The Influence of Liability of Foreignness on SMEs’ Strategies in China

Authors: Christian Ferini, International Business Strategy
        Tim Knittel, International Business Strategy

Tutor: Dr. Mikael Hilmersson
Examiner: Professor Bertil Hulten

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Christian Ferini
Tim Knittel
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Abstract

An increased globalization influenced small and medium sized enterprises’ (SMEs) operations towards distant and emerging markets. China, in particular, gained importance for many SMEs from mature markets due to its economic rise. The increased interactions in China revealed barriers which lead to higher operation costs and are later discussed in the form of liability of foreignness. To understand the influence of liability of foreignness on SMEs’ strategies in China is aimed by this research. Therefore, it is necessary to understand the development process of SMEs’ strategies according to Mintzberg (1978). Particularly when faced with a ‘distant market’ context, as operating effectively within a distant market requires a decision on how strategy will be deployed and influenced by the surrounding environment which is of higher unfamiliarity to the company.

This is studied through a qualitative case study of four Swedish SMEs operating in China since the 1990’s. Interviews with company representatives who are involved in the China operation and strategy are conducted, as well as secondary data information. The theoretical concepts of liability of foreignness and strategy are analyzed with the empirical data.

The conclusion reached from the analysis shows that the liabilities of foreignness arise from geographical distance, unfamiliarity with the market environment, and discrimination by the host government influence SMEs’ strategies the most in China. Based on the influences, responses of strategy toward these perceived liabilities of foreignness are understood. It is further understood that the realized strategy as either globalization, global integration, or local adaptation finally depends on the SMEs’ product characteristics and industry in which they operate.

Key words: SMEs, liability of foreignness, strategy, China, country of origin effects, glocalization
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Abbreviations

B2B- Business to Business

B2C- Business to Consumer

COA- Country of Association

COO – Country of Origin

FDI- Foreign Direct Investment

LEM- Large Emerging Market

LOF- Liability of Foreignness

MNC- Multinational Corporation

SIC- Standard Industrial Classification

SME- Small and Medium Sized Enterprise
1. Introduction

In this introductory part, the background of the thesis and its main concepts used are provided. In addition, the research problem is discussed and defined in order to formulate the research questions and the purpose of this thesis.

1.1 Background

The growth of emerging markets has affected a development in the content of multinational corporations’ (MNC) strategies towards a greater inclusion and consideration of these markets, which have become important markets for export and foreign direct investment (FDI) inflows (Arnold and Quelch, 1998; Jansson, 2007b). Emerging markets are based in countries that are still undergoing changes because of liberalization and privatization efforts. They are growing markets, with pre-market stage heritage (in the case of China centrally planned) that are undergoing a transformation towards the same market stage as mature Western economies (Jansson, 2007a). The importance of emerging markets has made companies from mature markets move to operate on a bigger scale in emerging markets (Jansson, 2007b).

Among these emerging markets, China has experienced the greatest trade and FDI (OECD, 2013; BBC, 2013). This has resulted in an increase of economic wealth, and an increase in the number of potential customers, which also makes it an attractive market for many small and medium sized enterprises (SME) from mature markets (EU SME Centre, 2013) seeking for new growth opportunities. Hence, the importance of strategic development towards China increased. Despite the growing importance, the strategies chosen and pursued by SMEs for the Chinese market remain less researched, particularly on how they are influenced.

Different definitions for SMEs exist. In order to be classified as SME according to the European Commission, a company needs to have less than 250 employees and either a turnover less than 50 million Euros or a balance sheet total less than 43 million Euros (European Commission, 2003).

SMEs operate in markets that may be distinguished by their degree of familiarity to the companies’ home markets. For SMEs from mature markets, other mature markets are generally perceived as contextually more similar than emerging markets such as China. This is a result of the market’s environment and customers, as well as regulations and culture being more similar to the SME’s home market. According to Hofstede’s (2013) cultural dimensions
which measure cultural commonalities and differences through five dimensions (power distance, individualism, masculinity, uncertainty avoidance, long-term orientation), the Chinese culture differs greatly by representing an opposite to the Swedish culture in all dimensions aside from the degree of uncertainty avoidance. The managerial approach differs as well between both cultures (Isaksson, 2009). With greater differences in a foreign market context, liability of foreignness which is described further in this background section, may challenge and influence SMEs’ strategies or necessitate to local adaptation. This approach may take into account the concept of glocalization described by Andersson and Svensson (2009) as a strategy when operating in the contextually different Chinese market.

1.1.1 Globalization

Globalization has experienced a significant increase since the mid-1980’s as a result of technological advancements, which has lowered the costs of being located in different countries. As a result of these advancements, economic feasibility of being located distantly has been favored as coordination, communication, and transportation costs have been reduced. Another factor which has spurred the globalization pattern is governmental regulations and institutional developments which are increasingly favoring the liberalization of trade and capital markets (Soubbotina, 2000).

Internationalization of companies and of FDI has been described to have occurred in three waves. The first wave occurred from the late 19th century to the 1960’s, where internationalization took place with MNCs between Europe and North America (Jansson, 2007b). The second wave of internationalization saw a movement of Western MNCs to East Asia, while simultaneously Japanese firms gained a foothold in the global market. The later stage of the second wave included South Korean companies becoming global. Today, the world economy is experiencing a third wave of internationalization from emerging country markets towards the mature markets of Europe and America. This third wave is particularly driven by firms from the large emerging markets (LEM) of China and India as these markets are expected to maintain a seven to eight percent growth for decades (Jansson, 2007b).

For companies to take advantage of globalization opportunities, strategies within a business context must be developed to provide a plan and direction (Oxford Dictionary, 2013) on how to overcome their liability of foreignness. This is done in order to remove those barriers hindering the company’s ability to maximize profits and survive (Zaheer, 1995).
1.1.2 Liability of Foreignness

The disadvantages faced by foreign companies in comparison to host country companies can generally describe the concept of liability of foreignness (LOF). LOF is defined as “all additional costs a firm operating in a market overseas incurs that a local firm would not incur” (Zaheer, 1995, pp.3). Since more companies are internationalizing and moving beyond the boundaries of their home markets, it is of greater relevance to an increasing number of companies. Such additional costs are incurred when the environmental context perceives the firm and its management as outsiders (Majocchi and Zucchella, 2003). Andersson and Svensson (2009) suggest that because of the way global markets have developed, most firms are re-thinking their global approach and aiming towards a local approach as the next phase of globalization to compete more effectively in a global context. One main development complementing this choice of direction, is the increasing number of SMEs which are globalizing (McDonald, Tüselmann and Wheeler, 2002), creating more intense competition on a global scale.

1.1.3 ‘Glocalization’

As a result of rapid increase of globalization involving entry into more distantly perceived markets with greater LOF, as well as increased levels of competition, companies have had to adjust their approach in order to achieve a competitive advantage through exploiting existing knowledge (Berchtold, Pircher and Stadler, 2010). This knowledge comes from the surrounding environments in which the firm is in contact with, and is built upon over time through taking into account the learning process which Mintzberg (1978) integrated into the definition of strategy as a plan. Global integration and local adaptation strategies are two described ways of making use of the learning process, entailing the development of both global and local strategies as a result of past and new knowledge (Berchtold, Pircher and Stadler, 2010).

Jansson (2007b) supports the need to both have a global strategy as well as a targeted local strategy for the individual market, as country markets are more global because of the third wave of internationalization, but with each market largely maintaining a distinct local character. The idea of glocalization has its roots in the Japanese concept of Dochakuka, which originally described the need to adapt farming methods to the local terrain (Martin and Woodside, 2008). What is suggested is that the farming methods are often the same and require the same steps and procedures, but because of the composition of the terrain, adaptations have to be made in order to gain the greatest crop yield in that environment. This
seemingly primitive and straightforward concept has received significant debate, as Zou and Cavusgil (2002) reject the need to adapt strategy, preferring a standardized global strategy for the benefits of efficiencies in global operations. They see a firm manipulating the local environment through the “manager’s ability to establish common needs among the customer segments worldwide” (Zou and Cavusgil, 2002, pp.54), rather than changing the firm’s internal context. Contrarily, Cayla and Peñaloza (2012) find that molding the external environment, particularly the perception of the firm by the foreign environment in which it operates is often an impossible task. This may result from a difference in values and their priorities, as well as cultural differences which often have historical ties and are not easily redirected. As a result maintaining the firm’s organizational identity is suggested through global strategy, whilst local adaptation is suggested as necessary for matching the internal and external environments and creating appeal in the foreign market. The concept of combining the strategies of global integration and local adaptation has been summarized as ‘glocal strategies’ by Andersson and Svensson (2009), with glocalization observed as an end strategy.

This concept of glocal strategies (Andersson and Svensson, 2009) is characterized by “acting and thinking glocally” (pp.33). It reflects the need to develop a global corporate strategy with local adaptations, thus ‘thinking globally’ and ‘acting locally’ in order to align with the local host country context and maximize performance. Glocalization strategies have been supported in practice by large multinationals. For example, the Volvo Group is “thinking globally” (Andersson and Svensson, 2009, pp.33) when synchronizing business activities across its regional operations through a common strategy. In addition to a common corporate strategy (see below), one can observe locally adapted business strategies, such as approach, brands, offerings, and prices for each region, while maintaining alignment (Högberg, 2012). This is described as “acting locally” by Andersson and Svensson (2009, pp.33).

A significant part of the overall strategy is the marketing strategy. Large differences in norms and values (Jansson, 2007b) between countries, cause a company to find a balance between a global marketing strategy aiming to standardize and synchronize the marketing activities in different markets, and a local adaptation to take into account the most appropriate marketing mix for the targeted market (Andersson and Svensson, 2009). The concept of ‘glocal marketing’ covers this by having a global marketing strategy for direction, while the operative and tactical marketing activities performed are adapted for the local environment with increased flexibility. Within the context of marketing at the local level, country of origin (COO; see below) and the link with local market psychology is an important targeting cue to
be considered given the differences in culture and environment between countries (Jaffe and Nebenzahl, 2006).

1.1.4 Strategy in Business Context

Above, glocalization was defined as a possible strategy to overcome LOF, or more generally to operate successfully in a contextually different market. Mintzberg (1978) suggests that strategy is more than a fixed plan, for the reason that it neglects the learning an organization undergoes with its strategy. In uncertain environments, an intended strategy is difficult to maintain control over and often plans change, as Mintzberg (2007) discovered through interviews showing a trend of only a limited number of companies either fully achieving their intended strategy or fully failing to achieve their intended strategy. The realized strategy which is ultimately the strategy that is achieved and executed can be observed by looking at the company’s past patterns ex-post (Mintzberg, 2007). The realized strategy is the result of learning and adaptations from the surrounding environment, which occur at some point after the intended strategy is outlined; the definition point being the beginning of the strategy’s lifecycle. Emergent strategies occur during the strategy life cycle by adapting the plan to a changing situation to which the organization must respond. The part of the intended strategy which becomes realized is called the deliberate strategy, while the part which is not realized is the unrealized strategy (Mintzberg 1978, 2007).

Grant (2010) describes strategy as having the final aim of creating shareholder value through achieving a competitive advantage which can be distinguished between a cost advantage and a differentiation advantage. Furthermore Porter (1987) distinguishes between corporate and business strategy, both of which may be affected by Minzberg’s model on the development process of strategy. Corporate strategy defines where the firm should compete in terms of industries and markets. The strategy which directs the goals of the individual industries or markets of a firm is described as business strategy. Business strategy dictates how a competitive advantage is to be achieved over rival competitors, and how to balance between cost and differentiation advantage.

1.2 Problem Discussion and Definition

Different paths for overcoming LOF exist. Some researchers argue for either global integration or local adaptation, whereas others recommend glocalization as a strategic choice (Zou and Cavusgil, 2002; Jansson, 2007b; Andersson and Svensson, 2009). Understanding how LOF influences SMEs’ strategies in China, as result, reveals which strategies are used by
SMEs to overcome perceived LOF. LOF has the potential to hinder the growth of a company and its success in contextually different markets. The reason for this is that it affects the ability of a firm to remain competitive, if the increase in cost for doing business cannot be contained. Strategy development for the local market is implied to account for and attempt to minimize the effects of country differences in values and norms (Jansson, 2007b), which contribute to overcome LOF. On the contrary, there is another school which states that adapting to the local environment is not necessary, but rather creating a change within the environment to match the company is more favorable for the purpose of efficiency (Zou and Cavusgil, 2002). The balance between trying to minimize liability of foreignness and cost efficiencies is attempted to be understood through the evolution of strategy within the strategy lifecycle model. This can be closely connected to the influence of LOF within the strategy life cycle.

As discussed in the background of this thesis, it can be noticed that large MNCs, such as Volvo, adapt their strategy to their different markets, tending towards a glocalization of strategy. For SMEs the strategic approach and its fluidity in its development process is less researched. Thus, how this is handled by SMEs could be different due to their more limited resources. The link to how SMEs have been influenced by LOF in China, and finally overcome LOF is important to understand as the way in which a company’s strategy evolves from being in emerging markets distant from their home markets is to be analyzed. As SMEs are often the driving forces for mature markets in Europe (European Commission, 2013) and in addition have the desire to grow through internationalization (Tillväxtverket, 2011b), understanding their strategy development in China uncovers how effective growth can be achieved. This is because the idea behind maximizing performance is closely linked to maximizing shareholder value, which Grant (2010) explains is the aim of strategy.

1.2.1 Research Questions

How does LOF influence SMEs’ strategies in China?

- How do SMEs perceive LOF in China?
- What strategic intentions do SMEs have for entering China?
- What strategies are realized by SMEs after entering China?

The above main research question serves as the driving question which aims to be answered within the thesis, though in order to be able to address it other questions must first be taken into account. For this reason, three sub-research questions have been formulated to provide the necessary supporting knowledge to answer the main research question. These sub-research
questions are directed towards reaching the main theme of LOF influencing strategy through incorporating the individual experiences of the case companies within an unfamiliar market context. The first sub-research question intends to understand how LOF is perceived by SMEs operating in China, and what the biggest burdens are for them. The reason for identifying these is to then understand how they will contribute to affecting the strategy of the SMEs as a response to overcome and manage LOF in China. The second sub-research question helps to understand what strategies were intended in the Chinese market. The intended strategy can be assumed to be influenced to a limited extent by LOF, because SMEs were most likely not aware of all LOFs prior to, or at the time of their entry, and respectively did not take all possibilities into account. In order to understand what strategies SMEs have deployed and realized in China, the third sub-research question is formulated. The third sub-question sets the analysis of the realized strategy at the time when the interviews were conducted. Finally, the main research question is answered by the comparison of the analyses to the three sub-research questions. By combining the external influences of LOF, an understanding of the development of the initial intended strategies is achieved. Moreover, this influence by LOF on strategy is countered by realized strategies which the company develops as a counter response to manage LOF while maximizing the benefit of positive COO effects and from its competitive advantage.

The term ‘comparison’ is the appropriate term for the final analysis to answer the main research question. This is because the comparison of answering the question “What strategic intentions do SMEs have for entering China?” and “What strategies are realized by SMEs after entering China?” allows for an understanding of what strategies emerged and which were unrealized due to the influence of LOF.

1.2.2 Purpose

This thesis has the aim to understand the international business strategy evolution and the extent to which it is influenced by LOF. In particular the strategy development process in China that helps to overcome LOF for SMEs is of special interest.
1.4 Thesis Outline

The thesis has six chapters and an appendix. The outline of the thesis is presented below.

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2. Methodology

In this chapter the methodology used for conducting the research and writing the thesis is described and discussed.

2.1 Research Method and Approach

There are two main methods for conducting research, being qualitative and quantitative. Those methods may have an inductive, deductive or abductive approach (Alvesson and Sköldberg, 2009).

The quantitative research approach refers to research techniques with a mainly statistical background, where it seeks to quantify data numerically through 'how many' and 'how much' questions. Quantitative research concentrates on numerical data and is best addressed by surveys (Yin, 2003). On the other hand qualitative research focuses on the 'how' and 'why' questions through case studies or histories (Yin, 2003) which have an unstructured and predominantly exploratory design based on a smaller sample (Malhotra and Birks, 2007). In social science qualitative research is common as information shared is often sensitive and quantitative research may have greater difficulties in exploring and understanding this. As a result intense interviews with a small sample are typically utilized and then compared to existing theory. A small sample might be a weakness as it is not broad enough and generalizing might be not possible (Carey, 2009).

With the purpose of this thesis being explanatory and descriptive as is noted below because of the form of the research question, the qualitative research approach seems suitable as it enables qualitative techniques, such as intense interviews that provide a clearer understanding of the strategic decisions made. This would be more challenging when doing quantitative research as interviews within the qualitative research offer the possibility of gaining more insights.

Once decided on qualitative research, the three approaches to conduct this research need to be considered. The inductive approach to qualitative research, results in the creation of theory after the collection of empirical data, and an analysis of the findings. On the contrary, the deductive approach develops new propositions from existing theory, and is able to test them in the real world. A common result in research is the need to proceed using both approaches through a revision process of returning to the theory as a basis for the research as data is collected. This combination of induction and deduction is described as abduction through the
systematic combining approach, where there is a continuous movement between empirical evidence and the theoretical framework which needs to be re-approached as a result of findings. Abduction helps researchers to expand their understanding of both empirical data and theoretical framework, which increases the validity of the research. The matching process within systematic combining is when theory and reality are compared, to find the most appropriate theory to apply to the empirical evidence. This is more relevant when the findings are different and fail to match with the expected theory, thus new theories need to be adopted (Dubois and Gadde, 2002).

The qualitative research is approached through abduction, as it initially began through the deductive approach but the contribution of the inductive approach was necessary in the process. The reason for this is the constant process of theory revision and data collection approach revision as a result of one another. As the theoretical framework was developed, empirical data collected from secondary sources required a revision of of the theory upon which the study would be based on, in order to have a better matching for greater validity of the research. As a result of the initial matching, further matching had to be conducted as a greater understanding of theory and empirical evidence was achieved to align theory and reality. Moreover, as the data collection interviews were being conducted and cases assembled, the theoretical base for the research had to be further adapted to match the responses and data collected. An example is the modification of the segmentation section. Before conducting the interviews the segmentation section in the theory part was relatively broad to get an understanding of segmentation theory for different types of companies, since the four case companies were known to differ from each other even if they possessed the commonality of all being SMEs. After conducting the interviews it was realized that all companies perform segmentation in China, though through different means. This is mainly due to the companies’ limited size and product characteristics, and less because of their innovativeness or other company characteristics. Therefore, theory describing how innovative companies segment within segmentation theory was removed from the thesis. Thus justifying the abductive approach because of the process of using a combination of the inductive approach, building from empirical evidence, as well as the deductive approach with a base in existing theory. The abductive approach was also used to return to the research questions upon completion of the evidence collection to increase the ability of the collected evidence to answer the research questions fully.
2.2 Research Strategy

There are several research strategies which may be used to answer research questions, but their efficacy varies depending on the 1) form of research question, 2) the requirement of control of behavioral events, 3) and finally the degree of focus on contemporary versus historical events (Yin, 2009).

A research question is composed of substance and form (Yin, 2003). Substance is what the study will be about, and thus the main topic of research. With regards to the form of research question, experiments, histories, and case studies are better adapted to answer 'how' and 'why' explanatory research questions. On the other hand exploratory questions asking 'what', 'who', 'where', 'how much' and 'how many' are better suited to be answered by the survey or archival analysis research methods when the research goal is to be predictive about certain outcomes or to describe the prevalence of a phenomenon or incidence (Yin, 2009). Yin (2012) adds that case studies are further suited to answer descriptive questions in the 'what' form, looking at “what is happening or has happened” (pp. 5).

The aim of this thesis is to answer the research question with a 'how' perspective on SMEs strategies are influenced by LOF in China. The result is an explanatory research question. A 'what' research sub-question with a descriptive nature is also present as the actions which were being performed by the individual cases had to be accounted for to understand the study and develop to answering the main research question. The use of 'what' research questions contrasts to Yin’s view in 2009 towards questions which case studies can be effective to answer. But more recently in 2012, Yin has accommodated and justified this with the introduction of the 'what' question for specific situations. Whereas the exploratory 'what' research question directs the research towards a precise outcome, the descriptive 'what' research question looks at a combination of series of events to describe what has happened. The latter has been the approach considered.

When looking at the requirement of control for behavioral events, the experiment method requires a control of behavioral events because the conductor of the experiment has the ability to influence behavior, whether directly, precisely, or systematically. On the contrary, the methods of survey, archival analysis, history, and case study all examine a situation where the degree of the investigator's possibility to influence and control actual behavioral events varies, but is much lower than with experiments. History is the method with the least possibility to influence behavior, and can be regarded as having significant overlap with case
studies. Where history has the ability to only look at so called ‘dead’ pasts, using primary and secondary documents, as well as cultural and physical artifacts, case studies examine contemporary events which add the sources of evidence of interviews and observations. This allows for an understanding of complex social phenomena of real-life events, which may in the business field include behavior, organizational processes, and managerial processes. Experiments and surveys also focus on contemporary events while an archival analysis may look at either point in time (Yin, 2009).

The essence of a case attempts to understand complex presumed causal links in real-life situations where other lesser complex and approaches of surveys or experiments with a lower explanatory ability cannot be used. Case studies are useful to explain, describe, illustrate, and enlighten those situations of a real-life context where there is no single clear outcome (Yin, 2009). This is because case study research assumes that the context and external conditions are related to an understanding of the cases (Yin, 2012).

Through the intensive study of a case, a reflection on a larger set of cases is the purpose of the study, with greater applicability beyond the single case (Gerring, 2007). A case study may take on the two dimensions for observing a case either through a diachronic or synchronic construct. This, respectively, is the observation of a case over time or an observation of a change within the case at a single point in time (Gerring, 2007).

In this thesis the case study method is used as real-life events are examined of organizational behavior, and organizational and managerial processes in terms of strategy in a business context. As the context, in terms of industry, company characteristics, and country context are unique to each case. It is necessary understanding the case and performing an analysis, a case study method is appropriate as it is able to consider these. The case study is the ideal method to answer the explanatory research question of ‘how’, posed by this thesis. Yin (2009) goes further to describe that case studies are favored methods for questions dealing with “operational links needing to be traced over time” (Yin, 2009, pp.9) rather than instances. This is the time frame in focus for this thesis, looking at the development of strategy since entering China. The diachronic domain is used within this case study, with the company’s strategy evolution being observed over time and for its changes as a result of stimuli which change or appear over time, such as the perceived LOF.
2.3 Case Study Design

The case study approach has not always been seen as a proper scientific method, because it offers lower degrees of objectivity, precision, and rigor with respect to other available methods (Yin, 2003). A recent view against this is that findings are unstable and are dependent on the time period and context in which the case research is done (Yin, 2009).

The case study design serves the purpose of creating a design for the research which acts as a blueprint for the connection between the empirical data collected, the research question, and the conclusions (Yin, 2009). This blueprint serves as a guide to implement the research project. According to Yin (2009) every research study has a design, either implicit or explicit, to be used as the framework for a paper or research project.

A case study is a method which attempts to explain a contemporary phenomenon within a particular contextual condition, through following specific procedural components of logic of design, data collection techniques, and data analysis (Yin, 2009). It can be considered as a strategy as it is the plan to reach the aim of the thesis. This plan for the study has the following components: 1) question 2) propositions 3) units of analysis 4) logic linking data to the propositions 5) criteria for interpreting the findings (Yin, 2009).

Case studies may be single or multiple case studies, and then may subsequently be on a holistic or embedded level (Yin, 2009). Multiple case studies are used when a phenomenon is investigated by a number of cases being studied jointly through a replicated approach with the aim of representing a population of cases through generalizability (Yin, 2009). The multiple case study design is not significantly different from the single case study design, according to Yin (2009), though with some differences in terms of advantages and disadvantages. Multiple case studies are more convincing as they provide greater support to the research question than single case studies, though a downside to accumulating more evidence is the amount of resources needed. Differences also arise in design where replication of the findings is attempted through either direct replications where cases are selected to predict similar results, or theoretical replications (Yin, 2009). Through theory testing the study is more robust towards the ability to generalize the findings to other cases (Yin, 2009).

A case study based on a single case has the disadvantage of not being able to be broad enough to create a generalization (Yin, 2003) which limits the ability to infer a “larger whole from a smaller part” (Gerring, 2007, pp. 187). Regardless, the case study approach is essential in
understanding complex social phenomena, thus the solution is to perform multiple case studies as a way to overcome this limitation (Yin, 2003).

A case study allows for the research question to be answered in relation to the current context and environment. Though this is considered a limitation, it can be double sided as it allows both the internal and external conditions to the firm to be considered. This is relevant to this study as it also allows for the firm’s strategic evolution to be compared over time while understanding factors influencing change which may be attributed to the context and environment. To avoid the generalization limitation, a multiple case study approach will be carried out. By using more than a single case, a greater pool of evidence is provided which can be utilized to support the topics of research surrounding the research question with greater confidence. The multiple case study design has also been selected to provide stronger support for the findings, with replication of the findings creating robustness. Direct replications are initially intended, but a theoretical replication predicting contrasting results is decided upon to show greater support for the theoretical frameworks presented in the introduction for overcoming liability of foreignness by SMEs when in China.

A case study can be either embedded or holistic. Case studies which are embedded explore sub-units within an overall unit (Yin, 2003), such as the different projects or departments within an organization. Holistic cases on the other hand view the single organization or program as a whole (Yin, 2003). The holistic approach is used when no sub-units can logically be identified (Yin, 2003). A characteristic of a holistic multiple case study is that the results collected are not pooled across the cases but the data will remain part of the findings for the individual case (Yin, 2009).

This multiple case study is holistic. The approach to answer the research question calls for data collection from different companies whose data is not linked to each other, but is maintained as separate and related solely to each case. An embedded approach could not be considered as sub-units and different departments could not be identified as relevant for this research, since strategy (explicit or not) is viewed very narrowly, at the organizational level and specifically for the Chinese market.

Sampling is an effective approach in doing research in a feasible manner without having to analyze the entire population. Though sampling is not adapted to case studies, a similar concept of replication logic is compatible with case studies, but must be utilized with a complementary theoretical base for the case study (Yin, 2003). With replication, a smaller
sample of cases is needed (Yin, 2003). The selected cases may either be homogenous or contrasting in their support for a theory depending upon the analysis from the case summary reports which is wished to be achieved. This differs when cases are expected to support the studied phenomenon or if there are several sets of cases which attempt to understand why there are differences in the phenomenon. Yin (2003) suggests the number of cases upon which the replication logic should occur in a multiple case study provides more certainty when it is greater. Five, or more replications are recommended for a high degree of certainty when rival theories have subtle differences, as well as when external validity is challenged and the influence of external conditions to results is uncertain (Yin, 2003). Yin (2009) suggests that for case studies, each case is to be selected based on the topic of investigation, to achieve an analytic generalization.

The main research questions for this thesis are developed around the theoretical propositions of globalization, strategy, and liability of foreignness. The case companies were selected once these research topics as well as the contexts were defined, to achieve an analytic generalization where previous theory provided a base for topics of a comparison of the empirical results of the case study. A replication logic for the findings of each case study has been attempted, to show support by several cases of a same theory, and in part to reduce the number of cases need to maintain the robustness of the findings. For the unit of analysis, the focus is on SMEs which operate in China and originate from the Southern part of Sweden as they would be relevant for the theory surrounding the research question. This geographical location is maintained specific in order to eliminate the uncertainty of effect of differing external factors faced by companies located in other European locations. Furthermore Swedish SMEs, according to the EU Commission (2012), represent very closely SMEs across Europe, which allows for a broader generalization.

As the case study being conducted is a multiple case study, four SMEs are the object of the study which were selected as contrasting cases with regards to ownership and size, as well as operations mode in China. Despite the contrasting cases, they attempt to replicate the findings as a generalization for all SMEs operating in China needing to overcome LOF is attempted, regardless of differences. These companies must adhere to the EU definition presented in the introduction. Initially five case companies were aimed for the study in order to increase validity. Therefore 22 SMEs, that operate in China and are from South Sweden were identified, with support of Linnaeus School of Business and Economics and Smaland’s China Support Office as well as the webpage of the Swedish Chamber of Commerce in China. The
identified companies were contacted via email followed by a phone call if no answer was received. At the end of this search process, four companies agreed on supporting the research by providing interviews. The time resource restriction led to efforts in contacting further companies in order to reach the initially aimed five companies to cease. The four interviewed SMEs demonstrated differences from each other by size and industry, as well as types of operation modes and ownership, but suggested a support for the theoretical replication by offering two distinct results.

2.4 Data Collection

For collecting data a distinction between primary and secondary data can be made. Primary data consists of information that is gathered by the researchers, for example through case study research. Secondary data, is information which is gathered among existing data such as documentation or statistics (Yin, 2009). They are used in order to understand the importance of the research topic but partly also to support primary data findings (Booth, Colom, Williams, 2008). In this thesis secondary data is gathered regarding the SME’s market environment it operates in. The introduction describes China as contextual different. Numerous studies of Chinese culture exist (Lee, Pae and Wong, 2001) and will not be revealed in this thesis, however, a brief economic overview of Chinese market conditions is be provided.

For case study research, commonly six sources of evidence exist: documentation, archival records, interviews, direct observation as well as physical artifacts. A weakness for most of the sources is that they contain bias. Therefore, interviews are one of the most relevant sources of case study information because participants are able to express themselves in their best possible way. In addition secondary data may be requested (Yin, 2009).

Interviews are essential as one of the main sources of primary evidence for case studies in order to answer the research question (Yin, 2003), and add “further value if the participants are key persons in the organizations” (Yin, 2012, pp. 12). For the interviews, a case study protocol establishes a line of inquiry which guides the conversation and questions during the interview data collection process while maintaining an unbiased nature. Qualitative interviews may either be of an ‘open-ended’ nature allowing for facts and personal opinions and insight, or may be ‘focused’, being restricted by a relatively short time limit. The focused interviews, still assume a conversational resemblance and are open-ended, but more strictly follow the set of questions from the case study protocol (Yin, 2003). Merriam (2009) describes a
combination of the ‘open-ended’ and ‘focused’ interviews as semi-structured interviews. The guide or case study protocol is developed in order to allow for flexibility and open ended answers, but with a focus collecting specific information from each. This is achieved with a few main guiding questions to guarantee the collection of the desired information, while maintaining less structured questions and flexibility to explore other issues. The semistructured interview case study protocol is not characterized by predetermined wording or an order for the questions (Merriam, 2009). Yin (2012) supports the semi-structured concept’s flexibility as they allow the questions to be “tuned to each specific interview situation” (pp. 14).

Interviews with four company representatives of Swedish SMEs were used for the collection of primary evidence. They involved key persons in the organization as participants to the interviews, in order to gain the most complete responses with regards to the overall strategy of the organization in China. The interviews performed were semi-structured to allow for flexibility and to account for the interview to adapt to the company’s unique situation regarding strategy. This was necessary as companies have a different approach and view on strategy, its codification and formulation, as well as its content. Moreover the level of development of strategy over time is unique for each company and is based on differing unique aspects. To achieve this, the case study protocol did not follow predetermined wording or order.

The choice to proceed in this manner also took into consideration the different levels of knowledge by the participants of academic concepts and terminology. The case study protocol includes questions written for the interviewer in academic form, covering the theoretical constructs which the questions to the participant are based upon, but during the interview are worded and if necessary explained to obtain the specific required data, or to explore issues further to understand them. This along with the lack of predetermined wording and order allowed the interviews to have a conversational atmosphere and to be adapted to each participant’s personality.

Direct observations occur during an interview conducted at the case study ‘site’. These observations provide a first-hand account of the respondent’s behaviors as well as the surrounding environment and the inferences which can be made (Yin, 2003). Thus, all interviews were conducted face-to-face, to take advantage of the conversational atmosphere to gain more insight into each case company. The greater personal connection lowered the barriers encountered by being outsiders to the companies, and increased trust with the
participant leading to greater accuracy and depth of primary evidence collected. The broadened knowledge of the participant and the company, coupled with the possibility to observe the surroundings, more questions had the possibility to be generated than if other less personal sources of evidence collection were used or if more structured interviews were conducted.

The interviews took place in May, 2013 at several distinct companies in various locations, with participants knowledgeable in Chinese operations as presented below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Location</th>
<th>Position</th>
<th>Last/First Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 6, 2013</td>
<td>Norden Machinery AB</td>
<td>Kalmar</td>
<td>Sales Manager</td>
<td>Voicu, Hector</td>
</tr>
<tr>
<td>May 7, 2013</td>
<td>Purac AB</td>
<td>Lund</td>
<td>Development Manager</td>
<td>Gotthardsson, Sören</td>
</tr>
<tr>
<td>May 10, 2013</td>
<td>Playsam AB</td>
<td>Kalmar</td>
<td>Managing Director</td>
<td>Zedig, Carl</td>
</tr>
<tr>
<td>May 13, 2013</td>
<td>Emmaboda Granit AB</td>
<td>Emmaboda</td>
<td>Managing Director</td>
<td>Gunnarsson, Jan</td>
</tr>
</tbody>
</table>

Figure 1: Interviews with case companies.

### 2.5 Data Analysis

Data analysis is the process of making sense of all the data from the sources of evidence in order to answer the research question (Merriam, 2009). Yin (2009) describes four general strategies and five analytical techniques for case study analyses. The strategy of relying on the theoretical propositions is when the initial theoretical propositions which led to the case study research by creating the explanatory research questions is followed. As a result of creating the research questions, the theoretical propositions also provide a guide for the data collection procedure, and thus highlight priorities for the analysis from those. In such a case, the theory naturally guides the direction of analysis, focusing the analysis and allowing some data to be ignored. Additionally, there are the strategies of developing a case description, using both qualitative and quantitative data, and examining rival explanations. The five analytical techniques described by Yin (2009) are pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis. These also work towards increasing internal
and external validity. The pattern matching technique uses the identified empirically based pattern, to a pattern observed in the case evidence. These patterns may arise from rival theories, each of which predicts a pattern of rival events which are independent from each other. When the outcomes of the case are matched to the rival events, only one outcome is supported by a replication of findings, when rival explanations are used to find patterns in the pattern matching technique (Yin, 2009).

The case study analysis strategy relies on the theoretical propositions which were used to create a foundation for the research questions, though as a result of the abductive approach, these were not the initial theoretical propositions. The purpose of following this strategy is that a focus is needed when analyzing the large quantities of data from the interviews which do not only cover LOF and strategy in China, but take a broader approach to describe the company and its operations in different contexts. The theory guides the analysis, as it did the order of research questions, firstly with a focus on LOF theory, then strategy theory. This strategy is coupled with a pattern building technique which finds rival explanations as patterns. The pattern building technique has been selected as it is compatible with qualitative data and does not necessitate quantitative or statistical evidence to be precise. Using rival explanations as patterns has complemented the strategy of using theoretical propositions, as it is grounded in empirical evidence as well. The rival events which were identified from rival theories, such as strategic approaches of global integration, local adaptation, or glocalization. These are considered as distinct with only one event having the possibility to occur at a time. The findings and events demonstrated by the cases’ pattern demonstrated a replication of findings, with two out of four suggesting a support for the glocalization approach.

2.6 Quality of Research

To ensure the quality of case study research validity needs to be taken into account. Validity of a case study can be distinguished between internal validity linked to the specific examined cases, or external validity regarding the broader population (Gerring, 2007). Moreover Yin (2009) adds the tests of construct validity and reliability to ensure the quality of research designs. Each of the four tests to ensure quality have been addressed in the concerned phase of research through various tactics.

Construct validity removes the possibility for subjective data collection through the requirement to provide definitions delimitating data collection boundaries and measures and connecting them to the study’s objectives (Yin, 2009).
Internal validity is described as a concern for explanatory case studies where causality relationships are attempted to be explained (Yin, 2009). A main concern is the understanding of relationships between cause and effect, and increasing the accuracy of correctness by taking into consideration all possibilities and explanations. A deep understanding of key cases is what Gerring (2007) suggests should be the basis to support a case study. This is necessary for evaluations of specific points within the research topics, to reach a relevant conclusion addressing the intended issue. Pattern matching is described by Yin (2009) to be an effective tactic in ensuring internal validity, along with addressing rival explanations.

External validity focuses on the possibility for a finding to be generalized to a greater group of the population, beyond the case study. One of the possible downfalls of achieving external validity is having a too narrow base of case studies by solely performing single case studies. Finding alternative cases which support the results increases the credibility of generalization through the replication logic (Yin, 2009).

Reliability ensures that errors and biases of a study are minimized in order for allow for future researchers to do the same case study over again and reach the same conclusions. For this to be possible, procedures need to be documented accurately by using a case study protocol and a case study database (Yin, 2009).

During the initial research design phase, the external validity to allow for a generalization of findings, was attempted to be maintained through using a multiple case study approach with a replication logic for their findings. The support for the findings as provided by four cases would be greater than if a single case study was conducted, thus having a higher chance of ability to be analytical generalized to the defined domain for generalizations to be made. Yin (2003) describes analytical generalization as the mode for case studies. Prevoiusly developed theory is compared to the empirical findings. The domain for generalization was SMEs from mature markets which operate in China at a B2B level. It was decided that for this research, the analytical generalizations would not be possible to all SMEs from mature markets which operate in China, as only the case of Playsam could create some support for the B2C level. Playsam has both businesses and consumer as customers. Though the Playsam case offered some supporting evidence, the lack of replication in findings is a shortcoming for future research in order to be able to extend the external validity to a generalization of findings to the B2C level. Moreover, the generalization may only be suggested for SMEs common characteristics, such as the mentioned B2B, with those of the four case companies’ characteristics. To ensure strengthen the support for the ability to generalize the findings,
further research would need to be done with a greater number of case companies with a greater control of the characteristics possessed by the SMEs.

At the data collection phase, construct validity was supported through using publicly available company information from the company webpages as a multiple source of evidence in addition to the interview participant’s responses. To minimize the subjective judgement in data collection, the parameters of strategy, liability of foreignness, and the context were identified prior to the interviews being conducted, when the research question was being developed. This meant that the delineated concepts could then be related back to the research questions to develop relevant topic areas to cover during the interviews. Through creating and using a case study protocol in order to conduct the semi-structured interviews, reliability is aimed. This provided a guide towards the main topics which were covered in the interviews, necessary to answer the research questions. Though a case study database which would have increased reliability was not created, the case study reports were made to include as much relevant data as possible, especially that information necessary to cover the topics presented in the case study protocol. One limitation on quality of research in the data collection phase is from only one person being interviewed for each case. This may cause partiality which is difficult to notice without a cross-referencing with other interview participants.

The composition phase where the case study was assembled into a case report is closely related to the data collection phase, but is mentioned separately as construct validity measures were taken at this phase. In order to increase construct validity, the draft of the case study report was submitted for review by the participants to the interview no longer than four working days after the interview was conducted. This was done to ensure the quality of the content by creating the opportunity for revision in a minimal time lapse interval.

Within the data analysis phase, by using pattern matching techniques internal validity was ensured. The result of pattern matching was that a pattern seen in MNCs and empirical evidence was also observed in the findings of the multiple case study involving SMEs. As they coincide, the internal validity is strengthened. All other possible alternative patterns were accounted for, through complete global integration, complete local adaptation, and alternative glocalization pattern to strategy.
3. Literature Review and Theoretical Framework

Theory that was introduced in the introduction is described and discussed further. Additionally, theoretical frameworks, which are utilized in the analysis and conclusion, are presented. In the end of the section the key constructs are summarized.

3.1 Country of Origin and Liability of Foreignness

Countries of origin (COO) effects are described as the stereotype of an association with a country by members of a host country (Johansson et al., 1985), and may be constituted of both, positive and negative effects (Peng, 2009). The positive effects act in enhancing the perceived image of the company, while the negative effects pose obstacles. One such negative effect is LOF.

COO is the home country of an organization, thus the ‘origin’ of the company. COO effects describe how products, brands, and companies originating from a specific home country are subjectively perceived by the market in a defined host country as a result of the reputation of past products or environmental conditions associated to that home country. Johansson et al. (1985) consider COO effects to be used to a greater extent for the decision making process when direct experience with a given country’s products or brands is limited, and less when there is more experience. This is because the perception of reality is much more abstract and insecure without concrete knowledge, though one must note that greater familiarity with a product or brand does not necessarily result in a positive evaluation. Moreover, COO effects are lessened when there is experience and familiarity with the product class or the brand as there is less uncertainty on the product evaluation, thus a weaker emphasis is placed upon the COO for the purchasing decision, with greater reliance placed on other informative factors (Johansson et al., 1985).

A contrasting view is developed by Johansson (1989) where COO effects are argued to be greater in the case of larger amounts of product information for the purchasing decision. The COO cue is considered as a mental way in which large amounts of product information are summarized. COO in such cases, aids the customer in making the purchasing decision when there is a large quantity of information about the product and its alternative substitutes from other COOs. The decision is argued to be simplified with regards to large quantities of information through an acceptance or rejection of a product with regards to the COO effects, hastening the decision process rather than performing detailed analyses taking into account all possible alternatives. Johansson (1989) suggests that though the mentioned is experienced, its
validity may depend upon a large enough perceived variability between two countries, but a low perceived variability between products originating from the same home country.

COO evaluations can be distinguished as based from intrinsic cues or extrinsic cues (Ahmed and d’Astous, 2008). Intrinsic cues regard the taste, design, and other product intangible features, whereas the extrinsic cues comprise the price, brand, and warranty. In emerging markets, materialism is growing, and imported foreign products from developed markets help to elevate social ranking within society. In emerging markets, materialism is associated with status consumption. Another opposite behavior which runs parallel to materialism within emerging markets is value consciousness. These customers strive to get the best value for their money resulting in high price sensitivity (Sharma, 2011).

Over time, the concept of COO has changed. From the actual COO related to the ‘made in’ label, and has often been generalized to cover market associations beyond the home country which is an implied COO (Melnyk et al., 2012).

Overall, understanding COO effects is becoming increasingly necessary for marketers to understand how to operate their markets of and may take advantage of COO. Further, integration of COO with liability of foreignness must be performed as the two are conceptually related (Potts and Nelson, 2008). While COO effects may be positive or negative (Peng, 2009), the LOF is explained as a major part of the negative effects (Zaheer, 1995) associated with costs of operating beyond the home country.

The main concept of LOF is initially introduced by Hymer in the 1960’s (Peterson and Pederson, 2002). Foreign exchange risks, discrimination by local governments and consumers as well as being unfamiliar with the local business environment are the main reasons for LOF. Critical aspects about a country such as language, law and politics are less known by foreign companies. However, Petersen and Pederson (2002) state that engagement in learning over time and through increasing experience helps to overcome LOF.

Liability of foreignness is described in the introduction as costs that arise from not being local. These costs can arise from four main sources defined in the following categories (Zaheer, 1995):

1) Geographical Distance Costs; these are the costs associated with transportation and coordination between the home country business unit and the unit in the host country.
2) Unfamiliarity Costs; the costs arising as a result of not having experience in the local host country market. These are the result of the need to increase efforts to gain knowledge to become familiar with the customers and the environment.

3) Host Country Environment Costs; governmental policies or rules of the host country which must be adhered to as a result of being a foreign company.

4) Home Country Environment Costs; governmental policies or rules of the home country which must be adhered to as a result of being a home based company.

From the four listed sources of costs, the unfamiliarity costs are assumed to be the most relevant for this thesis. Those arise for example by not being familiar with the language, local business environment, and culture. These are directly associated to a greater need to perform marketing by foreign companies, in order to gain familiarity with the local environment and to be able to relate to local actors.

3.2 Strategy

Even though through time LOF will be reduced, the strategic approach of a company in a time period can be assumed to be the main reason for a reduction of LOF. Strategy is the means to achieve a goal by providing direction (Grant, 2010). A strategy for a foreign market can be used to help to overcome LOF and maintain positive COO effects as well as competitive advantages. The critical actions within a strategy in business context involve allocation of resources, as well as require certain consistency, integration or cohesiveness. Over time the understanding of strategy has developed; for instance in the 1990’s competitive advantage was a dominant theme. The evolution of strategy changed towards being a direction rather than a plan, influenced by an environment that became more uncertain (Grant, 2010). However, as stated in the introduction Mintzberg’s (1978) types of strategy are still of high relevance.

Mintzberg (1978) describes the strategy evolution process in order to achieve a final realized strategy. The belief is that rational deliberation in strategy is far from reality as strategy is dynamic rather than stagnant, and is an “outcome of negotiation, bargaining and compromise” (Grant, 2010, pp.21). Mintzberg (1978) claims that the beginning of the strategy lifecycle process is when the management defines an intended strategy for the firm, which dictates the direction to reach the plan. As the firm is in contact with the environment, emergent strategies arise as responses. They are the result of a learning and adaptation process from adding to
experience and knowledge. The continuous interaction between strategy formulation and implementation which requires ongoing revisions (Grant, 2010) is the reason for which some of the initial intended strategy is lost and remains unrealized, whilst emerging strategies may enter and alter the direction of the proposed plan, leading to the final realized strategy (Mintzberg, 1978).

Figure 2 shows an adapted model of Mintzberg’s (1978) strategy lifecycle model on the development of strategy. It demonstrates the process the intended strategy goes through to become part of the company’s final realized strategy. It suggests that dimensions of the intended strategy may be maintained when the strategy is implemented, this being considered the deliberate strategy portion of the realized strategy. From the final realized strategy, all which is not deliberate is a result of the aspects of the initial strategy which were unexecuted and thus unrealized, or emerged. Unrealized strategies and emergent strategies are accounted for in the strategy lifecycle as being reactions to reality, which is composed of the firm’s internal and external environments.

![Diagram of strategy lifecycle](image)

**Figure 2: Strategy life cycle, developed from Mintzberg (1978)**

Mintzberg’s (1978) claim that the strategy is defined by the management, and therefore, the starting point may be not as clear for SMEs is because SMEs may not always perform explicit strategic planning for each country. It could be assumed that some SMEs did not have a well defined strategy when entering China but rather a rough idea. Porter (1987) describes strategy in connection with an overall plan, which could be equalized to an idea, even though the idea might not be formulated, meaning written and codified.
3.2.1 Globalization and Strategy

According to Douglas and Craig (2011), globalization is nowadays one of the major drivers of marketing strategy. This concerns companies of all sizes. They describe the evolution of marketing strategy in three phases: market entry, local market expansion and global market rationalization. Strategy may be added to being majorly influenced by globalization, as Enderwick (2009) argues that large emerging country markets have the ability to influence the entire strategy of a company. However, market conditions vary across regions; especially customer interest, taste preference, purchasing patterns and price sensitivity differ among countries. It is therefore argued that tailored strategies for a region’s or country’s characteristics, are needed to some extent. Douglas and Craig (2011) suggest that the described strategy is more suitable for MNCs than it is for SMEs. They explain that SMEs target specific markets worldwide rather than regions. This might be depended on the industry as well as on the resources an SME has. In some cases, an SME lacking financial and human resources is likely to follow Douglas and Craig’s (2011) suggested approach, as tailoring target groups for a market allows for a concentration of resources.

Already in 1998, Arnold and Quelch called for a rethinking of emerging market strategy. They suggest that time of entry in emerging markets is a crucial aspect because risks, such as governmental change, low development of distribution channels, or low effectiveness of intellectual property law, may be higher when entering early. This can be opposed by the benefits of a first mover advantage which includes a favorable government relationship, pent-up demand, higher marketing productivity, marketing resources, as well as the positive consequences from learning (Arnold and Quelch, 1998). Time of entry may appear as less relevant for this thesis as the focus is on companies that already operate in a certain emerging market. Still, it is critical as well when already operating in an emerging market, because this most likely influenced a company’s strategy through the initial intended strategy and its development. Governments in emerging markets try to attract FDI and build local businesses, and are therefore more influential than in mature markets. An early entry might demonstrate a higher commitment to the market, for instance towards stakeholders. A company acting early in emerging markets consequently is more experienced in this environment with relation to later entrants, and has an advantage through marketing resources, such as the company’s managers, which goes in-hand with consequent learning (Arnold and Quelch, 1998).
3.2.2 Competitive Strategy

According to Jansson (2007a) the competitive strategy is connected to the rivalry amongst competitors. To receive an order, the seller company needs to distinguish itself and its products from the competitors and achieve competitive advantage, meaning to outperform them. Competitive advantage is influenced by internal or external changes (Grant, 2010). If the competitive advantage is reached in the long run and it is difficult or impossible to duplicate, it is defined as a sustainable competitive advantage (Barney, 1991). Customers in emerging country markets are price conscious. For that it is difficult to sell high quality products for top prices and the price should be considered regardless of the type of competitive strategy in these markets. A company’s product quality, service, delivery time and financing opportunities also contribute to competitive advantage (Jansson, 2007a).

As previously discussed, a first-mover advantage helps enormously to gain competitive advantages. Jansson (2007a) describes that to achieve a first-mover advantage, one has to be first in the market or be the first supplier of this solution to the customer or making a competitive offer. It is not possible to achieve first-mover advantage in a market or with a customer if a competitor has already made the move, a second mover advantage may in this case be achieved by the company. Anyhow, in this thesis the case companies are researched if they reached an early-mover advantage. The early mover advantage is understood to be categorized as discussed above. Market entry at a later stage compared to competitors may place the company in a situation where it is more challenging to gain market share, but on the other hand has the benefit of reduced risks from the ability to learn from another company which has already paved the way.

An early mover advantage can also be reached via linkages. Through this, specific strategy bonds are established between parties, which lead to successful business relationships. They are helpful to gain insights of a market, especially the information and social linkage. Linkages’ main objectives are to establish, develop, and maintain relationships, which are aimed towards a specific stakeholder of the network, such as the customer. The information linkage implies that the customer is being influenced by or dependent on information from the selling company, it is the ‘know what’ factor of the linkages. When the customer for instance, is socially committed to the seller company, a social linkage exists. Other linkages that support to reach early mover advantage are the product or financial linkages, which increase the dependency of the buyer/seller relationship. When the buyer and seller work closely together to develop new products, it is often over an extended period of time which inevitably
leads to the creation of a relationship. In this case the linkage strategy is product-oriented. The financial linkage focuses on building sustainable competitive advantage by taking customers’ needs into account when it comes to the payment of the products. By providing the customer with different payment solutions that are also beneficial for the seller, it is easier for the company to maintain their competitive advantage and also maintain long term relationships with customers (Jansson, 2007a).

Furthermore resources and capabilities are vital for developing and implementing a competitive strategy, as well as creating and maintaining linkages. Capabilities can be for example a project team or department, something which the company is especially good in doing. Resources are more individual, such as human, tangible and intangible, which are combined to create capabilities. Figure 3 illustrates the network capability profiles. It shows the ability of a company to handle different kinds of networks and linkages. The network capability profile first is divided into the two categories direct linkage and indirect linkage. The direct linkage focuses on the specific customer needs, whereas the indirect linkage focuses on general customer needs. Specific customer needs may be satisfied by certain capabilities, which consist of employee, technical or management skills. A customer specialist capability solves individual customer problems. If the product rather than the individual customer is in focus, the capability profile is classified as product specialist. To distinguish distribution specialist from distributor network specialist the focus needs to be on the linkages. The former capability is directly in touch with the customer, while the latter is in touch with intermediaries such as an agent or distributor (Jansson, 2007a).

Figure 3: Network capability profiles (Jansson, 2007a)
A competitive advantage mainly can be reached through a company’s products or relationships, through the linkages of the network capability profiles model. It can be argued that both products and relationships are crucial for China. Products are important because of the perceived differentiating factors by the country of origin perception by customers, and relationships as China is described before as contextually different, which includes a different need regarding relationships. Lee, Pae and Wong (2001) for example argue that close and personal business relationships described as guanxi are needed to do business in China, where belonging to a guanxi network is a type of competitive advantage.

3.3 Market Entry Mode and Foreign Operations Mode

To find out how and why a certain strategy is realized it is seen as needed to identify which possible operations modes in a foreign market exist. This is because some operation modes may rather enable and some other hinder customer profiling and adaptation, which is part of marketing strategy.

According to Sandberg (2012) the choice of entry mode affects the performance of the SME in the foreign market. Therefore it is seen necessary to first describe entry modes before illustrating foreign operation modes. Entry modes, belonging to the organizational structure of a company, differ in their operational risk, resource commitment and time. In international business research different authors present various types of entry modes, hence a wide range of different entry modes exist (Petersen & Welch, 2002). A market entry either takes place through an intermediary or an own representative. An intermediary could be an agent or distributor, whereas an own representative is a subsidiary (Jansson, 2007a). Johanson and Vahlne (1977) concluded out that most companies start their entry into a foreign market using an intermediary as entry mode. An intermediary takes the least operational risk, resource commitment, and time but also offers less control than a subsidiary would be able to offer (Sandberg, 2012).

The entry mode subsequently affects the way of operating in a foreign market which can be described as the operation mode. Welch, Benito and Petersen (2007) distinguish between three major operation modes (see also Hilmersson, 2011); contractual modes (e.g. franchising and licensing), exporting (e.g. sales agent or distributor and sales office) and investment modes (e.g. minority share and majority share).
3.4 Segmentation

In industrial marketing, segmentation is relevant in “identifying a group of present or potential customers with some common characteristic which is relevant in explaining (and predicting) their response to a supplier’s marketing stimuli” (Wind and Cardozo, 1974, pp. 155). Through performing segmentation, a firm is able to determine the size of demand for its offering and if it would be sufficiently large to be profitable if the decision to target the segment is taken. From the segmentation, targeted marketing efforts can be exerted towards customer groups in existing markets with “specific characteristics and responses to a marketing mix” (Harrison and Kjellberg, 2009, pp. 784). Segmentation is an important task for businesses as when they focus on a restricted group of customers, they will be able to respond better to requirements. This ability would aid in capturing new opportunities, protecting the firm’s market position, as well as avoiding competitive threats (Hlavacek and Ames, 1986).

Segmentation theory includes customer profiling of individual customers in order to understand the who, what, where, when information of the customer base (Collica, 2007). The resulting customer profiles allow for commonalities to be found in order to create clusters. These clusters would help the firm to market to each segment more effectively, to hold on to good customers and to develop lesser customers (Collica, 2007). Finally, clustering allows for patterns in marketing action and reaction data to be recognized (Egner, 2008), and adaptations may be made to penetrate the customers better, in marketing or product offering. In China often industry clusters exist in certain regions, therefore a regional selection might not require much assessment with a company only needing to decide upon which industry clusters in which regions suit them the most.

As identified by Wind and Cardozo (1974) the major differences between B2B and B2C are the bases used for segmentation. Additionally, they determined that industrial segmentation is relevant to most industrial firms, since differentiation strategies are performed; though not as a differentiated marketing variables but mainly through the product and service mix, or price, with the aim of reaching different segments. As this marketing is performed mainly towards business organizations, the most common types of product changes are in either technical alterations to meet performance requirements, or symbolic alterations such as brand alteration. The service mix is used in marketing to complement the product and varies according to the perceived target customer’s needs. Both the product and service affect the price aspect of a B2B firm’s marketing, as well as the volume and degree of customization required.
Regardless of the mix, the marketing mix decided upon should not be too specific and should target a broad enough range of customers. Overall, the B2B segmentation is based upon organizational size, SIC (Standard Industrial Classification) category, end use of product, and geographical location (Wind and Cardozo, 1974). Hlavacek and Ames (1986) make segmentation based on application explicit though the concept is similar to end use of product. This differs significantly from B2C segmentation, which is more based towards customer values, consumer psychological characteristics, needs and benefits sought (Bonomo and Shapiro, 1984), and market attractiveness (Papadopoulos and Martín, 2011), with a lesser focus on geographical location which is more relevant for B2B. This is increasingly important as companies have expanded internationally across borders and have access to more markets globally where they do not have experience, at least at the initial contact point.

3.5 Global Integration and Local Adaptation – Glocalization

Globalization by companies of different origins has brought the world together and increased competition across markets. With more firms operating in markets beyond their home country, the importance of understanding the balance between global integration and local adaptation is becoming of greater relevance. A re-thinking of the global approach and using the continuous exchange of knowledge with a local environment towards developing a more local approach can be considered a next phase of globalization (Andersson and Svensson, 2009). This would aid in gaining a competitive advantage in an ever more intense global marketplace. This trend has been observed with large MNCs from developed markets which were involved in the initial waves of globalization, such as Coca-Cola, as well as from large MNCs in the third wave of globalization such as Huawei. Both these companies’ CEOs made announcements of the need to become and act local in the markets in which they operate (Schuiling, 2001; Zhang, 2013).

MNCs are not the only firms able to benefit from being global, with globalization of SMEs continuously increasing (McDonald, Tuselmann and Wheeler, 2002). The turn towards glocalization is emerging in large MNCs, but the trend may arise in SMEs as well in order to either remain competitive, or follow their business network partners to global markets.

*Global Integration and Local Adaptation*

The concept of global integration of strategy as suggested by Zou and Cavusgil (2002) is in order to achieve cost efficiencies and efficiencies in operation through a total alignment of activities. Zou and Cavusgil (2002) place an emphasis on the global marketing strategy in
which three perspectives are explained. The first is the standardization perspective where a standardized strategy is developed which is applicable to all markets of operation in terms of product, promotion, channel structure and price. They also look at the configuration-coordination perspective which aims to minimize coordination costs by concentrating value chain activities as close as possible to each other. Jensen and Szulanski (2004) demonstrate that with global standardization, coordination costs are lower as replication and transfer of practices for operations across borders is performed more easily, and coordination between the subsidiaries is also easier as a result of alignment. Finally, the integration perspective highlights the benefits of being present in major markets to then be able to leverage that position to other country markets considered of lesser significance (Zou and Cavusgil, 2002). This position in the major markets would create the opportunity to monitor rivals and notice changes sooner, to be able to react more effectively. All three perspectives have the common goal of “enhancing the firm’s performance in the global market” (Zou and Cavusgil, 2002, pp.42). The alternative to a complete global integration is complete local adaptation of a company’s strategy, where operations in each individual country market act as independent units. The greater the contextual difference, the greater the motivation for moving closer in the direction of the extreme case of complete local adaptation in order to create a closer fit with the external environment. The organization international business strategy must align with the country context’s organizational fields and societal institutions. As mentioned, the greater the distance, the fewer the elements of the strategy employed in the home country and globally which can be used effectively.

**Glocalization**

A combination of both local integration and local adaptation, defined as glocalization by Andersson and Svensson (2009) takes into account a balance between efficiency and effectiveness of strategies. Glocalization can be considered for efficient operations while the effectiveness of the strategy within the local context can be pursued by local adaptation. Jensen and Szulanski (2004) do not explicitly express the need for glocalization. They suggest that global strategies are more efficient, but there must be a ‘correct’ adaptation which assumes the “relevant characteristics of the local environment” (pp. 517). A mutual adaptation between practice and the environment is suggested as well, especially for LEMs, which as mentioned by Enderwick (2009) may go beyond the local strategy and extend changes in the intended strategy to affect the part of the business strategy which is global.
The idea behind a glocalization strategy is to maintain an identity for the organization while simultaneously increasing the operating effectiveness within the host country context. One way to do this is to develop strong personal relationships in the host markets (Berchtold, Pircher and Stadler, 2010). By doing this, firms have access to greater amounts of local knowledge on practices and experience, which are of greater necessity when the legal system is unreliable. This knowledge then can be used to accommodate emerging strategies and capture opportunities. Berchtold, Pircher, and Stadler (2010) believe in a degree of local adaptation, but describe the need to avoid adaptation of products and processes of a company. These should, when possible, be kept as part of the global integration of strategy as an adaptation would “increase costs and hinder internal communication” (pp.540). Integration, particularly for processes ensures compatibility with all other functions or processes of the global organization, and aids in the diffusion of knowledge internally.

3.6 Key Constructs

Based on the above theoretical description and discussion, the key constructs are summarized. Figure 4 shows the selected theoretical concepts to answer the research questions for this thesis. LOF is experienced by companies once a company operates in a foreign market, especially when contextually different. The LOF has an influence on a company’s strategy. LOF can be considered the negative side of country of origin effects (top of the model) and what a company is affected by but aims to overcome or manage through strategy (bottom of the model). Entry and operation mode, segmentation, as well as early mover and competitive advantage are seen as part of strategy or component sub-strategies, and are included in the same box. Those are affected and depend on the business environment and a company’s resources. Depending on the strategic approach one of three strategy types (three bottom boxes) is realized. The arrow to the left indicates the way LOF influences strategy but also the way it is overcome within the time of entry in China up to after the entry. Maintaining COO in this figure is kept in brackets because it is seen as a concept supporting SMEs’ performance from mature markets to China and is, as described before, related to LOF. When companies aim to overcome negative COO effects (LOF), they attempt to maintain the positive effects of COO. It is not aimed by this research to understand how strategy, such as entry and operation modes or segmentation in a foreign market help in maintaining COO. Still, COO is affected by strategy and the description of the table in regards to LOF can be applied to COO as well. From the way in which LOF influences strategy, and companies adapt strategy as a response,
strategy may be categorized into three types based on the response: Global integration, local adaptation, or a combination of both as glocalization strategies.

Figure 4: Theoretical construct
4. Empirical Data

The empirical data in this thesis consists of both, primary data and secondary data. The in the methodology described data collection was followed and the four cases as well as the secondary data about China is presented as result of the data collection.

4.1 Secondary Data

The research questions are addressed with reference to the large emerging market (LEM) of China. Therefore China is further described based on the introduction chapter.

In 2010 China leapfrogged Japan and became the second largest economy in the world, expected to overtake the USA within the next decades (McCurry and Kollewe, 2011). China’s ‘success story’ began in 1978 when market reforms were initiated. The shift from a centrally planned economy to a market based economy ensured China’s growth, about ten percent per year in average, and lifted over 600 million people out of poverty. The current five year plan focuses on increasing quality of life rather than growth; however, China remains an emerging market (World Bank, 2013). By FTSE (2013) it is classified as a secondary emerging market, for this it can be foreseen as remaining an emerging market in near future. In 2007, China was still described as “one big factory for the world” (Jansson, 2007b, pp. 3), whereas in 2013 China is observed to shift from the factory of the world to higher value production with increasing incomes (Zhang et al., 2013)

China and its 1,344 billion inhabitants, with a gross domestic product (GDP) per capita of 4,940 US Dollars (World Bank, 2011) is a diverse nation. The cultural as well as geographic diversity in China is according to Haddock and Tse (2005) perhaps most analogous to the cultural diversity of Western Europe multiplied by the geographic scale of USA. China is a fast evolving market with a rapid changing environment (Chang and Park, 2012; Haddock and Tse, 2005). Competition between local and foreign companies is increasing because the distinction in quality perceived by customers is no longer that products of foreign companies are better than products from local companies and additionally, local Chinese companies often have a distribution advantage over foreign companies. A local company might have better access and understanding of distribution in China, while a foreign company must mostly rely on external distributors due to the geographical spread and a lack of relationships, except for in the case of a few big cities or customers (Chang and Park, 2012). Anyhow, business relationships have become less personal and more professional, as well as tangible advantages...
are gaining importance (Jansson, 2007a). Still, institutional distance (Hilmersson, 2011) is present between Sweden and China.

4.2 Primary Data

The presented cases follow the order in which they were conducted.

4.2.1 Case 1: Norden

Norden Machinery AB (Norden) produces tube filling and cartoning machines for a variety of applications, with the major industries of cosmetics, toothpaste, pharmaceutical, food products, and industrial products. It belongs under the corporate umbrella of the Coesia group and employs 225 individuals. In order to meet the requirements of customers in different industries and geographical markets, low speed, medium speed, and high speed tube filling machines make up the product range. The customization of these products for the different applications is based on the different industries and the customer specifications for their applications.

Norden views its main markets as the mature markets of Western Europe and the U.S., as well as the emerging markets with a high growth driver of China, India, and Russia. The main customers in these markets are generally large players which require Norden’s know-how in producing high speed tube filling machines, which fill over 100 tubes per minute. These are in particular for the cosmetics, toothpaste, and pharmaceutical industries. Norden entered China in the 1990s, following its large customers in their Chinese expansions, seeking and recognizing new growth opportunities. In addition to these global customers, presently Norden also targets large Chinese firms which are major players in their industries. The industry make-up and the percentage of sales between the different industries has changed over the years Norden has been in China. This has consisted of a large growth of the cosmetic tube filling and cartoning, and an even larger growth in the pharmaceutical tube filling and cartoning industry due to regulations changes on traceability as well as a change in consumers, through a new way of thinking.

“There is a market analysis in the beginning, then you realize there is a potential in this market, then you enter.” (Voicu, 2013)

Norden has formulated strategies for every market, though “learning and changes occur on the way” (Voicu, 2013). Once decided upon a strategy for a certain market, Norden attempts to follow it for the planned period which ends with its reformulation as market trends change.
This is especially in regards to the decided upon sales goals which must be formulated in terms of the changing expected market demand, which Norden views as part of its strategy. Norden’s strategy for China was well established before entering the market, as the company generally carries out a market analysis before entering a new market. Based on the market analysis the strategy is developed. For China, the initial strategy was based on target sales figures, where the strategy used was to leverage Norden’s strength in product quality and design, as well as maintaining relationships. Norden’s awareness of China was partly based on the fact that large customers, as for example L’Oreal, moved to China.

“When you ask for a glass of water in Sweden you will be served cold water, when you ask in China, you will be served hot water” (Voicu, 2013)

These relationships are based on addressing a customer’s need through the engineering and development of a system tailored to the customer, as well as addressing a customer’s problem through meticulous after-sales support centered around the customer. What allows this to occur is Norden’s work force. Norden’s employees have high engineering knowledge as well an “open minded attitude, which is crucial when operating in China” (Voicu, 2013) to meet expectations in design and specifications. The sales team, being the initial and final contact persons receives in-house training and must possess listening abilities as well as honesty in order to contribute to the strategy on the customer approach. Parallel to this, flexibility and willingness to adapt to different contexts and situations is a necessary skill of the employees since differences exist between Sweden and China in culture and business practices. Being aware of those country differences and adapting to them can be summarized as Norden’s key strengths, which are based on its human resources.

Initially Norden’s strategy was to operate in China with a distributor. However, 2005 it was decided that a subsidiary offers greater control possibilities and enables building closer relationships with customers, which is as described above of high relevance for Norden. The high degree of quality and customer support is leveraged in order to reach the set sales goals. Another later reason for the change in strategy was the change of ownership of Norden. The before mentioned Coesia group integrated Norden into the group in 2008, therefore its strategy was adapted towards the mother company’s strategy. In addition, Coesia’s resources allowed for joint subsidiaries to be run in cooperation with two other companies belonging to the group.
“You need to be flexible, you need to adapt, you need to use common sense” (Voicu, 2013)

Norden adapts to the local culture and environment, which includes higher price sensitivity. This has resulted in demands for certain products in the offerings to be restricted because of the Chinese market conditions. Norden’s low speed machines, for such applications as hair dyeing products are offered, though not demanded in China because Norden is not able to compete in this segment with local competitors. Additionally, the low speed machine market has its limitations as for example; hair dyeing products are seldom sold in Chinese shops as it is cheaper to dye one’s hair at the hairdresser, thus constraining the demand for the number of products which can be sold. Consequently, Norden does not focus on the low speed segment for those kinds of products in China since local manufacturers can offer these machines “at local prices” (Voicu, 2013). Different national regulations need as well be taken into account for their market strategy. They can either enable or hinder certain products. The Chinese market is furthermore divided into different regions within the country by Norden. This is mainly due to the fact that industries are clustered within the different regions. An example is the high concentration of cosmetic manufacturers in Guangdong and Zhejiang provinces. Beside the large Western companies, nowadays also large Chinese players count to Norden’s customers.

The big scale of China and its cultural and economic diversity are of less relevance for the local approach within China, though the level of trust and loyalty from a business perspective play a more important role. This could be inferred from the mention that employee retention has been difficult and that control of strategy is kept in Europe, but with a high consideration of the Chinese counterparts.

The company can be described as perceived Swedish in the market. Made in Sweden is labeled as high quality in China but also partly as too expensive. The result of this is a sales approach towards customers which places more emphasis on explaining the long term cost savings over the importance of the initial investment. The economic advantage of cost saving once the machine operates needs to be explained in China, which is different to mature markets, such as USA, where the customers are aware of this. This is because Chinese customers often only pay attention on the initial purchase price of the machinery but neglect the long term advantages which the more expensive machines can offer.

In future, Norden aims to grow by market share in China and globally. Currently it is undergoing the strategic decision to strengthen the firm’s position in China. The company is
undertaking this process by increasing the sales force to cover a more significant part of the market while maintaining the level of customer support, which distinguishes Norden. The current economic situation is identified as a barrier for its future growth plans as it has caused projects to be postponed as demand has fallen. This has recently also been visible in China.

4.2.2 Case 2: Purac

Purac AB, belonging to Läckeby Water Group AB, employs 70 people and is located in Lund. Its main fields of business are contracting for treatment of wastewater, process water and drinking water, as well as innovative treatment of biological waste. The key global industry for Purac has its roots in pulp and paper. China is currently the most important market for Purac outside Scandinavia. The company operates in China since 1992 and is established own subsidiary in 1998. Some other emerging markets, particular in East Europe, are avoided as operating there has a risk of ‘dirty business’. Purac’s customers are mainly municipalities.

When China was entered, it was initially without a clear plan, but rather to exploit projects seen as individual low risk opportunities. The company became involved in China through taking part in projects funded by soft loans from Scandinavia, Germany, and Great Britain. In order to be able to bring their technology and products to China, Purac saw the opportunity to modify their operations in order to be able to participate in tenders for the soft loans. This entailed creating local units in these countries for the main purpose of obtaining qualification to compete for project tenders. These soft loan projects were favored by Purac due to the lower associated risk and market commitment. Payments could be handled by the units located in the financing country, and there was no need to manage finances in China, thus consequently could be handled by Chinese agents as the main activity was the exporting of pre-specified products to China. By being an early mover into the Chinese market compared to competitors, the strategic advantage which emerged and which became part of the ongoing strategy was to "do a good job" (Gotthardsson, 2013) to satisfy customers and to gain recognition and reputational dominance over competitors. Purac recognized these benefits in doing business and has maintained them over time, allowing Purac to compete against much larger companies better endowed with resources, in China.

Purac’s early plan for China was built on the desire to increase sales through the soft loan channel, thus took measures to open the organization to take advantage of the available opportunities, to be able to compete in different tenders offered by several European governments. This early plan for the Chinese market was initially not formulated.
“Products were developed according to the shopping list requested for the tenders, whereas the industrial plants were characterized by real selling” (Gotthardsson, 2013)

The soft loan projects brought Purac into China, but as the company became more involved in the Chinese market, it saw the need to change its organization. In 1998 the change was initiated in Purac’s China operations through establishing a subsidiary. The company attempted to reduce its dependence within the Chinese market on the ever more scarce government funded projects which decreased over time, ending in the mid-2000’s, and identified opportunities in the industrial sector. This was a change as previously, products were developed according to pre-defined specifications in a ‘shopping list’ approach as requested for the tenders, whereas the industrial plants were characterized by ‘real selling’, which includes more activities for the sales and engineering department, as well as closer customer relationships as well. This move took Purac away from the lower commitment and risk of being a direct exporter of goods, to facing a fully compatible market.

“Founding the subsidiary was necessary to survive in China” (Gotthardsson, 2013)

The identified opportunities went in hand with a change of the operation mode towards building up a subsidiary fully owned by Läckeby Water Group. The subsidiary company allowed Purac to take a broader market approach, through facilitating interactions with the Chinese market. Payments were easier to handle when operating with a local company in China, than with a Swedish company, allowing Purac to pursue its broader approach. Operating with a subsidiary makes it easier to survive in a highly competitive market. Most employees in the Chinese subsidiary were from the beginning local Chinese. They already began with an experience in Purac’s industries because Purac achieved an agreement with its former agent and thus was able to retain employees. Still, the managing director was Swedish for a long time, but nowadays has been locally replaced. The thought behind this was adapting the organization to the local environment, while maintaining the same products in the company’s offerings. Purac’s products are mostly customized for the individual project regardless of location and did therefore not require specific adaptation for the local market and conditions, but more dependent upon purpose.

Though significant product adaptations were not necessary, a strategy on market focus has been applied in China. A distinction between Scandinavia and China exists due to scale differences, which do not always fit to SME resources, as well as the difference with the size of its home base. In Scandinavia, Purac operates on a broad level, meaning in different
industries trying to get the most possible orders in the region. On the other hand in China, Purac is much more industry focused as China is a much larger market with an insatiable number of projects, all of which could be potential customers for Purac. Rather than competing in every industry, resource limitations have turned strategy towards a focus on particular projects which are similar in nature to try cover a greater number of projects through an ‘economies of scale’ way of thinking. A described example is 40 projects on handling cafeteria kitchen waste in China, which allows for similar solutions to be offered, thereby increasing standardization as much as possible, in an industry where standardization among projects is uncommon. The market focus is further increased in China, with a concentration of activities away from total deliveries projects. The reason for this because these need established relationships with contractors of different types for such projects. Gotthardsson emphasizes the complexity of developing tight enough relationships with contractors as when “abroad and far away, it takes a long time to establish” (2013) these ties.

Differing regulations, country environment, and business culture in China require local adjustment to needs. The threat of diseases from differing types of pollution present in China, has for example, an influence on Purac’s operations in China, and will affect future opportunities. Therefore concerns of the Chinese customers may be different than those arising in mature markets. China’s stage in development offers waste treatment opportunities for Purac, and the increasing need for the country to handle large amounts of biological waste maintain China as an attractive and dominant market for Purac.

Purac’s ‘made in Sweden’ products are an advantage when competing in China, in part as a result of the generally good image of a ‘made in Sweden’ label because of Sweden’s advanced role in the biogas sector and the government’s open publicity in encouraging environmental businesses. Moreover, Purac’s approach which differs from Chinese companies within the same industry increases their advantage by being “recognized in China to have knowledge on anaerobic technologies” (Gotthardsson, 2013). This is through continuous development of anaerobic technology and other new technologies, which Chinese companies are more reluctant to enter into due to the higher risk involved, and the greater risk aversion tendencies towards failures by the Chinese.

4.2.3 Case 3: Playsam

Playsam AB is a small company headed and owned by Carl Zedig, located in Kalmar which designs toys mainly made of wood. What makes Playsam unique from other mainstream toy
companies is the look and feel of their products. Playsam is in the luxury segment, producing ‘executive toys’, and thus competes with the likes of Kosta Boda and Iittala design brands. The main feature of these toys is the detail in design simplicity, which positions the products in a specific market niche, for design connoisseurs. Playsam was established in 1984 with the intention to cater toys towards kindergartens, but as a result of the design has transformed to executive toys. This change came about relatively early when Playsam attended the Nürnberg toy fair and a buyer from Habitat Retail said, “This Mr. Zedig is not toys for children, this is executive toys” (Zedig, 2013). The latest executive toy to be added to the Playsam product range is an ergonomic tablet pen which embodies the characteristic Playsam design cues.

Before the economic crisis in 2008, Greece, Italy, and Spain were the largest markets for Playsam products, whereas the crisis has caused Sweden, the U.S., and Japan to become Playsam’s main markets. Rapid growth for future business is also seen from Taiwan, and Singapore. The sales in China decreased as well after 2008 and still have not reached the former sales numbers. Success in some markets has been difficult to achieve, especially in non-design oriented cultures where the business culture is “we don’t play, we work” (Zedig, 2013), thus placing a limit on executive toys sales. This is noticed in Germany, the world’s biggest market of wooden toys.

The company is organized with a close network of employees, designers, and distributors, with a high degree of trust and collaboration, though the final decision making power remains with Zedig. The number of most influential persons is about twelve, from which only three are employed by Playsam.

Zedig began explaining the difficulties which Playsam faces in markets which are still at an early development stage by mentioning that Playsam is not a well known large luxury brand, but rather a limited brand. In markets still at an early development stage, the purpose of making a luxury purchase is to convey a message of wealth to others, which others are also able to understand. An example, with reference to the emerging Polish market in 1988 was that at that early stage of development, the only luxury car brands present were “Mercedes, Audi, and BMW, but no limited car brands because they were so well known. The Polish who had money had these cars because the average polish man doesn’t understand what a Saab or a Volvo is” (Zedig, 2013). As a result, the big brands are successful whereas the limited brands do not experience the same level of success in lower developed markets in the beginning. Playsam finds that their executive toys serve a conspicuous consumption purpose, having a greater appreciation in mature markets where the conveyance of a symbolic message
by limited brands is greater, particularly when exchanging gifts. During a post-purchase survey to customers, Playsam discovered that 81 percent of all purchases were for gift exchange purposes and 60-70 percent were destined for adult-to-adult exchanges.

“If we go down in a little in quality, we can sell cheaper and sell more. That is nonsense. Then all we have then is a poor brand. Nobody has the same or better quality of wooden toys than we have. I try to be a little better. It’s part of my personality” (Zedig, 2013)

Playsam has always had the strategy of maintaining a high brand image through reputation, design, and quality which are the characteristics of luxury products. It has maintained this strategy to attract consumers as well as business to business customers from the beginning. This attracted the first contact with the design oriented Saab automobile manufacturer in 1989, and made Saab the largest Playsam customer, as well as the main channel for Playsam products to reach foreign markets through Saab’s distribution network. Financial difficulties caused Saab to reduce purchases until a complete termination in 2010. By 2003, Playsam began direct exports to China. This happened because of the close contacts to Saab, which first ordered Playsam toys for car dealers in China. A former Saab manager became Playsam’s distributor, which has brought the products to interior shops (shop-in-shop) and bookstores located in terminal buildings which showcase the products in a ‘designer gift’ section. The Chinese distributor is heavily relied upon for activities in the Chinese market as he is experienced with Swedish culture, having been employed at General Motors who owned Saab, as well as the Chinese culture due to his local origins. Despite the close contact between Playsam and the Chinese distributor, differences in approach are suggested by the distributor in terms of a lower price and products which are more tailored to Chinese tastes, but this is countered by Zedig (2013) as stating “rich Chinese want to buy European design, period”. This is the result of the need to maintain the brand reputation, through only producing products which fit to Playsam and its characteristic design which is European and Scandinavian. A formulated overall business plan exists but no particular one for China. Due to the small size of the company, the business plan is not constantly present and of high relevance. It is considered much more important to understand what is happening in the market and then reacting to it, which also applies for China. Furthermore, it is not growth but quality according to Zedig (2013), that is the most important for Playsam.
“Chinese only do business with family, school pals, military pals, or those living in the same block” (Zedig, 2013)

Some of the difficulties for Playsam in China arise less from the cultural perspective, but more from a limited knowledge and slow increase of knowledge about Scandinavian design within China, a reluctance to purchase limited brand products at this stage of China’s development, and Chinese government welfare policies causing price increases. Through more Chinese tourists are travelling to Europe, Chinese customers become more aware of niche brands as Playsam. A final problem which is connected to both the purchasing and sales aspects is the Chinese business networks, where the Chinese to do business with people they know. This created difficulties in finding suitable production sites within the Chinese cultured Taiwan. Playsam produces the majority of its products in Taiwan, with production in China and Thailand as well. After a long collaboration with the production partners, Zedig is considered as “part of the family” (Zedig, 2013) and thus internal to the network, allowing for unwritten agreements, late payments, but more importantly, trust in business. China was seen as a market to manufacture toys for Playsam, earlier than as a sales market. In 1999 Playsam had an attempt to start production in China, but until the first toy suiting the Playsam standard was produced, it took three years.

Playsam over time has experienced many changes, such as the fall of its main customer simultaneous to the economic crisis, the need to move production away from Poland to Taiwan, China, and Thailand, as quality fell, prices increased, and production capacity was taken over by larger companies. More recently, Chinese governmental policies are changing to increase the living standards which Playsam attributes to greater costs of production, but may create opportunities for sales. As a result of a 40 percent price increase in 16 months, a relocation of production is considered. A recent opportunity which has arisen is a contact by the National Electric Vehicle Sweden with a Chinese ownership, and dealer network which is familiar to the Playsam brand due to their close ties with Saab.

4.2.4 Case 4: Emmaboda Granit

Emmaboda Granit AB located in Emmaboda, extracts and processes granite stones and is the biggest in its industry in Sweden, accounting for 60 to 65 percent of national output from its quarries in South Sweden. The processing of stones only takes place for the Scandinavian market, as to all other markets the stones are delivered unprocessed as raw material. The company is family run and employs 90 persons. Its stones are exported to various countries,
with Poland, China and Germany being major export markets. The importance of Poland and China increased in the last 15 years, replacing Germany as the biggest export market. The rise of China has shifted the focus of the entire industry, for instance the world’s biggest stone fair is nowadays held in Xiamen, China, whereas before it was in Germany. Most of Emmaboda Granit’s stones, because of their mineral characteristic and quality, are destined for the tomb stone market which is a stable business.

“We have to produce what the quarry can give us and then we have to sell what we produce. You have to have different markets to be able to sell all the production” (Gunnarsson, 2013)

China is currently the biggest tomb stone exporter in the world. First contact with the Chinese market started in 1997 through Emmaboda Granit’s Japanese customers, which processed the material in China. Gunnarsson (2013) explains the first activities in China as “sometimes when you enter a market it is coincidence”. However, in cooperation with the Swedish trade council market activities in China were developed, looking for new sales markets and growth opportunities. This was necessary as when extracting granite, the production is not precise and byproducts are produced which must be sold. In 1999 Emmaboda Granit sold its first stones directly to China as import regulations eased. The company operates with an agent in China. The agent has long experience with both Chinese and Swedish culture as he worked for the Swedish trade council before.

“Importing is not as tough as it was in the past” (Gunnarsson, 2013)

Emmaboda Granit only has a few key customers in China whose relationships developed over time as import conditions in China were relaxed. These few key customers exist due Emmaboda Granit’s limited resources, especially granite resources, as mineral extraction is different from the production of goods. The company can only have a certain output per year as the quarries are limited, as Gunnarsson explained “our main problem is to produce enough” (2013). Therefore the company serves at maximum less than one percent of the market. Its customers are located in three regions within China where relevant customers for the industry are clustered, with Xiamen being the most important cluster. These clusters are all located close to the sea to facilitate logistics and composed of family run small scale processing companies. One characteristic of the granite industry, regardless of location is the flat hierarchy and the small number of employees, but in China this is often different.
Chinese customers favor black stones such as black diabase. A further preference of Chinese customers is in the size of stones. Chinese customers generally purchase small blocks of stone because processing machines in China are mainly suited only for smaller stones with a limited size. Additionally, because of labor cost advantages in China, much of the stone is destined to hand worked products. This is different for example to the Italian market, where only big stones are requested. Besides this, no further product differences exist to other markets but further preferences exist. When looking beyond Emmaboda Granit’s B2B customers at the final consumer, preferences which pull the demand for granite exist. Traditionally in China, wood being used for door frames has been considered a sign of luxury, but as trends converge towards a more ‘Western’ style, the use of granite is increasing to demonstrate wealth and appreciation for foreign goods and lifestyles.

Cultural and language differences are balanced through the local agent. In cases when Chinese customer representatives responsible for observing and selecting granite visit the company in Sweden, Emmaboda Granit does not have the chance to communicate with them due to the language barrier, thus relies upon the agent to translate. The existence of bribery, which in some emerging markets is a problem, was never experienced in China. The price sensitivity of Chinese customers can be seen as critical though, because of the extraction process and weight of the stones creates a greater cost risk. Besides the raw material cost, the transportation cost to China accounts for a significant share of the total price, especially as the route with the most suited infrastructure is via Germany. The logistic disadvantage can be partly countered by the positive reputation Swedish granite has. In particular in Japan, the Swedish granite industry possesses a high reputation regarding quality and look, which also helps in China. To an extent, this has its roots in history when some 45 years ago, Sweden was the biggest granite extractor in the world. This ensured that the quality was taken notice of in the global markets, further supported by the Swedish stones having an advantage over stones from other countries due to their consistency and durability. Currently, all Swedish granite extractors work together and through Emmaboda Granit to access the Chinese market.

As described before, the entry into the Chinese market did not follow a certain plan with an opportunity being seen and as the result described by Gunnarsson as “the plan came out by itself in the sense” (2013). The only approach for China which was maintained from the very
beginning was that only raw materials would be exported to the Chinese market, rather than processed stones. This is in line with Emmaboda Granit’s strategy towards other markets, to only supply raw material outside Scandinavia. This decision had to be made from the beginning as for the company to have a customer base, it could not compete on those same markets. Emmaboda Granit saw a greater opportunity to be suppliers of raw materials rather than competing with the processing companies in foreign markets.

“You can make a plan but you need to refine it, because who knew about the recession? You have to live in today and be able to change it all the time, but it’s good to have a guideline to choose the way” (Gunnarsson, 2013)

In 2002 a guideline was developed for China as the market knowledge increased. The guideline is adapted every three to five years to the changing market conditions; regardless it is very vaguely formulated for China since present conditions and opportunities which arise do not allow for the plan to be followed closely, but rather loosely with great flexibility. The Chinese domestic increase of stone demand is one major factor which influences new strategies, meaning that Chinese companies not only buy stone, process it and export it. A trend is noticed towards selling it in increasing numbers for domestic consumption in the Chinese market.

“Before the domestic market wasn’t there, it was only for export market. When it will be developing, it will grow fast like hell!” (Gunnarsson, 2013)

In the next three to five years Gunnarsson (2013) hopes to increase sales by around 15 percent, subject to the condition that the stone output allows that. The Chinese domestic demand is seen as an opportunity to satisfy this required growth, rather than relying on Chinese exports of processed granite. Currently, granite from Sweden is partly shipped to China in order to get processed and then shipped back to Sweden, where the end customer is located. An increasing awareness of the negative environmental influence by end customers arising from the logistics and distance traveled may change their buying behavior, as well as increasing processing costs in China which would decrease the cost effectiveness of longer distance transport. An example noted by Gunnarsson (2013) was a recent construction project in Stockholm which specified that material should not cover over 500 kilometers from source to site. However, that according to Gunnarsson (2013) would not influence granite exports from Sweden to China as the domestic market is currently increasing and could absorb the expected decrease in exports from the Chinese market. The domestic market is seen as a
driver of growth in China, and a reason for a change in approach plan, as it has a large population with changing trends towards Western tastes, one of which being towards granite.

In contrast to other companies affected by the economic crisis in 2008, Emmaboda Granit experienced their “best year in 2008/2009” (Gunnarsson, 2013). An explanation for this is that though the demand of granite for tomb stone applications remains stable, the fluctuations are seen in the demand for granite destined to construction projects. Granite applications for flooring or facades is the one of the last steps of a construction project and thus the effect of a decrease in number of projects is only felt two to three years after. Municipalities are one of the major end customers for these construction projects, and at the beginning of the economic crisis in 2008, investments were increased but dropped soon after. Chinese granite demand is also affected by this increase as Chinese granite processing companies export a large portion of their goods.
5. Analysis

This chapter is divided according to the research questions. The analysis of the empirical findings, by using the presented theoretical frameworks, first focuses on the three sub-research questions and afterwards on the main research question.

5.1 SMEs' Perception of LOF in China

LOF considers all those costs that are encountered by firms which have a different COO from the market in which they operate, which are obstacles that local firms do not experience. They are considered as negative COO effects which are affected by the reputation of past products or environmental conditions associated to the COO. In the 1960’s Hymer introduced the concept of LOF as being the costs associated from operating under a different currency and taxation policy, costs associated to unfamiliarity with the local business environment, and finally costs arising from discrimination by the government of the foreign country where the company operates (Hymer, 1976). These costs were considered and developed by Zaheer (1995) into four main categories. LOF arises as a result of geographical distance, unfamiliarity of the local host country market, discriminatory measures of foreign companies by the host country government, and discriminatory measures which are experienced with the need to adhere to regulations of the country of origin.

COO effects aid in hastening the decision making process by narrowing down the list of alternatives for the purchasing decision. This effect is argued to be weaker when there is experience and familiarity with the product class or brand, and stronger otherwise (Johansson et al., 1985).

The interviews revealed that the case companies faced liability of foreignness in China from the various sources. The interviewed SMEs pointed out obstacles which contributed to LOF in three of the conditions which Zaheer (1995) outlines. Home country discrimination though was only mentioned by Emmaboda Granit, for which Swedish governmental regulations contributed to their LOF.

Geographical distance costs were experienced, which led to higher costs of logistics. These costs were particularly affected by the mass and size of the deliveries to China. This is considered a LOF which is experienced by Swedish firms and not Chinese firms due to the geographical location and logistical difficulties of moving goods from Sweden. In addition, this is time consuming and therefore might result in a disadvantage towards local competitors.
in regards to delivery time. Norden and Purac are affected in a similar way as both produce industrial solutions with complex designs. The logistics for tube filling machines or waste treatment solutions require a large number of components to be delivered over a large distance for assembly at the customer’s location within a given deadline. These reasons all elevate costs, particularly as risks increase as the distance for the goods to travel increases. For Emmaboda Granit, logistics has been described to be a large portion of total costs when shipping to China, and because of the weight of granite with high associated costs to transport it, the company faces strong negative COO effects in the form of LOF. These high costs do not allow for a cost advantage in the Chinese market where consumers are price sensitive, and attention to contain costs is necessary. Emmaboda Granit quarries from South Sweden, and costs are increased as a result of local infrastructure requiring shipments to be made via Germany, thus contributing to LOF in China. Another approach to geographical distance can be taken which looks at the distance creating difficulties to meet and interact with customers. In Chinese business, relationships and interactions are valued (Lee, Pae and Wong, 2001), and foreign companies are assumed to face increased costs to maintain the same level of interactions as their Chinese competitors. An alternative would be to contain costs by reducing the level of interactions, but this has the potential to raise opportunity costs of missed opportunities.

LOF can also be experienced as a result of unfamiliarity with the local business conditions in the host country market. All companies have suggested that this is the largest obstacle which needs to be addressed to be successful, and overcoming this obstacle is suggested to be necessary, though often adjusting can cause costs to be incurred. This LOF was noticed to arise as a result of language barriers, cultural practices and values which lead to the need to adopt of different approaches, and finally differences in finance systems by one case company.

The language difference is the first and most obvious barrier which all companies identified as contributing to their LOF. All the interviewed companies mentioned that they faced language barriers as Swedish, English, and in cases German were often the known languages by the Swedish companies, but oftentimes the Chinese counterparts did not possess any of these language skills in common. This has been explicitly seen as the case for Emmaboda Granit, where Chinese customer representatives responsible for observing and selecting granite visited the company in Sweden without any possibility to communicate as their knowledge was limited to Chinese. To maintain these customers, Emmaboda Granit, like the
other interviewed SMEs has had to be flexible and adapt, even if costs were increased by doing so. Language barriers can inhibit the initial contact and business exchanges, but it can also be assumed that as a result of some degree of language differences, personal contacts are limited as well, which limits the effectiveness of building linkages through relationships. This is a significant barrier to entering the Chinese *guanxi* business networks of close personal relationships as described by Lee, Pae and Wong (2001).

Complementing the language difference is the difference in cultural practices which is a social barrier that often increases the cost of doing business in China by non-local companies. These cultural practices affect social interactions through differences in cultural norms and values, as well as influence business practices such as the approach towards customers and stakeholders of the Chinese market. Norden saw the differences in practices and noted the need to find solutions to minimize them to interact effectively with customers. These practices include their price sensitivity and focus of customers, as well as the view on hierarchy described by a study by the Swedish Governmental Agency for Innovation Systems (Isaksson, 2009). The study describes what was experienced by Norden and Emmaboda Granit, the Chinese value teamwork in much the same way as in Sweden, but the definition of team differs. Furthermore, this is supported by Hofstede (2013) with a high power distance index suggesting an acceptance of hierarchies. In Sweden, the team is composed of the entire organization, whereas in China, only the management is considered within organizations (Isaksson, 2009). Purac noted such differences internally as well as externally, and has adopted the approach to close the gap between Swedish and Chinese practices at the organizational level. Playsam has experienced the value of *guanxi*, or the need to develop close personal relationships in order to be able to conduct business in closer relational conditions to those experienced by Chinese companies. After 12 years, Playsam’s managing director was able to be considered as part of the *guanxi* network after foreignness was overcome. This concept was initially identified by Playsam when the need came to find a production partner, as the access to suppliers was limited to the contact’s relationships.

Foreign companies in China also face barriers as a result of local Chinese regulations. These barriers include trade barriers such as import taxes and tariffs, and are experienced differently as a result of product category to which the imported good is assigned. This places foreign companies at a great cost disadvantage when compared to local companies as customs tariffs can be up to 60 percent (Shih, 2012), causing the price of foreign goods to be significantly higher than local goods in the interest of governmental policies. Another barrier faced by
foreign companies in the business environment is the ability to accept payments. This is the result of financial regulation and economic policies of the Chinese government. Purac explicitly mentioned this as a barrier to doing business with the move away from soft loan projects which were funded by the European countries in which Purac had established units. Operating directly with Chinese customers, especially municipalities, on locally funded projects was not possible due to the inability to accept payments, and thus necessitated strategic measures to overcome this LOF.

The final source of LOF is the discrimination by the home country as a result of the need to adhere to the company’s home country’s regulation, which places it at a disadvantage. The quarrying practices in Sweden are highly regulated and expansion of operations poses high costs. This is the result of permits which take a long time to be obtained, as well as further regulations which increase operating costs. These costs increase the final price to customers as well as limit the supply available which increases the price further, placing Swedish firms at a cost disadvantage as compared to other competition in China. Emmaboda Granit faces the described LOF in China.

The solution to overcoming these liabilities adds costs, as operation modes need to be evaluated accordingly and control costs are raised regardless of the mode. When intermediaries are relied upon to overcome LOF, performance and behavioral control are apparent, which is also the case with FDIs involving Chinese employees due to cultural differences and opportunistic behaviors which must be accounted for as costs. Additionally costs are increased above those of Chinese firms during the learning and knowledge accumulation period in which the optimal solution to minimize the effects of liabilities is in progress.

Figure 5 summarizes the analysis for the first sub-research question. In the first columns Zaheer’s (1995) sources of LOF are stated. The second column shows which case companies were affected by each source of LOF and the third column how they were affected.
5.2 Strategic Intentions of SMEs Operating in China

An intended strategy is the strategy which a company plans to carry out within a given time period, and may be formulated explicitly or may be an idea (Porter, 1987). When the management decides upon an intended strategy, it marks the beginning of the strategy lifecycle (Mintzberg, 1978). The intended strategy includes directions on which mode the company will use to operate in the specific market, if and how customers will be segmented and targeted, which advantages are aimed to be achieved, the linkage strategy demonstrating their network capability profile, and finally how much commitment will be made towards the customers and the market in general.
The operating modes may be contractual modes, exporting modes such as agents or distributors, or investment modes as fully or partially owned subsidiaries (Welch, Benito and Petersen, 2007; Hilmersson, 2011). The choice of operating mode may affect the ability to perform segmentation, necessary to capture new opportunities and protect the firm’s market position by avoiding competitive threats (Hlavacek and Ames, 1986). Segmentation would also allow for clustering which would aid SMEs with limited resources to market more effectively to retain and develop customers (Collica, 2007). Segmentation of customers for B2B marketing is based upon organizational size, SIC category, end use of product, and geographical location (Wind and Cardozo, 1974), which is distinct from B2C segmentation which is based on values, psychological characteristics, as well as needs and benefits sought (Bonomo and Shapiro, 1984). These customers may be targeted with a focus on a particular advantage the company possesses with relation to strategy. Such advantages may be from entry either through early mover advantages of being an early entrant in the market, or an early supplier of a solution to a customer (Jansson, 2007a). Advantages may also be competitive advantages in the form of cost or differentiation advantages, which are easier to achieve once an early mover advantage is achieved. As Arnold and Quelch (1998) suggest, timing of entry in emerging markets is crucial. From observing the mentioned authors contributing to strategy, a network capability profile may be understood for each of the companies as through a direct linkage by being a customer, product, or distribution specialist, or through an indirect linkage by being a distributor network specialist (Jansson, 2007a). The degree of commitment is based on the amount of investment in the Chinese market and how integrated a company is into the local guanxi networks or relationships.

Norden entered the Chinese market when the trend was observed that their large customers from existing markets were moving to China, thus providing a possibility for expansion as the company recognized the new growth opportunity. As a result, a market analysis was subsequently conducted to determine if Norden should follow them into China. At the time of entry, Norden had a formulated strategy based on sales figures, with the intention to reach their target through relying on the same company values and quality products as they would in mature markets. The initial direction was to remain solely as an exporter to China by establishing a relationship with a distributor to operate on the Chinese market. This was decided upon since despite the market analysis, the knowledge about the Chinese environment was relatively low, even if Norden possessed knowledge about their main customers. Johanson and Vahlne (1977) also support this approach through their conclusion that most
companies begin in a foreign market with an intermediary, but as mentioned by Sandberg (2012) the consequences of the benefits of a low operational risk and resource commitment is the lack of control which is offered.

As the knowledge of the Chinese market environment was low at their time of entry, their initial strategy included segmentation and targeting towards their large mature market customers. This reduced risk since though the context was unfamiliar, Norden could rely on previous experience with customers. Additionally the segmentation allowed Norden to protect their market position of high speed tube filling machines which are required by large customers in their Chinese production facilities. By being an early mover into the Chinese market with the high speed offerings, they gained an advantage as a result of being an early entrant as well as an early supplier of high speed tube filling machines to customers in the Chinese market. By operating through a distributor in the Chinese market, Norden’s initial strategy was to be a distributor network specialist, which requires the capability to manage and leverage the intermediary to create a business relationship with the customer.

Purac did not have an initially formulated strategy for their entry to the Chinese market, but did have an idea and a plan to benefit from opportunities in the Chinese market. Initially, the soft loan projects originating from European countries were the way through which Purac gained access to China. When performing such projects which were relatively low risk and mainly regarded the export of pre-specified goods to China, an intended operating mode of an agent was decided upon. This is seen as a low level of commitment. Purac did not need to possess knowledge of the Chinese market. Moreover, contact with the Chinese customers was limited, with the majority of contact, in particular for the acceptance of payments being handled outside the Chinese borders by Purac units within the countries providing the funding. Initially, segmentation was understood to be performed within Europe in order to meet the requirements of participating in the soft loan tenders. Deciding to focus on soft loan tenders can be argued to be another form of segmentation.

By being an early entrant into the Chinese market, both physically and as an early provider of solutions to customers, Purac was able to gain an early mover advantage which allowed it to distinguish itself in the Chinese market from other competitors with greater resources. This was contributed to with the initial strategy, similar to Norden’s, of completing the projects and earning a good reputation. As a result of the low commitment decided upon from the lack of knowledge about the future development of the Chinese market, Purac maintained an
indirect linkage with competitors and focused on maintaining an intermediary by being a
distribution network specialist. This was possible because of the tender offer’s characteristics
which did not necessitate collaboration with the customer in the design phase of the project,
nor the acceptance of payments from within China.

Playsam’s entry to the Chinese market was initially beyond its decision making control, and
began with a customer acting as an unconventional distributor for Playsam’s products. The
initially intended strategy which was formulated regarding China was for the sourcing of
products at a reduced cost. This strategy was built upon the company’s values of offering high
quality wooden products with a unique Scandinavian design and feel. This regarded quality of
raw materials as well as the finish of the product. For the initial marketing strategy which was
formulated for customers in China, the essence did not vary. The intended operating mode
focused on maintaining costs low while maintaining quality and brand perception high. For
this, a local distributor was decided upon because he already possessed common knowledge
about the local and Swedish environments, as well as potential contacts.

Segmentation by Playsam in China was not significantly different from other global markets.
The reason could be the unique niche in which the products are positioned, where customers
are affluent and seeking conspicuous consumption goods. Additionally, an appreciation for
design is a trait which characterizes customers. Playsam intended to maintain the products
unchanged in order to target the wealthy Chinese customers. This company is different from
the other three cases as it offers products which could be both B2B and B2C, though B2B
targeting seems to revolve around many of the same B2C segmentation characteristics
described by Bonoma and Shapiro (1984) of customer values, psychological characterstics,
and benefits sought. Regardless, the end use of product as an exchange conveying value and
taste between individuals is considered for B2B segmentation.

It is understood that the initial plan was maintaining a low commitment. That could be
attributed to the existing knowledge that China, being at a relatively early stage of
development, would not have a large demand for limited brand luxury goods. This is because
the target customer mainly prefers large well known luxury brands which were established in
China prior to Playsam. In this broader collection of luxury products for gift exchanges,
Playsam does not have an early mover advantage. The agent provides an indirect linkage to
customer relationships, thus providing Playsam with the network capability profile of
distribution network specialist. Regardless, for the sourcing of products, Playsam maintains a
direct relationship not involving third parties as the need to establish close relationships in China, and become integrated as part of the network was identified and deliberated from an early stage and continued over time.

Emmaboda Granit entered the Chinese market through their Japanese customers who requested exports to China for processing. Although similar to the Playsam case as entry was a coincidence, this can be considered the beginning of the intended strategy as the company was seeking opportunities for growth through new markets, and recognized growth opportunities within the Chinese market with a desire to exploit them. This led to the emergence of a plan for directing actions. The initial direction in order to exploit these opportunities was maintained with a low commitment. Like for the other cases, it is assumed that low commitment exists in the beginning because the future of the Chinese market remained highly uncertain and thus involved high risk. Entry began with a collaboration with the Swedish trade council, with whom market activities were developed. Segmentation by Emmaboda Granit in China was performed following its global marketing strategy’s B2B segmentation according to SIC category, where the global decision to not compete with processors beyond Scandinavia was made through only direct exports unprocessed products. Other forms of segmentation rather occurred because of the market conditions in China. In geographical terms, segmentation was provided by the clusters of the granite processing industry around three cities, with Xiamen being the most important. Segmentation by end use of product was also provided by the characteristics of Swedish granite which is ideal for the tomb stone application which also provided the segmentation by organizational size of customer as the tomb stones are handcrafted, meaning that organizations are smaller family owned granite processors. Segmentation has been a consequence of pre-existing market clusters or by unalterable characteristics of their product. The result of this naturally occurring segmentation cannot be considered a result of marketing activities. Emmaboda Granit can be described not performing customer segmentation according to these bases within China, but solely based on SIC category.

Emmaboda Granit has achieved an early mover advantage in China for Swedish granite which is considered of a high quality due to its low level of moisture absorption. It is currently still the only granite company offering Swedish granite. By engaging with the Swedish trade council, Emmaboda Granit initially decided to maintain indirect linkages to the customers, focusing on their capabilities of being a distributor network specialist. Emmaboda Granit’s offering provides little room for customization, thus a distant and indirect linkage is
understood to be more efficient for the company than maintaining direct linkages with customers, especially considering the limitation on resources.

Figure 6 summarizes the analysis for the second sub-research question. Each row represents one case company. The columns show each one of the before discussed strategic components.

<table>
<thead>
<tr>
<th>Company</th>
<th>Intended Operation Mode</th>
<th>Segmentation</th>
<th>Early Mover Advantage</th>
<th>Network Capability Profile</th>
<th>Market Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden</td>
<td>Intermediary-Distributor</td>
<td>Yes</td>
<td>Early Mover</td>
<td>Distributor network specialist</td>
<td>Low</td>
</tr>
<tr>
<td>Purac</td>
<td>Intermediary-Agent</td>
<td>Yes</td>
<td>Early Mover</td>
<td>Distributor network specialist</td>
<td>Low</td>
</tr>
<tr>
<td>Playsam</td>
<td>Intermediary-Agent</td>
<td>Yes (luxury goods, , in accordance with its corporate segmentation strategy)</td>
<td>No</td>
<td>Distributor network specialist</td>
<td>Low</td>
</tr>
<tr>
<td>Emmaboda Granit</td>
<td>Intermediary-Trade Council (Agent)</td>
<td>Yes (to stone processors, in accordance with its corporate segmentation strategy)</td>
<td>Early Mover</td>
<td>Distributor network specialist</td>
<td>Low</td>
</tr>
</tbody>
</table>

Figure 6: Summary of strategic intentions of SMEs operating in China

5.3 Realized Strategies by SMEs Operating in China

The strategy by the end of a strategy life cycle is the realized strategy by a company (Mintzberg, 1978). The described in 5.2, operation mode, segmentation, network capability profiles, and the degree of companies’ commitment are strategic approaches analyzed in this section, in addition to their realized competitive advantage. Competitive advantage was described before to be reached once a company achieves to outperform its competitors. This is possible through distinction of the company and its products (Jansson, 2007a). Through this
thesis it is already understood that SMEs often do not have a formulated intended strategy when starting operations in a new market. Hence, no expressed strategy life cycles exists. Certain events on a company’s timeline could be identified as the end, respectively the start of a new strategy lifecycle even though it was never formulated. For this thesis, the approach is to understand what strategies are realized at a certain time, with the chosen time being the moment the interviews were conducted. As all companies started their China operations in the 1990’s all have a similarly approximate time horizon, though keeping in mind that Norden and Purac entered in the early 1990’s whereas Playsam and Emmaboda Granit in the late 1990’s, though Playsam began with sourcing before sales.

Currently, Norden operates in China through a subsidiary, which is shared with two other companies belonging to the parent group. This is the result of Norden becoming integrated into the Coesia group in 2008. The subsidiary as an operation mode offers a higher level of control than other modes which involve a third party actor. The segments Norden is competing in are fast and medium speed tube filling machines. In those segments, Norden has a competitive advantage perceived by the customers based on their capabilities in engineering, maintaining relationships and high service orientation which supports their network capability profile identified as customer specialist. These capabilities are maintained in China, as in other markets through training the Chinese employees to build those capabilities in the Chinese subsidiary. Chinese employees are trained at Norden’s headquarters in Kalmar. A positive side effect of the training is that the Chinese employees gain a better understanding of the Swedish culture and vice versa. This facilitates the exchange of knowledge as well as an understanding for Norden’s company culture, which positively affects the cooperation between headquarter and subsidiary. The company’s advanced product works towards a support of the competitive advantage. Large international and national players are its main customers. That is due to their focus on high and medium speed tube filling machines. Norden competes on price in those segments, as supported by theory suggesting the high emphasis placed on price by customers in emerging country markets (Jansson, 2007a), but also noted through the interviews as an important aspect when operating in China. Competition based on price for Norden is possible, though from a different approach than is familiar to Chinese customers, and consequently requires the long term cost advantages to be directly communicated and explained to the customers. Norden’s machines are more expensive to purchase than machinery from local competitors. However, over time the higher output per minute and quality makes up for the higher purchasing costs and reduces the variable costs in
the production process. The marketing of machines requires that the customer understands the long term benefits of making a higher quality purchase, rather than only focusing on the initial investment. This described development of Norden in China, demonstrates a high degree of market commitment.

Purac operates as well with a subsidiary in China, which is fully local. The need for such a subsidiary developed over time. Holding an own subsidiary gave Purac access to more projects, as for some projects it was necessary to have a local company for financing reasons. Later, Purac recognized that the more local the subsidiary is, the more competitive it is in the Chinese market, which led them to today’s realized strategy. The entire workforce of its Chinese subsidiary is local, including the management. Still, the headquarters is located in Sweden. This might bring up language and cultural barriers with employees of its subsidiary, even though according to Gotthardsson (2013), the Chinese employees adapted to the Swedish culture too. To some extent they could be described as Swedish embedded, because not only their behavior but even their personal preferences have some Swedish influences. The good linkages Purac has to its Chinese employees can be argued to have a positive effect on the company’s China operation and is successfully realized strategy. Thus, the company’s capabilities can be exploited in China. Its customized products and well established social linkages make Purac a costumer specialist.

Purac’s focus in China is on the biogas industry. Due to the large scale of China, Purac identified certain segments to compete in. Sweden has a good reputation in biogas and Purac can deliver advanced technology in this segment, and additionally partly leverage standardization by following a very specific focus in an industry where most products are tailor made to the individual project. This is possible to an extent because of large scale orders which include several similar projects. In addition the biogas segment is very innovative, suiting Purac as they have innovative capabilities which support in gaining a competitive advantage over the less innovative Chinese companies. An increase of Purac’s commitment in China is realized. It is understood that this is due to its development of the subsidiary and today’s importance of the Chinese market to Purac.

Playsam still operates with the distributor it began with in China for their direct entry, after their initial indirect entry through receiving orders through Saab, which then distributed them in China. The indirect linkage to its customers makes Playsam a distributor network specialist. Playsam’s ability to manage the distributor is observed when the distributor presses for product adaption for the Chinese market towards lower quality and price. To maintain the
image and brand reputation by which customers distinguish Playsam, the company has taken the decision to not adapt as requested by the distributor, but to maintain its products unchanged for every market. This is to appeal as a conspicuous consumption product in the high-end segment. The reasoning is that Playsam’s toys are bought because of the unique design and quality which are able to convey a unique message; if this were to change Playsam could lose its differentiation advantage which provides a competitive advantage, as well as its positioning as a luxury brand with a Western and Scandinavian association. As a result Playsam operates in the high-end segment.

Playsam also produces in China through an external manufacturer. For this the realized strategy has been focused towards developing a close relationship and trust, even on a personal level as it is often necessary in the Chinese way of doing business. As a result Playsam’s managing director Zedig is now seen as part of the family and does not depend upon written agreements to conduct business. Regarding Playsam’s relationship to its Chinese producer, an increase of commitment is realized. Its commitment towards marketing strategy could be described as slightly increased. The operations mode remained the same, while the cooperation and relationship to the distributor developed.

Emmaboda Granit’s realized operations mode is through an agent. Geographical segmentation is realized mainly because the industry clusters are in certain regions, but also because of the company’s limited granite resources. Still, its corporate strategy to only provide raw material outside Scandinavia is realized in China as well. Thus, on the one hand geographical and customer segmentation is understood to not be a realized strategy but a necessity, on the other hand only supplying the raw material is segmentation. Like in other markets, Emmaboda Granit mainly targets the stable tomb stone business which is characterized by its handmade nature for which China has a cost advantage. A competitive advantage can be argued to have been reached through the granite quality and the early mover advantage by still being the only Swedish granite company active in China. Swedish granite is perceived of high quality and therefore provides the company with an advantage. For Emmaboda Granit, China evolved into one of its top three markets, being a different situation from 15 years ago. As a result, the engagement not only increased from the indirect entry through the Japanese customers, to the operation with the Swedish trade council as a partner, and finally to the involvement with an agent, but engagement also increased through Emmaboda Granit representing itself through its presence at the Xiamen stone fair in China. However, due to its operation mode and product specification requiring low adaptation, rather low market commitment is understood.
to exist though it is increasing. Like Playsam, Emmboda Granit’s realized network capability profile is distributor network specialist.

Figure 7 summarizes the analysis for the second sub-research question. Each row represents one case company. The columns show each one of the before discussed strategic components.

<table>
<thead>
<tr>
<th>Company</th>
<th>Realized Operation Mode</th>
<th>Segmentation</th>
<th>Competitive Advantage</th>
<th>Network Capability Profile</th>
<th>Market Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden</td>
<td>Subsidiary</td>
<td>Yes</td>
<td>Yes (advanced products, high service orientation)</td>
<td>Customer specialist</td>
<td>High</td>
</tr>
<tr>
<td>Purac</td>
<td>Subsidiary</td>
<td>Yes</td>
<td>Yes (early mover and advanced products)</td>
<td>Customer specialist</td>
<td>High</td>
</tr>
<tr>
<td>Playsam</td>
<td>Intermediary-Distributor</td>
<td>Yes (affluent seeking Western conspicuous consumption goods)</td>
<td>Yes (differentiation)</td>
<td>Distributor network specialist</td>
<td>Low towards marketing strategy (but increased), high towards purchasing</td>
</tr>
<tr>
<td>Emmaboda Granit</td>
<td>Intermediary-Agent</td>
<td>Yes (through only providing the raw material)</td>
<td>Yes (Early Mover, quality of stones)</td>
<td>Distributor network specialist</td>
<td>Low</td>
</tr>
</tbody>
</table>

Figure 7: Summary of currently realized strategies by SMEs operating in China

5.4 LOF Influencing SMEs’ Strategies in China

In this section, the identified sources of LOF influencing strategies are analyzed.

Geographical distance

In 5.1 geographical distance, a source of LOF, was analyzed to affect SMEs in China. This is mainly through logistical costs and additional costs to maintain relationships due to the greater distance. In order to overcome logistical costs, it is necessary that production and distribution both be located in China. None of the case companies intended nor realized to
relocate both their production and distribution network to overcome these costs. Playsam has organized sourcing for some products from China as a result of the low cost and sufficient quality, but this alone does not contribute to overcoming LOF. Having an intermediary located in China reduces the costs for maintaining relationships with customers, because the intermediary assumes responsibility for these. A consequence of having an intermediary is that the company would then have to consider how the relationship towards the intermediary should be maintained.

The case companies, within their early stage of sales relationships to China, all intended to operate via the intermediary channel. This was a solution in order to contain costs for maintaining relationships with the customer, leaving only the costs for maintaining relationships with the intermediary. As intermediaries by number are fewer than customers, fewer relationships need to be maintained. This is expected to result in lower costs as suggested by Harrison and Kjellberg (2009). Furthermore, Playsam and Emmaboda Granit both initiated cooperation with intermediaries that were already familiar with the Swedish culture, hence lowering the costs of maintaining relationships with the intermediaries because of their ability to interact more effectively with both the company and the customer.

The currently realized strategy, in regards to the operation modes did not change for two case companies, Playsam and Emmaboda Granit. It can be understood that once the geographical distance costs of maintaining relationships were overcome by the intermediary, a need to pursue closer relationships was not identified, which particularly can be seen in the case of Emmaboda Granit. This may be because the product is a raw material commodity, which differs solely based on its quality which is closely influenced by the geographical origin of the stone. No customization or quality improvement is possible for the company’s products, thus close relationships to better understand the customer’s needs are not necessary and may be handled by an intermediary. Playsam, like Emmaboda Granit, does not customize its products. It can be assumed that their products are not essential to their customer’s business activities, but rather are secondary purchases which account for a smaller and dispensable part of the customer’s purchases. For the following reason, a greater need for close relationships with continuous contact is not required with the customer. As noted before, Playsam’s products are not tailor-made, but rather standard products which as a result reduce the need for a degree of closeness by not necessitating input or direct contact with the customer.

Even though in China close and personal relationships, which could be achieved with a closer geographical distance are an important aspect to doing business (Lee, Pae and Wong,
Playsam and Emmaboda Granit did not experience the need to get closer to the customer via a direct operation mode. This implies higher costs initially, and would expose the company to greater risk and resource commitment (Johanson and Vahlne, 1977), which may not be justified even if in the long term would help to overcome some geographical distance and associated costs because of stronger personal connection necessary within certain industries.

Norden and Purac realized their operation mode related strategy differently from that strategy which was initially intended at the beginning of their engagement with China. Although operating with an intermediary keeps, as discussed previously, the cost of maintaining relationships low, it also hinders a company’s ability to make use of certain capabilities. As discussed by Sandberg (2012), an appropriate mode affects the performance of an SME in a foreign market. The both companies were identified as customer profile specialists, having capabilities in engineering, customization, and customer service. These could not be fully exploited in China when with an intermediary. As a result, geographical distance as a source of LOF influences the Norden’s and Purac’s operating mode strategy, by requiring the establishment of closer relationships through moving from an intermediary to a subsidiary.

Intended and realized segmentation may have been influenced by geographic distance. This could be argued to be in connection with difficulties in developing and maintaining relationships from a distance. Focusing on a few segments, as for instance Norden and Purac realized, therefore lowers costs occurred.

Potential early entrants may be influenced by geographical distance as the costs arising from the distance may hinder a company’s market entry. Still, once achieving to be an early mover, the arising costs due to distance may be less important for the customer as a result of the perceived advantage from few companies offering alternatives to the product solution.

Hence, it could be argued that potential early entrants are influenced by distance as a source of LOF, but once having an early mover advantage this LOF can be overcome. Emmaboda Granit overcame this LOF by being the first company offering Swedish granite. As they still are the only company the same can be argued for competitive advantage. Additionally Norden and Purac managed to gain early mover advantages and realized a competitive advantage. Thus, they overcame geographical LOF by their ability to innovate and produce quality products, and by being early entrants.
Unfamiliarity of host country market

The unfamiliarity of the host country market had been identified as a major source of LOF (Zaheer, 1995), which was perceived by all four case SMEs to affect their business operations, especially in terms of language and cultural differences. The language difference was apparent from the beginning, due to the mismatch in language capabilities possessed by the case companies and their Chinese contacts. The intended strategies were influenced by this because without having a strategy to overcome the language barrier, interaction with the Chinese market would be impossible. Initially, all the SMEs entered with intermediaries as operating modes, as suggested by Johanson and Vahlne (1977) to incur the least operational risk, resource and time commitment, while bridging the language barrier with customers. The language barrier hinders companies to fully utilize some capabilities, for instance Norden’s high service orientation. This combined with different social practices in China makes it more challenging to build social linkages. The operations mode was a strategic component which was taken into consideration to overcome LOF, accounting for the “relevant characteristics of the local environment” (Jensen and Szulanski, 2004, p. 517). A second part of the unfamiliarity of the host country market is with regards to the cultural differences between China and Sweden (Hofstede, 2013). As with the language obstacles, the intermediary handling interactions with customers would reduce the LOF by providing their knowledge on the local norms and values which the foreign SME does not possess, as well as on the local Chinese business environment.

The LOF of cultural differences has an influence on strategy because it poses a barrier to interacting with the local Chinese market. This is understood to be because the way in which customers should be approached, as well the way in which business should be conducted with customers and other stakeholders is unfamiliar to the company. This influences strategy by requiring a response which raises costs either in terms of missed opportunities or greater resource investment to gain opportunities, which local firms probably would not have to account for. By learning from gaining experience, as with regards to LOF, an accumulation of knowledge is achieved which allows for a change in strategy within Mintzberg’s (1978) strategy lifecycle. This is the result of past and new knowledge which develops both global and local strategies (Berchtold, Pircher and Stadler, 2010). Over time this development adjusts strategy since the perception of risk may decrease as the familiarity with the environment increases, in particular with the business environment where the culture and etiquettes towards customer interactions become more familiar. As seen with the cases, when
the interactions and activities within the Chinese market increased, a greater familiarity was gained, which allowed for a strategy to emerge for a change in operation mode by Norden and Purac.

The shift of both companies towards subsidiaries could be a result of a need for closeness to the customer, as both companies’ products are customizable and tailor made for the customer. In Norden’s case this degree of closeness was with the large Chinese players which emerged, whereas for Purac it was with the move away from the foreign funded projects towards Chinese projects with local funding in the industrial sector or for municipalities. For these relationships, an acceleration of language and cultural knowledge which would determine the companies’ unfamiliarity with the local market was achieved through the integration of Chinese personnel into the subsidiary. For Purac, this involved an agreement to integrate the agent’s employees into the new subsidiary, thus bringing competences into the company.

Additionally, by removing the intermediary, there was no longer reliance upon the third party for a participation in a *guanxi* network, but the companies had a chance to develop direct relationships which would engage them within the networks. Lee, Pae and Wong (2001) argue that these close and personal relationships are necessary to become part of the *guanxi* network and do business effectively in China. By being involved directly in the Chinese market, the company’s own knowledge would have the possibility to increase more rapidly than with an intermediary as a result of greater direct experience in all aspects of business interactions. Regardless of this, an intermediary can be argued to be necessary to gain the basic knowledge on the local cultural and business environment (Johanson and Vahlne, 1977).

The tailor made products of Norden and Purac that require a design based around the customer’s specifications also require a high degree of closeness with the customer, especially when that customer is local Chinese. On the other hand, Playsam and Emmaboda Granit offer standardized products which require little customer interaction aside from the search and sale to customers. For this reason, the knowledge of customers as well as the environment is less relevant because direct interactions, the engineering capabilities, and the service aspect are less valued by the customer. Therefore, Playsam’s and Emmaboda Granit’s strategy are less influenced by LOF. This has allowed Playsam and Emmaboda Granit to maintain a low degree of risk by remaining distribution network specialists and deliberating their intended strategy in the Chinese market. What has also contributed to maintaining this decision, aside from the fewer company resources of these SMEs, is the background of the intermediaries employed by Playsam and Emmaboda Granit. The intermediaries have in common that they
are both local individuals with a high level of experience with the Swedish culture, and have an established connection with customers from their past employments. This allows costs to be maintained as according to Johanson and Vahlne (1977), while benefiting in the interaction process, through an understanding and mediation of both cultures.

Segmentation is an aspect of marketing strategy which can be used by companies to manage LOF arising from unfamiliarity with the host country environment of China, by focusing their resources in gaining knowledge about a specific context or group of customers. Zou and Cavisgil (2002) explain the standardization, configuration-coordination, and integration perspectives for marketing strategy.

By observing the cases, the standardization perspective and the configuration-coordination perspectives are present. The standardization perspective is when a standardized strategy is applicable to all markets in terms of product, promotion, channel structure, and price. This is the strategy which was initially intended by Playsam and Emmaboda Granit, and has been deliberated, thus making it their realized strategy. Both do not adapt the product, as doing so would cause them to lose customers. For Emmaboda Granit, this would be because the stone processors are unwilling to compete with their supplier, whereas for Playsam, product adaptations towards the local market would not meet the expectation of wealthy customers seeking ‘Western’ style in luxury goods. Playsam is able to maintain a standardized marketing strategy globally as its customers, whether B2B or B2C, generally seek a common message through the product conveying value; an appreciation for design in gift exchanges. As a result of both companies having identified customer segments which are present globally, the channel structure and promotion of their mainly standardized product offerings remains unchanged between markets.

Segmentation for these two SMEs employing a global marketing strategy allows for, as Jensen and Szulanski (2004) suggest, efficiencies in operations as a result of lower coordination costs from replicating operations and practices. In the specific case of these SMEs, the resources necessary to gain an understanding of, and then managing diverse types of strategies in different markets would suggest standardized operations as a more appropriate match. As a result, internationalization and managing international operations is less arduous and requires a lower amount of resource commitment. This supports Harrison and Kjellberg’s (2009) theory that segmentation allows for a concentration and focus on restricted groups of customers, which reduces the resources needed.
The marketing strategy perspective of configuration-coordination was eventually employed as a realized strategy by Norden and Purac, with a focus on minimizing coordination costs by placing value chain activities as close as possible to each other with some degree of standardization. Both did not begin with this as an intended strategy, but rather developed over time as the unfamiliar aspects of the host country market were overcome, and an identification of customer segments was achieved. Segmentation contributed to overcoming the unfamiliarity because it allowed for Norden and Purac to concentrate efforts on understanding a specific group of customers and specializing within that context to meet their needs.

Norden initially intended to enter with well known large customers from mature markets with which they had experience. The result of this very specific segmentation which was intended by Norden was a broadening to large Chinese customers as they emerged. This required a new strategy with greater closeness in order to convey the longer term cost saving benefits of investing in higher quality machines, as well as to enable the company to maintain their advantage in customer support from the initial design planning stage to after sales support. For Purac, the initial segmentation was not according to the B2B segmentation defined by Wind and Cardozo (1974), but rather by type of project financing, as they focused on targeting soft loan projects from European countries. As these projects were carried out in China, knowledge of the local conditions was increased. With a greater familiarity of the host country market, Purac was able to identify direct business opportunities which required an organizational change since closeness to the customer was needed as a result of greater involvement within projects from the engineering design aspect. For Norden and Purac, the emergence of new customers which required closer contact to the customers resulted in the emergence of a configuration-coordination perspective for the marketing strategy, by removing the intermediary to have direct contact with the customer. As a result of becoming directly involved in the Chinese market, segmentation was pursued further, to contain costs associated to gain an understanding of the extensive Chinese market. In particular, Purac targeted municipality customers in terms of location and final application of the product. This was because municipalities offered several similar projects. This strategy reduced coordination costs by reducing the ratio of customers to projects, with a lower number of customer contacts while increasing standardization for the similar projects. By segmenting to a clearer and more restricted customer group, fewer resources are needed according to Harrison and Kjellberg (2009).
The marketing strategy, of which segmentation is a large part, has been approached from a global integration of strategy by Playsam and Emmaboda Granit, by not creating unique segmentation strategy for the Chinese market because of the standardized products which have an appeal for the same purpose globally. Unlike the marketing approach by Playsam and Emmaboda Granit, Norden and Purac have employed strategies which represent both global and local strategies. The segmentation of customers was necessary for these SMEs, as it allowed for a focus on the firms’ unique engineering capabilities in designing custom projects for customers. This close collaboration with local customers could commence once enough familiarity was achieved with the host country market to enter the market directly. Furthermore, a direct entry greatly increased the rate of knowledge accumulation and the development of close and personal relationships deemed necessary to enter the guanxi networks, described by Lee, Pae, and Wong (2001). Jensen and Szulanski (2004) support the approach that efficiency is gained through global strategies, but a correct adaptation to the characteristics of the local environment is necessary for effectiveness. Enderwick (2009) further supports this theory by adding that there is a need for a mutual adaptation between the internal practice and the external environment, which is what has been achieved by the internal organization of the Chinese subsidiaries, employing local individuals.

In some cases, unfamiliarity with the host country market creates barriers to approaching companies because of the language and cultural barrier which create incompatibilities and apprehensiveness in initiating the approach to local customers or the local market due to the higher perceived risk from a lack of knowledge. As identified, competitive advantages are a major component of strategy, and may be influenced by LOF to as a response to the barriers presented. Cost and differentiation advantages create a firm’s competitive advantage (Grant, 2010). Cost advantages are difficult or in the case of Playsam, undesirable for the Chinese market’s competitive environment. Thus, advantages by the case companies have to be gained from differentiation advantages. Having a great enough competitive advantage has been seen to reduce the barriers to interacting customers, as the belongingness to the guanxi network in some cases becomes less significant for business opportunities.

In Norden’s case, their initial decision to be an early mover gained them a positive reputation within the industry, which was maintained by the unique capabilities in medium and high speed tube filling machines which are characterized by high quality. The differentiation advantage was further supported by the capability to build and maintain close customer relationships through the customer support and transparent approach. Purac gained an
advantage for their early entry and reputation earned at that stage. In addition, their know-how and innovation in project engineering with anaerobic technologies, for which Sweden was known for, contributed to sustaining the competitive advantage over time. These advantages created positive effects to balance the negative LOF experienced in China. As these advantages were perceived as important enough for the customer’s purchasing decision, the approach within the Chinese market was facilitated with a lower need to market products in terms of search efforts or price cuts. In the longer run, COO effects arose as a result of the reputation of past products which in part was created by the case companies. These positive COO effects contributed to the reduction of barriers for Norden and Purac at a later stage, bringing the Chinese market closer through a more favorable association with Sweden within the industries where their customers operated.

Playsam which relies heavily on their competitive advantage in design has experienced the LOF of difficulties in approaching customers from an unfamiliarity of the local host market. Though the company is connected by guanxi to networks on the supply side, the unfamiliarity of the Chinese customers with Sweden and Swedish design prevents an advantage from a positive COO association. Furthermore, the Chinese market’s tendency away from limited luxury brands, because of the stage of development of the market, does not allow Playsam’s competitive advantages to play a significant role in balancing the LOF.

Emmaboda Granit faces the competitive advantage in the characteristics of their stone. As a result, this advantage has allowed for an easier contact with the Chinese market because of a ‘pull’ effect of demand where marketing and segmentation are of lesser significance. The willingness of Chinese customers to interact with Emmaboda Granit because of a lack of direct substitutes for the characteristics of Swedish granite more easily and rapidly reduces unfamiliarity. These characteristics are known because of Sweden’s historical reputation as a major producer of granite, which differs greatly from that with other COO. As a result, Emmaboda Granit is able to benefit from positive COO effects which balance the negative LOF effects. This is explained by Johansson (1989) where COO effects are more influential in the purchasing decision when the perceived variability between products of different COOs is high, and that of products with the same COO perceived as low.

As a result of a lack of design and brand knowledge within China, Playsam’s Scandinavian design is not noticed as having any significant variability with luxury products for gifts with other COOs, resulting in few effects influencing the purchase decision, thus differentiating products. On the other hand, because of the product characteristics of all Swedish granite and
their higher perceived quality for tombstone purposes than other granites from other COOs, as well as their low perceived variability between products from Swedish granite producers, the COO effects play an important role in the Chinese customer’s purchasing decision.

**Discrimination by host country government**

Chinese governmental regulations, such as import tariffs, were identified as major discrimination by the host government. These costs are inevitable, as applies to certain geographical costs as well, unless production and distribution are moved to the host country. However, Arnold and Quelch (1998) argue that an early entry can lead to favorable government relationships, especially in the case of an early high commitment through FDI. As understood all case companies had initially a low commitment strategy. Therefore, and probably because of the size of SMEs, favorable government relationship can be assumed to not have been gained. Still, being an early mover allows the company to be more experienced with the environment and regulations (Arnold and Quelch, 1998). Three companies were identified as early movers, and through that, could be assumed to have experience of the governmental discrimination that later entrants do not have. Purac, setting up a subsidiary early and operating in the biogas segment can be expected to have solid experience with regulations in China. It is understood that host country discrimination influenced strategy to a small extent, though rather indirectly. No company established, for example, FDIs that go beyond a sales subsidiary, even though local production would have helped to overcome this LOF. Companies’ strategies of being early in the market and offering advanced products supported in overcoming this LOF although this was understood to be not influenced by the governmental discrimination but occurred by coincidence.

**Discrimination of home country government**

With regards to discrimination by the home country, only Emmaboda Granit was identified to have experienced this source of LOF. This can be assumed to be specifically a result of the industry in which Emmaboda Granit operates, as can be understood from the three other companies not being affected by discrimination of home country government. As this is a limited scenario, it can be assumed to have small influence on strategy within the case study, and is therefore neglected.
<table>
<thead>
<tr>
<th>Operation Mode</th>
<th>Segmentation</th>
<th>Early Mover/ Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographical Distance</td>
<td>To overcome the costs and difficulties of maintaining relationships, direct exports were not chosen but rather intermediaries or subsidiaries with Chinese locals.</td>
<td>Segmentation is affected by the need to develop exert greater effort in developing relationships. This is done by concentrating resources on fewer segments.</td>
</tr>
<tr>
<td>Unfamiliarity of host country market</td>
<td>Initial unfamiliarity with the language and culture LOF affected entry strategy choice towards an intermediary, as that offered low risk and commitment. When some used subsidiaries as unfamiliarity decreased, Chinese locals were employed to keep overcoming LOF.</td>
<td>The unfamiliarity affects strategy by requiring greater segment focus and concentration of resources on gaining more familiarity at a higher rate with the specific segment context. The more customizable the product, the greater the need for segmentation to accumulate knowledge with a configuration-coordination perspective. The more standardized the product, the more standardized the marketing approach.</td>
</tr>
<tr>
<td>Discrimination by host country government</td>
<td>Local production can reduce discrimination of imported goods, but this was not observed, and further consequences were not analyzed.</td>
<td>Unclear Link</td>
</tr>
</tbody>
</table>

Figure 8: SME’s strategies for China

Through this analysis it is understood that SMEs took measures to adapt to the local environment. This happened to different extent based on companies industry and products, operation modes as well as resources. This partly contradicts to Douglas and Craig (2011), who argues that SMEs do not build strategies and adapt on regions or countries, but rather on
markets. Ownership can be argued to also have influence on the strategy. Norden and Purac both belong to a larger corporation, whereas Playsam and Emmaboda Granit are family run. As Norden and Purac’s realized strategy differs from the family run companies, ownership can be assumed to influence strategy development. Another supporting argument is that Norden’s strategy changed when in 2008 Coesia integrated the company causing the ownership to change.

None of the researched companies want to be perceived as local due to the positive COO effects from which they benefit by being perceived as Swedish, though may act local. Purac acts local with its completely Chinese subsidiary as an operation mode to overcome LOF. Many customers being municipalities might be a driver for this approach as Purac may want to avoid being perceived as an outsider when coming into contact with this customer. Therefore glocalization, when seen as a realized strategy can be assumed to be the result of strategy evolution within the strategy life cycle, while taking into account the surrounding environment. With learning and knowledge inflows from the contextually different environment, a firm may gain insights on how to overcome the LOF. In order to use the glocalization strategy to overcome LOF and more effectively target the local market, an evolution of strategy may need to take place with emergent and unrealized strategies, balancing between global and local strategies. Through the evolution process, strategies are continuously being adapted to match the interaction between the firm and the external environment (Mintzberg, 1978). In the case of a firm dealing with a market which is more distant from their home market, the contribution to the strategy evolution process brought about by new knowledge and learning becomes more significant.

In addition, this research supports Mintzberg’s (1978) approach that intended strategy can be difficult to maintain, as often plans change as was understood for all case companies. Opportunities arise, conditions change, economic situations change, clients are lost or reduced, or projects are put on hold. This was especially noticed as the SMEs operate in a contextually different market where it can be assumed to be more difficult to maintain an intended strategy. This is a result of greater unknowns which cannot initially be accounted for as the company is unfamiliar to the surrounding business environment which undergoes changes.
6 Conclusion

In this chapter the research results are presented. The three sub-research questions and the main research question will be answered. Furthermore theoretical and managerial implications are provided as well as limitations of the research and future research will be discussed.

6.1 LOF in China Perceived by SMEs

The analysis reveals that mainly three of the four sources of LOF developed by Zaheer (1995) are perceived by the researched case companies. Geographical distance, resulting in higher logistic costs is obviously experienced by all companies that manufacture distantly from a market they sell in. Three of the case companies produce in Sweden and therefore have a logistic disadvantage in comparison to companies producing and distributing in China. Sweden’s limited logistical hubs may even disfavor Swedish companies in comparison to other non-local companies, for example from Germany or the Netherlands. Not operating via a presence in China, such as through direct exports, additionally would cause stronger LOF as distance would make it more challenging to meet customers as well as to develop and maintain relationships. Unfamiliarity with the Chinese market creates further LOF by not being aware of laws and regulations or the business environment which places foreign companies at a disadvantage towards local competitors. In this research the case companies highlighted language and cultural differences as barriers. A company not being located and producing in China experiences import taxes and customs, which can be argued to be discriminatory measures of foreign companies by the host country government.

The case companies are rooted in different industries. This may allow for a conclusion to be drawn and for the first sub-research question to be answered. The result is that liability of foreignness is mainly perceived by SMEs operating in China through geographical distance, market unfamiliarity, and host countries government discrimination towards foreign companies. Zaheer’s (1995) suggested discrimination by the home country government through regulations can be seen today as less important.

6.2 SMEs’ Strategy Development in China

In the problem discussion and definition, it was argued that the strategic approach of SMEs to overcome LOF in China is less researched. By answering the two remaining sub-research questions, the strategic approach and development of SMEs from mature markets that operate in China can be assumed, contributing to fill the research gap.
6.2.1 Intended Strategy

The researched case companies all began their China entry with low commitment, showing support for Johanson and Vahlne’s (1977) incremental internationalization. Only one company carried out a market research before entering China, and two SMEs started their China operations by accident. The SMEs’ low commitment is reflected in their operations mode. Two of the researched SMEs chose an intermediary to operate in China, the other two were so to say chosen by an intermediary to export to China. Therefore, all case companies had an intended strategy of using an intermediary. This operation mode can be expected for SMEs’ intended strategy as it fits to the SMEs’ need to assume a low initial market commitment and risk avoidance for their China operations due to their limited resource endowment.

Segmentation was performed by all four case companies. However, the segmentation was to a different extent, with those SMEs offering standard products applying their corporate segmentation strategy, whereas those offering customized products had an intended business segmentation strategy adapted for China. It can be argued that SMEs’ intended segmentation strategy partly depends on the SMEs’ industry and products. Standardized products can be assumed to be segmented once through the corporate strategy on a global level, and do not need any further segmentation locally for China. Customized products may be intended to be only marketed in certain segments because of the limited resources of an SME which do not allow for the marketing of all products in every segment on the large scale of China. This supports the assumption from the problem discussion and definition that SMEs’ strategy could be different from MNCs’ because of the resource limitation.

An early mover advantage was gained by three case companies but it was not explicitly intended by all. Thus, it can be argued that SMEs do not necessarily intend an early mover advantage but may reach it through unique product offerings in a market, which are perceived and sought after by the customer.

6.2.2 Realized Strategy

While the intended strategy is understood to be driven by low commitment, for the realized strategy more distinction is requested. Companies increased their commitment in China on different levels. Two case companies significantly increased their commitment through realizing a subsidiary as operation mode, whereas the other two operate via intermediary but increased their participation through trade fairs and production sourcing. Regardless of
operation mode, all companies rely upon local Chinese individuals for their market operations in China. This allows them to create a closer and more effective match to the Chinese environment while simultaneously maintaining foreign identities. The products, engineering capabilities, and direction from headquarters are Swedish, but the local organizations are Chinese with the intention of closer direct relationships with the market.

The problem of meeting with customers is avoided by all case companies being in some way physically present in China. Being present in China either with an intermediary or a subsidiary not only helps to overcome geographical distance but also unfamiliarity of the local host country market. The company’s local agent or distributor does not only provide knowledge and access to the targeted local industry but also overcomes language and cultural barriers which the SME, especially when entering, is not aware of. Building up an own subsidiary in China can be assumed to demonstrate that a company gained a minimum required degree of familiarity of the market. This can be understood as the perceived risk and uncertainty is low enough to feel confident enough to increase commitment through an FDI.

Johanson and Vahlne’s (1977) theory of an incremental process of commitment to enter a market through a lower risk and resource commitment by intermediary has been supported. As noted from the case companies, all SMEs had an intermediary as an initial operation mode, which was intended. As the realized operations mode as well as segmentation in some cases was different from the intended, Mintzberg’s (1978) strategy lifecycle model and its ability to account for strategic change deviating away from the intended plan has been able to be applied to SMEs’ strategies within China. This accounts for the difference between intended and realized strategies resulting from influences of LOF.

6.3 LOF Influencing SMEs’ Strategies in China

The purpose of this thesis was to understand the influence of LOF on SMEs’ strategies in China. This was argued to be important to understand in order to see how LOF can be overcome and growth be ensured. As was understood from the analysis, the strategies which were affected by LOF were operation mode strategy, segmentation strategy and the broader marketing strategy, and the ability to gain competitive advantages by deploying capabilities.

The operation mode strategy was affected by the LOF arising from geographical distance. This created logistical barriers as well as raised the cost for companies to establish relationships with customers. Moreover, the operation mode strategy was also influenced by
LOF arising from unfamililiarity with the host country market, which causes costs for foreign companies to inflate because of the language barriers, the unfamiliarity with norms and values, as well as business practices. These raise the costs to access customers and interact on the market due to the higher perceived risk from the uncertainty of the surrounding environment. From the analysis, it was understood that companies overcome this LOF by integrating local Chinese individuals in the interaction between company and customer, whether directly as employees within a subsidiary, or indirectly through the intermediary.

The companies’ distinct products supported an understanding suggesting that the type of industry and activity performed determines a change in strategy from the initial entry mode of an intermediary. The establishment of close personal relationships is necessary for engineering companies which offer products with a high degree of customization, and thus are required to adapt to better interact with local customers. This is done through changing the operations mode to a subsidiary to establish direct customer interactions for the local market, allowing an exploitation of engineering design, innovation for high quality products, and customer support capabilities. This suggests a degree of local adaptation in the strategy for the customer approach by the operation mode.

The segmentation strategy experienced influences by LOF in the form of unfamiliarity of the host country market with respect to the language and the culture which includes norms, values, and business practices. The way in which segmentation strategy is influenced by LOF is by creating difficulties in identifying and accessing customer segments. At the initial phase of the Chinese entry it is understood that from the inability to segment Chinese customers on the market, companies preferred to direct activities towards targeting the same customer groups which the companies were familiar with from mature markets, even for the early movers into China. This was a way to overcome the differences and uncertainties for which there was not a sufficient level of organizational knowledge to deal with at the beginning. This can be considered a standardization marketing perspective (Jensen and Szulanski, 2004), where operations are standardized among markets as an initial strategy, though this evolved. The evolution occurred from necessity within certain industries to be close to the customer in order to effectively provide customized products rather than solely focusing on efficiency.

From the trend observed of the companies offering the highest custom engineering adaptation of products and a competitive advantage in customer interaction and support, it was understood that their need to be close to the customer required them to concentrate their
resources. This was achieved by identifying and focusing on fewer customers which requested products for which the company had a competitive advantage. Utilizing a configuration-coordination perspective (Jensen and Szulanski, 2004) placing value chain activities as close to the company as possible by bringing customer interaction and marketing internally to the company even for the Chinese market, resulting in an adaptation of strategy for the SMEs offering customizable products. ‘Glocal marketing’ is covered by this, with having global marketing strategy for direction, while the operative and tactical marketing activities performed are adapted for the local environment with increased flexibility.

For companies offering standardized products, with a competitive advantage in the product characteristics which distinguish them, it was understood from the analysis that cost efficiencies are key. They are achieved through identifying customer segments which are present globally, and applying the same channel structure and promotion between different markets through global integration of strategy. Zou and Cavusgil (2002, pp.54), explain the “manager’s ability to establish common needs among the customer segments worldwide” to create the possibility for global integration. Due to the SMEs’ relative insignificance compared to the scale of the Chinese market, their ability to influence customers is restricted, thus the recognition of the existence of such segments has been more important.

The competitive advantages from differentiation capabilities which have been employed in China, are the same as those deployed in other markets, as they are the main competences of the companies. This can be understood as they mainly revolve around the requirements and characteristics of the product offering. By comparing the standardized products and the tailor designed products based on the customer’s needs, it can be understood that the product characteristics have a large influence on the type of competitive advantage which is necessary to be made present on the Chinese market, as may apply for other markets as well. The greater the degree of customization, the greater the need to overcome and manage the LOF effect in a short time period, because the closeness of the company to the customer is key, and is achieved through operating by subsidiary. This is understood through the trend of the highly customizable product firms being with their intermediary for a relatively brief time frame to gain an initial minimum required knowledge of the Chinese market. This is different to those SMEs which offer standardized products who remain and use the intermediary as an operation mode.
With particular reference to the Chinese market, a dimension of COO theory by Johansson (1989) has been supported. It mentions the increasing role of COO effects on the customer’s purchasing decision, when there is a large enough perceived variability between the products of two countries, and a low enough perceived variability between products originating from the same COO. Support has been shown by SMEs offering standardized products as their quality and characteristics are ‘set’ and do not vary. Additionally Johansson et al. (1985) and the view by Johansson (1989) are both supported in the claim that when there is little knowledge and experience about a product category, then the perceived variability with products from other COOs is lower. This then does not result in positive COO effects on the purchasing decision as customers do not distinguish based on COO. When on the other hand there is a recognizable difference among products of different COOs, such as with granite, COO effects play an important role in the Chinese customer’s purchasing decision.

In the problem discussion and definition, it was stated that different paths of overcoming LOF exist. This research shows two out of three contrasting strategies which may be adopted by companies were shown support for. The strategy of complete global integration as suggested by Zou and Cavusgil (2002) and Jensen and Szulanski (2004) is supported in order to maximize the cost efficiencies of doing business in a foreign market by reducing to coordination costs the organization faces between the different markets. This was observed with the companies offering standardized products. The research also showed support for local adaptation to the foreign market to a certain extent through the glocalization of strategy suggested by Andersson and Svensson (2009). This strategy’s effectiveness is suggested by Berchtold, Pircher and Stadler (2010) to depend upon development of strong personal relationships as needed in products with a greater degree of customization. The case companies which adopted glocal strategies both showed reference to this dependence, through a concentration of resources in fewer relationships in order to develop them more carefully. In terms of SMEs internationalizing to China, the theory of complete local adaptation as suggested by Cayla and Peñaloza (2012) was not able to be observed to such an extreme extent, though a certain degree of adaptation did occur in some dimensions of strategy.
<table>
<thead>
<tr>
<th>Case (Product Characteristic)</th>
<th>Realized Operation Mode</th>
<th>Segmentation Strategy</th>
<th>Competitive Advantage Strategy</th>
<th>Overall Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1 (Customized Product)</td>
<td>Local Adaptation Strategy</td>
<td>Global Integration Strategy</td>
<td>Global Integration Strategy</td>
<td>Glocalization Strategy</td>
</tr>
<tr>
<td>Case 2 (Customized Product)</td>
<td>Local Adaptation Strategy</td>
<td>Local Adaptation Strategy</td>
<td>Global Integration Strategy</td>
<td>Glocalization Strategy</td>
</tr>
<tr>
<td>Case 3 (Standardized Product)</td>
<td>Global Integration Strategy</td>
<td>Global Integration Strategy</td>
<td>Global Integration Strategy</td>
<td>Global Integration Strategy</td>
</tr>
</tbody>
</table>

Figure 9: SME’s strategies for China

6.4 Theoretical Implications

The research through the case companies has showed a support for a more detailed explanation for how the degree of local adaptation can be of greater use in a foreign market as a result of LOF. The background prior to this research demonstrated the three main theories of complete global integration (Zou and Cavusgil, 2002; Jensen and Szulanski, 2004), complete local adaptation as suggested by Cayla and Peñaloza (2012), and finally a glocalization of strategy (Andersson and Svensson, 2009) as a combination of the two. The direction of the global approach focused on cost efficiencies, while the effective interaction with local stakeholders was the focus of the local approach. What this research suggests is that the degree of local adaptation of strategy may be affected by the type of product offered by the company. With a more customizable product, the customer involvement and ability to influence the product is higher, and thus requires a greater degree of local adaptation than for standardized products where the customer is only involved in the short purchasing stage.
A further theoretical implication regards the way in which a company enters and operates within a foreign market. Recent research by Sandberg (2012) suggests that the entry mode affects the firm’s performance in a foreign market, however, the research for this thesis shows evidence suggesting that the operation mode chosen by the companies affects performance. The researched SMEs, as supported by Johanson and Vahlne’s (1977) research, showed that companies generally do not vary upon entry mode, relying upon an intermediary for entry with low risk and commitment. What does emerge as an implication building upon Sandberg (2012), That is, if the mode of entry is maintained beyond a point which may be defined as when the firm has gained enough familiarity with the foreign market, then it begins to affect performance. A contribution which this research may provide is that regardless of the entry mode, maintaining an incongruent operation mode beyond the phase of gaining familiarity with the environment can affect the performance of the SME.

6.5 Managerial Implications

In addition to theoretical implications, this study provides certain managerial implications for SMEs which internationalize to China. From the case study conducted as well as from past research (Johanson and Vahlne, 1977), it can be understood that managers do recognize the unfamiliarities and LOF experienced in China, and for this reason often enter the market through an intermediary to reduce risks involved. The case study suggested through the lack of mention for direct operation modes within the intended strategy, managers might not always understand the link between the type of products they offer and the degree of local adaptation, which is needed at some point after the initial entry. Thus in strategy formulation, managers can be understood to be unfamiliar with the situation of when to maintain an intermediary for cost efficiencies or a subsidiary for effectiveness.

Managers, particularly of SMEs, should consider and plan for a change in direction for their operating mode within the intended strategy. If they offer highly customizable products, then the company is best suited to have the network capability profile of a customer specialist, where closeness to the customer is necessary. This simultaneously means that regardless of the entry, which is generally through strategies of global integration, managers of companies offering such products should plan for a degree of local adaptation to effectively interact with the market. Additionally they should begin to adapt as soon as enough familiarity of the local host market is achieved. Complementary to this, segmentation should be employed further to identify a more specific target group upon which scarce resources should be focused upon. On
the other hand, managers of companies offering standardized products may be recommended to formulate globally integrated intended strategies, which focus on cost efficiencies and building on the capabilities of a distributor network specialist to effectively manage an intermediary for the longer term.

6.6 Limitations

Due to the case study design and limited time to conduct this research, the number of researched companies may be a limitation for the validity of this research. Hence, the conclusion offers assumptions based on the four researched companies which were studied. In the methodology it is discussed that the findings are only an analytical generalization. Compromises concerning the type of companies needed to be made. To get a broader understanding on SMEs, the case companies were selected from different industries. In turn pattern matching sometimes is weak in its support, because of the limited number of cases representing different types of products and industries.

The choice of case companies from South Sweden was motivated through limited time and resources to conduct the case study research on a broader geographical spread, as well as on the EU Commission’s statement that Swedish SMEs represent closely SMEs across Europe. Hofstede (2013) presents cultural dimension differences between the European countries, where the differences could affect the SMEs’ strategies in China. It may also be considered that the COO effects that Swedish SMEs experience differs from the COO effects experienced by SMEs from other countries. Therefore, research only including Swedish SMEs is another limitation for the generalization ability of the research.

All SMEs entered the Chinese market in the 1990’s. This can be seen as a limitation as SMEs entering China at a more recent stage may have developed another initial strategy, for instance with a higher market commitment. This can be imagined as the direction China, and industries in China have taken has became more obvious within the last decade and are less uncertain than in the 1990’s.

Finally, incremental development of operation mode was already described by Johanson and Vahlne (1977). The use of a long strategic life cycle in this thesis, from the 1990’s until 2013, may automatically lead to a change in operation mode. This change could be not linked to the influence of LOF for some companies.
6.7 Future Research

Based on the before discussed limitations, future research can be developed. Furthermore, from this thesis it is assumed that the type of SMEs’ ownership influence their China strategy. Both companies that realized another operation mode than intended mode are owned by a parent group. Future research on how the ownership influences the strategic development in China could be conducted.

The intended focus of this thesis was on China. For future research, other emerging markets could be included. This would enhance the understanding of LOF’s influences in contextually different markets. To study the influence of SMEs’ China strategy on strategy development in other markets, like done for companies regardless their size by Enderwick (2009), would provide an understanding of the connections between markets. Hence, it would reveal how LOF experienced in China influences other markets’ strategies.
References

Articles


Books


**Online Sources**


Interviews and Other Sources


Appendix: Interview Guide

1. Introduction

- Self Introduction
- Description of Background and Goal of the Interview:

We are writing our master thesis about strategy development in China. Interviews are supposed to serve as primary data in order to gain a deeper understanding of this topic.

- We will make notes during the Interview and record it, of course you can have a look on those after the Interview.
- The Information will be used for the master thesis
- Are you ok with this?
- Expenditure of time: about 60 to 90 minutes

2. Questions

Personal

- What are your tasks at the company
- For how long have you been working for the company?
- How are you directly involved in Chinese operations?
  - What are some of the “easy” aspects of working in China?
  - What is difficult when working with China?

Company

- How many employees do work for your company?
- Which are your major country markets?
  - Which importance does China have for you?
  - Did this change over time, if yes how?
- When did you enter the Chinese market?
  - What were your reasons for entering the Chinese market?
  - What do you do on the Chinese market?
- Please describe in own words the development of your company since entering China
- What was the decided upon strategy when you entered China?
  - Was the strategy codified?
  - On what was your strategy based?
  - Did you stay with your strategy?
  - Why, why not?
  - What happened “on the way”?
- How close were you to your intended strategy after five years?
- Would you from today’s perspective choose another strategy?
  - If yes, how would this strategy look like?
- If you have a formulated strategy in which intervals do you develop a new one? Why?
- In China, what stakeholder groups do you come into contact with the most? (customers, suppliers, subsidiary,…)
- As an SME who are your main customers?
Future

- What goal you have for the next five years in China?
  - Is this strategy different to the one in mature markets?
  - Did the China strategy influence your overall company strategy?
- How important would you regard growth for your company?
- Where do you see the most possibilities for growth as an SME?
- What are the main barriers to growth for your company? Local (access to capital, access to labor, domestic policies, geographical location?, infrastructure?) or international barriers (trade regulations, foreign regulations, tariffs, cultural barriers,?)

3. Finish

- Thank you for your time!
- Offer to see the notes
Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

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