode companies perceive a higher uncertainty due to the changeover of the Indian government from a protectionist to a liberal economy. A high level of corruption and bureaucracy impact all companies and make processes less transparent. It is perceived as an obstacle in the daily business routine in the Indian market. No managers perceived any kind of influence from governmental projects due to the fact that there are only a few projects which are more aimed at marketing the country and the government than projects which really change the business situation. Furthermore, the authors see that projects would rather influence equity than non equity modes because of the higher commitment as more employment of locals.

The high power distance is dissimilar perceived by the different companies. It may be concluded that this aspect decreases as soon as a company implements control mechanisms.
The Indian mindset is perceived different as two companies perceive it as collectivistic which is explained by the high commitment of the employees to the company. The other two companies perceive it as individualistic which is explained by the stricter policy of the company’s contact to the agents. All companies perceive masculinity of the Indians while only two companies perceive problems due to the longer time in the market; these companies were able to feel the consequences of risky decisions of their agents. Clear results are found regarding the low uncertainty avoidance of the Indians. This behavior is time consuming and therefore costly. Short term orientation is stated by one company due to less maintenance of machines, while the other three companies perceive short term orientation since meetings are often cancelled and delayed. Therefore, perceives a short term orientation instead of a long term orientation since it has a major impact on the company’s turnover.

Only one company had to invest in religious equipment for their employees and was therefore affected at a medium level. While only them and another company are aware of the religious beliefs of their employees. The other two companies have never been impacted and therefore did not experience any difficulties. Control mechanisms and diversity programs do not play a role in any of the companies. This might be repatriated to the fact that this company has a high market commitment in India and close relationship to its employees. Therefore, there is only a minimal influence of religion on transaction costs.

Only one company has a high asset specificity and should internalize its processes due to protection from competitors; while the other companies mainly have a low asset specificity and may also externalize because of standardized products. Behavioral uncertainties are perceived as high from one company while the other companies perceive a low level which is mainly caused by the effectivity of the control mechanisms. The lowest uncertainty is perceived by one company which is caused by the FDI that ensures the closeness to the employees.

Information costs are perceived as high from two companies while another perceives them as low and one as medium. Companies involved in information gaining perceive higher information costs than companies which do not show a self initiative of getting informed. This underlines that the manager’s perceptions are different from the “real world” as higher involvement in the information getting process should logically decrease the costs for it. Two companies perceive the costs for bargaining as low while one perceives it as medium due to less participation in this process. Another one perceives these costs as high because of the high
involvement in the bargaining process. Enforcement costs are perceived as medium from three companies while one company perceives it as high. This is caused due to different kinds of contracts and also due to the size of the customers as enforcing of contracts of important customers cause further difficulties. Further, trust in partners and countries matter.

**Impact of Institutions on Transaction Costs**

The degree of transaction costs is influenced, via the linkage specificity, by the institutions as government, country culture and religion. Our results show that the government and country culture influence the transaction costs via the degree of linkage specificity positively and negatively. Religion, on the other hand, has no impact for companies with a non-equity mode of entry and barely impact for companies with an equity mode of entry, on the transaction costs via the linkage specificity. Companies with a high degree of linkage specificity have high transaction costs and vice versa.

**Impact of Transaction Costs on Entry Mode**

All in all, the results shows that only two of the four companies considered the high perceived transaction costs when deciding for an entry mode. One company had its IPR protection and therefore the high perceived enforcement costs in mind when deciding for an export strategy whilst the other wanted to reduce the high bargaining costs. The remaining two companies did not consider the degree of transaction costs when making their entry decision for the Indian market.
Managerial and Theoretical Implication

Managers may profit from this thesis when considering the results and therefore making a more successful entry mode choice. As the result showed, managers are not always aware of the transaction costs for their own foreign operations. This is problematic as our results show that managers should consider transaction costs when making entry mode choices since they influence operations in the given country actively. Furthermore, it is important for managers to not neglect the influences of country specific institutions. Our study showed, that managers are not always aware of the linkage specificity (machines, employees, uncertainty) which influences the transaction costs and therefore the profit of the company.

This study provides additional support to scholars as the transaction costs theory helps to understand entry mode decisions of companies and proves that not only factors, as for example, analyzed in Dunning’s OLI framework are relevant. Furthermore, it is important to consider the extension of the transaction cost model regarding the linkage specificity when explaining the relationships regarding transaction costs and entry modes.
Limitations of own Research

This thesis provides valuable insights to the transaction costs and institutional theory and also contributes to practice. Nevertheless, there are several limitations.

As the results show, managers perceive the influences of institutions on transaction costs very differently. Due to the time restriction of the thesis only four case companies were analyzed. A higher number of case companies and a higher number of interviewed persons within the companies as, for example, the Indian managers or Indian agents would provide the thesis with a higher external validity.

A further limitation is the manager’s answers concerning sensitive questions as, for example, about bribery and corruption; the authors cannot ensure that answers are honest because admitting bribery and blame other stakeholder to do so would cause difficulties for the managers.

Furthermore, the thesis deals with the limitation that only the three institutions government, country culture and religion were analyzed. The integration of more institutions would have made the research broader and could have explained a higher share of managerial perceptions.

Another limitation is that the thesis is using the linkage specificity in order to combine institutions with transaction cost theory. The problem is that the asset specificity, especially the site specificity and the physical asset specificity, is mostly applicable for companies which actually produce goods. Therefore, this thesis only analyzed producing companies and did not examine service sector companies as, for example, the information technology sector which is highly relevant for the Indian market as a lot of European companies deal with this industry.

In addition, the thesis only focuses on Swedish SMEs and does not consider SMEs from other countries. Therefore, the authors could only determine the perceptions of Swedish managers which might be different, e.g. regarding religion as it is not a crucial topic in the Swedish society.

Future Research

The thesis shows how managers perceive the relationship between institutions and market entry mode decisions. But it only focuses on one market, a few institutions, linkages and entry
modes. Future research can be done with more institutions, linkages and considering case companies with different entry modes and further qualitative research.

The interviewed showed that companies decided their entry mode not only regarding transaction costs but also, for example, due to production costs. A more holistic picture about entry mode decisions may be possible when combining the research with other variables as Dunning's OLI framework.
Reference List

Oral Sources:


Written sources:


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Appendix

Questionnaire

*Overall Company Information*

Company Name: ____________________________________________________________

Name and Responsibility: ______________________________________________________

Production/Branche: __________________________________________________________

Location in Sweden: __________________________________________________________

Founded (year): _____________________________________________________________

Number of employees in Sweden: _____________________________________________

Number of employees in India: _______________________________________________

Year of entry to India: ________________________________________________________

Which initial and current entry mode (and entry mode changes):
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Which factors influenced your entry mode decision? ____________________________

Location in India: ___________________________________________________________
Interview Guide

Institutions
Government
1) Does the government provide an appropriate business environment (e.g. infrastructure, international linkages, tax incentives)?
2) How do governmental regulations restrict or help you (environmental protection, IPR, foreign ownership)?
3) How much are you affected by corruption? Is the government counterproductive in this issue?
4) How does the bureaucracy of the government impact your processes?
5) Are you affected by any kind of governmental projects, e.g. equal treatment and education of women?

Country Culture
6) What are the advantages/disadvantages related to India’s high power distance, e.g. clear directions and lack of criticism/feedback?
7) What are the advantages/disadvantages related to India’s collectivistic mind-set, e.g. loyalty of employees, need of employee protection?
8) What are the advantages/disadvantages related to India’s masculinity, e.g. venturesome, need for status symbols?
9) What are the advantages/disadvantages related to India’s uncertainty avoidance, e.g. patience, tolerance for unexpected?
10) What are the advantages/disadvantages related to India’s long term orientation, e.g. unpunctuality?

Religion
11) How is the desire of your Indian employees to express religious beliefs? How is it expressed in work life?
12) Do you perceive any problems regarding religious behaviors? If yes, which?
13) Do the religious beliefs of your employees directly impact a) other employees, b) employee safety, c) productivity?
14) Did you have to implement any diversity programs to establish religious tolerance among your employees?
15) Do you have the need to implement policies to control the religious behavior of your employees?

Linkage Specificity
Asset Specificity
16) Why do you need specified or standardized machines?
17) In which areas are skilled and unskilled workers?
18) Which resources are procured where?
19) In average how long does your product need to reach your customer? Why is the delivery fast/slow?

Behavioral Uncertainty
20) Have you experienced any kind of opportunistic behavior? If yes in which way?
21) How do you control different forms of opportunistic behavior?

Transaction Costs
Information Costs
22) How/with whom did you collect/exchange market information (e.g. customer demand, competitors, partners, etc.)?
23) Did you experience any difficulties in collecting market information?
24) Who helped you in gathering and interpreting market information?
25) How do you protect your information?

Bargaining Costs
26) Did you gather all relevant information for your bargaining process yourself or did you have help?
27) Do you feel well prepared for bargaining in India with the information you have?
28) How did you set up your contracts (preparation, negotiation, writing an agreement)?
29) Is the bargaining an ongoing process? (Regular adjustments to new developments?)
30) Do you have a long bargaining process concerning resolution dispute?
31) How often do you change your contract partners?

Enforcement Costs
32) How often and how do you deal with incomplete or unfair contracts?
33) From whom do you get support by enforcing your contracts?
34) How long is the average enforcement time (meaning the time it takes to solve a legal/court dispute) in India?
35) Did transaction costs influence your entry mode decision? If yes, how?
36) Do you have plans to change your entry mode choice? If yes, why?
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