Internationalization in Emerging Markets- The Case of Absolent AB entering Thailand

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ABSTRACT

Background: Internationalization in developed countries is getting saturated with competitors, and companies are starting to realize the potential of emerging markets as key locations for further growth.

Problem: Emerging countries have become a very attractive option for internationalization for developed countries; however many companies underestimate the obstacles and challenges they could face when penetrating a new market. Understanding these obstacles and taking precautions may determine the success of firms in an emerging country.

Purpose: Analyze how a company can address the challenges and obstacles when penetrating an emerging country.

Methods: A qualitative study supported on a single case study was conducted. Primary data was collected through a semi-structured interview with a key player in the company.

Conclusions: The knowledge that the company can acquire about an emerging market will be the key element to address the challenges and obstacles when penetrating in it. This knowledge will come mainly from the network of the company but also from the firm’s own activities. The use of distributors will allow the company to avoid some of the challenges and barriers existing in an emerging market.

Practical implications: This study shows the decisive role that the networking of the company may have when internationalizing in an emerging market, especially when the company lacks market knowledge. The analysis and understanding of the differences of an international company compared to local firms will help a company to address some of the obstacles and challenges and will be decisive in order to success in an emerging market.

Limitations and further research: The main limitation of this study is that it was supported on a single case study and therefore it is not possible to generalize the findings because they are influenced by the context. It is advised further research, with companies from different countries going into different emerging markets.

Keywords: CAGE framework, Emerging markets, Internationalization, Thailand, Uppsala model.
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1. INTRODUCTION

In this chapter the background, problem, purpose and research question of this study will be presented.

1.1 Background

In recent years, globalization has affected in great measure the life and work of individuals (Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010) and during the last decades, more companies have started to operate in new markets, selling their products and services to foreign customers through export or foreign direct investments (Conconi, Sapir & Zanardi, 2013). An important strategy for companies’ growth is to be established in a foreign market, especially if there is a local market limitation (Awuah, et al., 2010). Internationalization for a firm represents the opportunity to reach new customers on a much larger scale (Ibid).

Doole and Lowe (2008) highlighted the need for internationalization to increase domestic and global competition and to gain access to critical resources such as natural, human and technological. Owing to the globalization and the reduction of trading barriers, individual economies are becoming less isolated from each other, and the time when national economies were self-contained are merging into a global economic system where the rich industrial economies are starting to dominate the world economy in a much lower grade than they used to (Day, et al., 2004).

However, the internationalization in developed countries is getting saturated with competitors and companies are starting to realize the potential of emerging markets as key locations for further growth (London & Hart, 2004). Awuah, et al. (2010) stated that multinational companies (MNCs) from emerging economies have significantly increased their participation, becoming global key players.

Over the past decade, emerging economies have grown at a much faster pace than developed economies, increasing significantly their share of the international financial market, world GDP, trade and direct investment (Orgaz, Molina, & Carrasco, 2011). Day, et al. (2004) explain the increase in attention to emerging markets, stating the following: firstly, many of the natural resources that the industrialized world relies on are provided mainly by emerging economies and at the same time many natural resources of wealthy countries have reached their limits. Secondly, many emerging countries provide low-cost labor and it is getting increasingly
common that many companies transfer their production plants from developed countries to these areas (Day, et al., 2004). Thirdly, the size of the consumer markets in the emerging countries is increasing significantly and now rivals those of the developed markets in many cases.

It is estimated that by 2050 the combined GNP of emerging economies will be larger than the one from the developed countries (Doole & Lowe, 2008, p. 38). In addition to this, the economic crisis has led to relevant changes in global economic governance, in particular the replacement of the G7 for the G20 as a forum for international leadership on economic-and consolidated crucial new players on the global stage. Together, these developments are interpretable as manifestations of an evolution towards a more multipolar international economic order in which emerging countries play, and should play even more in the future, an important role (Orgaz, Molina, & Carraspo, 2011). Therefore, emerging economies present important opportunities for the international marketing firm (Doole & Lowe, 2008, p. 14).

Different studies have been made related to emerging markets; for example studies about the evolution and characteristics of emerging markets (Altay & Çelebioğlu, 2012; Peng, 2006; Peng & Meyer, 2011), studies related to the opportunities and challenges existing in emerging markets (Guarino, 2010; Cavusgil, et al., 2002; Kotler, et al., 2003), or studies about strategies in emerging markets (Arnold & Quelch, 1998; Guarino, 2010; London & Hart, 2004). However, according to some authors like Hitt, et al., (2000), Salmi (2000) and Meyer and Peng (2005), more research needs to be done regarding internationalization in emerging markets as there is a lack of study in the field.

1.2 Problem

The astounding economic impact of some emerging countries together with their substantial population growth has created a growth potential which is very attractive for exploration by the developed world (Day, et al., 2004). Therefore, many companies in the private sector and government analysts see emerging markets as a potential major source of economic growth and profit in the future years (Day, et al., 2004, p. 26). However, many companies overestimate the possible benefits of foreign markets without taking into consideration many of the difficulties that can exist when penetrating a new market (Ghemawat, 2001). Even when it is established that emerging markets can present tremendous opportunities, they present as well unforeseen obstacles and challenges for global organizations (Day, et al., 2004).

A large number of studies have been made discussing the obstacles to international trading
(Tajzadeh-Namin, et al., 1996; Doole & Lowe, 2008; Kotler, et al., 2003). Some of the obstacles mentioned in these studies are: 1) lack of mutual understanding of cultural differences between trading partners, 2) the fear of competing in a foreign environment, 3) lack of detailed product market information which leads to the problem of finding an appropriate market and 4) difficulty in discovering and understanding the relevant government trade policy regulations. Therefore, in order to reach economic growth and development, every society, and every interested firm should try to identify the international environment, as well as the trade barriers that currently exist in the corresponding environment (Ibid). A better understanding of these trade barriers would be beneficial for future trade development, enabling the analysis of possible scenarios, and providing the required environment for the acceleration of entrepreneurial ventures (Ibid). Hamel (1996) suggested that firms that succeed operating globally are those that perceive the changes in the international environment and are able to develop strategies which enable them to respond accordingly.

Besides the more conventional obstacles for international trading, emerging countries have their own problems and obstacles relating to internationalization, for example: widespread corruption, ineffective environmental programs and currency instability (Day, et al., 2004). Understanding these obstacles and taking precautions may determine the success of firms in an emerging country when they internationalize (Cavusgil, et al., 2002).

As previously stated, more research needs to be done regarding internationalization in emerging markets as there is a lack of study in the field (Hitt, et al., 2000; Salmi, 2000; Meyer & Peng, 2005). Furthermore, according to London and Hart (2004) it has not been effectively addressed how companies can enter emerging countries and there are still few empirical studies about this issue (Bruton, et al. 2008). Therefore, with this study we intend to add knowledge into this field, analyzing how a company can address the challenges and obstacles existing in an emerging market.

1.3 Purpose and research question

The aim of our topic is to analyze how a company can address the challenges and obstacles when penetrating an emerging country. Therefore, the research question will be investigated:

*How can a company address the challenges and obstacles existing in an emerging market?*
1.4 Delimitations

The study will be performed using the case of an international Swedish company which plans to penetrate the South Asian market, specifically Thailand, Malaysia and Indonesia. For the purpose of this study we will focus on the case of Thailand. Despite facing important political challenges, Thailand has been able to make great progress in social and economic issues, and has been one of the greatest development success stories with sustained strong growth and impressive poverty reduction (The World Bank, 2014).

1.5 Thesis Layout

The further sections of the thesis have the following content and order:

- In *Thailand* section a detailed outline of the country is presented. Cultural, administrative, geographical and economic conditions are introduced.

- In *Literature review* section is provided relevant literature regarding emerging markets and internationalization of the companies.

- *Theoretical framework* section provides information concerning the Uppsala model of internationalization and the CAGE distance framework of internationalization. In addition we introduced the internationalization process of the firm framework, which will be the main analytical tool in the present study.

- In *Methods* section are shown the different methods of research used in the thesis along with the justification of the methodological choices of the study.

- In *Empirical Findings* section the studied company is introduced along with the outcome of the interview performed aligned with the theoretical framework.

- *Analysis* section provides an analysis and connection of the empirical findings with the theoretical conceptions.
• **Conclusions** section summarizes the main findings from the analysis section.

• **Practical implications** section discusses the implications that this research could have for a company.

• **Limitations and further research** section presents the limitations of this study and make some suggestions for further research.

2. **THAILAND**

*In this chapter is presented a detailed summary of Thailand’s current political and economic situation, along with some particulars to take into consideration when conducting business in the country.*

2.1 **Cultural Aspects**

Thailand is a country with a population of 64,865,523 citizens; 75% of them are ethnic Thai, 14% are ethnic Chinese, and the remaining 11% from other countries (Kwintessential, 2014); 95% of the population practice Buddhism, and only 4% are Muslims. The Thai language is the official language in the country, and English is the second language taught in school (secondary school and universities) as it is becoming more common in governance and commerce (Ibid).

The ‘wai’ is a form of greeting which consists on placing both hands near the chest, palms joined, finger tips pointing upwards; the ‘wai’ is also a sign of respect and courtesy, the person with the lower status greets always first (Kwintessential, 2014; Pornpitakpan, 2000). Thais respect hierarchical status in their society (students to teachers, bosses to subordinates, Thais consider them superiors), they will try to place foreigners within a hierarchical status based on questions as appearance, age, education, etc (Ibid).

Thais favor respected people to do business with relationships developed through meetings; non-verbal communication is also important for Thais (facial expression, body language), as Thais give more value to it than they do to words. The oldest person in the group will be always revered (Kwintessential, 2014; Pornpitakpan, 2000). A meeting should be booked at least one month in advance (punctuality is important) and a list of attendees should be sent to make Thais aware of people’s relative hierarchical status to prepare accordingly (Ibid).
Business attire is conservative, dark colored suits, shoes highly polished as Thais care about appearance. Business cards should always be delivered to the senior person in the group first (Kwintessential, 2014; Pornpitakpan, 2000).

Family is the cornerstone of Thai society, children are taught to honor their parents (Kwintessential, 2014; Pornpitakpan, 2000). When attending a dinner, gifts should not be wrapped using green, black, or blue colors, as they are related to funerals; it is better to use yellow or gold or gold colors instead as those are associated to royal families (Kwintessential, 2014).

2.2 Political Stability

Since September 2013 and as of February 2014, the political situation in Thailand has been deteriorating (McKirdy, 2014); on January 21st, the government declared a state of emergency for 60 days (Ministry of Foreign Affairs, 2014; U.S. Passports & International Travel, 2014), while on February 2nd a general voting took place which remains incomplete (U.S. Passports & International Travel, 2014) . The country is divided in two, one side with younger, educated urban middle-class and in the other side poor rural voters, most of them from the north part of the country (McKirdy, 2014). It is the group of conservatives that has taken to the streets of Bangkok to fight the police, antigovernment protesters primary demand is the creation of an unelected ‘people’s council’ to be led by Thailand’s king.

The administration of Prime Minister Yingluck was relatively stable, until the government tried to pass a controversial bill which would allow former Prime Minister Thaksin, who was accused of corruption and banned from Thailand, to return to the country (McKirdy, 2014).

Currently the country is under an interim government, but there is not a total authority (McKirdy, 2014); there have been incidents of violence, bombings and shootings near tourist areas, such as shopping malls and commercial buildings, which have closed unexpectedly due to the riots (Ministry of Foreign Affairs, 2014; U.S. Passports & International Travel, 2014 ); the situation keeps growing as there have been protesters killed by the police, some countries have issued travel advice for tourists travelling to Thailand (McKirdy, 2014). Foreigners travelling to Bangkok are advised to avoid large gatherings and protest marches (Ministry of Foreign Affairs, 2014).
2.3 Economic Situation

The final objective for Thailand is to transform into a "developed, first-world nation, capable of sustaining long-term quality growth and lasting prosperity" (United Nations, 2014). According to The World Bank (2014), Thailand has gone from a lower-middle income economy to an upper-middle income economy in 2011; it is forecast that Thailand will reach most if not all their global Millennium Development Goals by 2015 (United Nations, 2014).

Despite their political issues, Thailand has sustained strong growth and an extraordinary reduction of poverty, and also has been denominated as a business-friendly environment for entrepreneurs (The World Bank, 2014), but at the same time, investors are concerned about the consequences the political issues could have in Thailand’s economy, and could move their money to more stable neighbors such as Vietnam, Laos, Cambodia and Myanmar if the protests continue (Song, 2014); Environmental sustainability is one of the concerns of the Thailand government, but now 97% of the population has access to clean water (The World Bank, 2014).

Thailand experienced an annual average growth of 5% from 2002 to 2007; in 2009 and 2011 the country’s economy suffered a couple of setbacks due to political uncertainty and destructive floods, but in 2012 Thailand got back on its feet, having a GDP of 6.4% and is forecast a constant growth of 5% starting in 2013 (The World Bank, 2014); the progress has benefited in a large scale to those linked to the international economy (United Nations, 2014); a comparison between Thailand’s GDP growth with some developed countries can be found in figure 1.

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation, consumer prices (annual %)</th>
<th>Total tax rate (% of commercial profits)</th>
<th>Roads, total network (km)</th>
<th>GDP growth (annual %)</th>
<th>Unemployment, total (% of total labor force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>5.402</td>
<td>68.3</td>
<td>1,580,964</td>
<td>0.873</td>
<td>6.7</td>
</tr>
<tr>
<td>Germany</td>
<td>2.008</td>
<td>49.4</td>
<td>643,782</td>
<td>0.671</td>
<td>5.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.28</td>
<td>32.2</td>
<td>476,337</td>
<td>6.226</td>
<td>6.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.655</td>
<td>36.3</td>
<td>144,403</td>
<td>5.613</td>
<td>3</td>
</tr>
<tr>
<td>Norway</td>
<td>0.709</td>
<td>40.7</td>
<td>93,509</td>
<td>3.091</td>
<td>3.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.888</td>
<td>52</td>
<td>578,274</td>
<td>0.741</td>
<td>8</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.015</td>
<td>29.8</td>
<td>180,053</td>
<td>6.435*</td>
<td>0.7*</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.822</td>
<td>34</td>
<td>419,628</td>
<td>0.273</td>
<td>7.9</td>
</tr>
<tr>
<td>United States</td>
<td>2.069</td>
<td>46.3</td>
<td>6,545,326</td>
<td>2.21</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: Michigan State University (2014)
Figure 1: Comparison between Thailand and developed and emerging countries
According to Credit Suisse (2013), the Association of Southeast Asian Nations (ASEAN) will form a single market system called ASEAN Economic Community by 2015, the community is inspired by the European Union; the ASEAN EC will increase trade among Southeast Asian countries by lowering tariffs and coordinating regulations.

2.4 Infrastructure

Thailand ranks 49th in terms of infrastructure according to Schwab (2012); Thailand’s transportation infrastructure is primarily based on roads (86%), as there are 50 times more roads than railroads in the country (2%)(Ibid).

Southeast Asian countries are working on a trade agreement to increase business between the regions; to ensure success, the need for infrastructure improvement is vital, particularly in Thailand (Credit Suisse, 2013), as of 2014, inadequate transportation is the main obstacle to creating a single market in the region. ‘Building the Thai future 2020’ aim to make the country aware of government plans of railways development and infrastructure (T.J., 2013), twenty percent of the country’s GDP will be invested in new roads, railways and other projects in the next seven years, the plan aims to make Thailand the keystone of Southeast Asia (Credit Suisse, 2013).

The government is planning to spend $64 billion dollars by 2020 in road and rail network, the rail work plan is to link Thailand’s four main regions with Bangkok; two of those railways will also link China with Singapore (T.J., 2013).

The business with Thailand’s neighbor countries (Cambodia, Laos, Myanmar and Vietnam) has increased in recent years going from 4% in 2008 to nearly 10% in 2014, representing close to 10% of Thailand’s total exports, the same percentage amount as the European Union exports represents for the country (Credit Suisse, 2013).

Thailand’s government has high investment plans in infrastructure (road constructions and maintenance, water management infrastructure and a telecommunications connectivity program) that are attracting many investors into the country (Credit Suisse, 2013); Thailand also has an impressive telecommunications system which is advancing in broadband and mobile communications (T.J., 2013). In figure 2 is shown the position of Thailand in an infrastructure quality ranking.
<table>
<thead>
<tr>
<th>Country</th>
<th>Road</th>
<th>Railway</th>
<th>Port</th>
<th>Air Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Korea</td>
<td>14</td>
<td>10</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Taiwan</td>
<td>16</td>
<td>8</td>
<td>30</td>
<td>53</td>
</tr>
<tr>
<td>Malaysia</td>
<td>21</td>
<td>20</td>
<td>19</td>
<td>29</td>
</tr>
<tr>
<td>Thailand</td>
<td>36</td>
<td>57</td>
<td>43</td>
<td>28</td>
</tr>
</tbody>
</table>


Figure 2: Infrastructure quality ranking

2.5 Conducted Business

Thailand is an active participant of the Asean group of nations, whose main aim is to create a free trade zone in Pan-Asia; the creation of a free trade zone could be critical for Thailand’s development, as long as the political stability is restored (Credit Suisse, 2013).

Thailand is ranked as 50th among countries with free economies, and is ranked 9 out of 30 within Asia; to open a business in Thailand takes up to 33 days, below the world average that is 48 days (The World Bank, 2014). Thailand labor is attractive for employers due to a cheap labor workforce and flexible work laws. One of the main concerns of the country is corruption, even when it is one of the lowest in Asia; also the banking system in the country is controlled by local institutions, which foreigners find impressive but raises government concerns to comply with international regulations (Credit Suisse, 2013).

3. LITERATURE REVIEW

In this chapter, a review of relevant literature concerning emerging markets and internationalization of the firms will be presented.

3.1 Literature review on emerging markets

3.1.1 Definition and characteristics of emerging markets

The term emerging markets was firstly used by World Bank economist Antoine Van Agtmael, and it was used to describe economies in transition from developing nations to developed countries (Altay & Çelebioğlu, 2012). Different definitions for emerging markets have been proposed by scholars: Elango and Pattnaik (2007) defined emerging markets as countries that
have experienced a quick economic development and their economic institutions are changing and adapting to free-market ideologies. In the last decade, these markets have gone through radical changes including an increasing globalization which has opened these markets to international competition, hence the term emerging market (Ibid). According to Hoskisson, et al. (2000), emerging markets are countries with low income and rapid growth that are using primarily economic liberation as an engine of growth. For the purpose of this paper, it is adopted the definition given by Blanco (2011), who defines an emerging market as an economy with a low-to-middle per capita income that is in transition to a more developed economy, and it is characterized by a stable and sustained economic growth and with high standards of living.

Furthermore, several studies have been made highlighting the characteristics that define an emerging market (Cavusgil, et al., 2002; Van Agtmael, 2007): an emerging market size is much smaller than a developed market in terms of stock market capitalization and GDP & GNP per capital; an emerging market should always have some reasonable degree of market openness to foreign investors and should possess market efficiency on the basis that there should be a degree to which reliable market information should be made available; an emerging market has low and varying liquidity compared to the large liquidity that a developed market has. According to Arnold and Quelch (1998) two characteristics define a country that has become an emerging market: the first one is a rapid economic development, and the second one is government policies favoring economic liberalization and the adoption of a free-market system. Mody (2004) identifies five features that all emerging markets have in common: they all have good growth prospects, the investors have good expectations of high rates of return, they have a high level of risk with extremely volatile markets, the foreign investment is a new phenomenon in these markets and they are in transition to market economies.

3.1.2 Internationalization and emerging markets

Peng (2006) explains in his book, ‘Global Strategy’, how emerging markets started to operate in an international context. After the second world word, several western nations started to operate again in international trade (Ibid). Most developed and communist countries (such as China and the former Soviet Union), along with other economies (such as Argentina, Brazil, India or Mexico), were not able to participate as they were putting their efforts into protecting their economy (Ibid). However, four developing countries and regions, Hong-Kong, Singapore, South Korea and Taiwan, decided to participate in the global economy, and they eventually moved from the status of developing group to developed (Ibid). Owing to their success, other countries decided to follow their example. First, was China in the late 1970s, followed by Latin America in the mid-1980s, Central and Eastern Europe in the late 1980s, and then India in the 1990s (Ibid). As Western firms wanted to continue with their high- growth rates, they were willing to
participate in the emerging economies, which made the trading between emerging and developed markets even more frequently (Ibid).

3.1.3 Opportunities and challenges in emerging markets

According to Arnold and Quelch (1998) emerging markets constitute the main growth opportunity in the actual world economic order. The attractiveness of emerging markets has increased in the last few years mainly for two reasons: firstly because an identifiable target market has emerged, and secondly because the internet has made it possible for companies to reach business customers in emerging markets that would not otherwise be worth the time and cost of establishing traditional distributorships (Ibid).

Guarino (2010) stated that emerging markets provide great opportunities for developing countries as they are experiencing exceptional economic strength. The economies of the emerging countries are mostly highly export-driven with strong inflows of capital and investment and well-capitalized banking institutions (Ibid). These markets are growing their economies and creating a framework with new consumers with strong purchasing power that creates vast opportunities for exporting companies (Ibid).

Peng and Meyer (2011) state that the emerging markets in the world constitute 84 percent of the world’s population and 26 percent of the world gross domestic product (GDP). Furthermore, emerging markets in general have very high economic growth rates. This data shows an enormous market potential, which is expected to continue during the first decades of the 21st century (Cavusgil, et al., 2002).

Despite the opportunities that emerging markets offer, there are also important challenges involved in these markets (Cavusgil, et al., 2002). These challenges mostly appear as a result of unfamiliarity with the target country environment and may discourage investors to invest into these markets (Park & Flores 2000). Furthermore, the existing challenges in these markets, which are associated with the emerging markets’ national business environment, can limit the performance and success of a firm operating in emerging markets (Kotler, et al., 2003).

Day, et al., (2004) described some of the existing risks to invest in emerging markets: the instability of their currencies, widespread corruption and environmental issues. Because of their size, their growing industrialization, and the urgency they attach to business expansion and job
creation, many emerging markets have barely begun to put in place effective environmental programs (Ibid). Owing to this urgency to expand their markets, emerging markets often may lack the financing capability to address the environment at this stage of their development, not putting enough effort into essential competitive issues such as infrastructure (Ibid). According to Kotler, et al., (2003) the main challenges associated with emerging markets are: unstable government, shifting borders, corruption, tariffs and other trade barriers, huge foreign indebtedness and technological pirating. According to Arnold and Quelch (1998) operating in emerging markets can be intimidating as they do not have a basic marketing infrastructure. Companies often make the mistake of trying to replicate the same strategies as for a “less developed country” assuming that the market evolution in these markets will be the same one that followed previously developed economies (Ibid). However, emerging markets may develop economies in a different way than the actual developed countries, and therefore different strategies should be implemented in them (Ibid).

3.1.4  Gap in the literature about emerging markets

Even when much research has already been done regarding emerging markets, as stated by London and Hart (2004) it has not been effectively addressed how companies can enter emerging countries. Furthermore, some authors (e.g. Hitt, et al., 2000, Salmi, 2000, Meyer & Peng, 2005) stated that there is still a lack of study in this field and more research needs to be done regarding internationalization in emerging markets. With answering the research question of this paper it will be intended to add knowledge into this field.

3.2  The internationalization of the firm

In this paper it will be adopted the definition of internationalization given by Korhonen (1999) who defines internationalization as the geographical expansion of a firm’s business and economic activities over a national country’s border. The internationalization of the firm has been studied mainly from four theoretical perspectives (Sandberg, 2012):

1. The economic perspective: according to this approach it is assumed that the choice of market entry by the firm will be determined by the costs involved (Dunning, 1993). Firm’s foreign expansion is examined as a series of static choices, where investment decisions will be dictated by efficiency considerations and relative cost and benefits (Benito & Gripsrud, 1992).

2. The behavioral perspective (process models): the internationalization process is seen as an incremental process and interplay between learning and commitment (e.g.,
Cavusgil, 1980; Johanson & Vahlne, 1977). It was developed as an opposition to the statics economic theories and perspectives; these models build on the behavioral theory of the firm (Cyert & James, 1992) and the growth theory of the firm (Penrose, 1995).

3. The relational perspective within network theory: in this perspective internationalization is seen as a process of initiating, developing and sustaining relationships in order to establish a position in a foreign market network (Ford, et al., 2003). This perspective derives partly from the behavioral perspective as it emerged from the Uppsala model of internationalization (Sandberg, 2012).

4. The entrepreneurial perspective on born global firms, also known as international entrepreneurship theory (Madsen & Servais, 1997) which emerged as a result of studies on rapidly internationalizing smaller firms and new ventures, which could not be explained with the traditionally suggested paths to internationalization (Sandberg, 2012). In this perspective the entrepreneur is seen as the main driver of value creation and internationalization of a firm (McDougall & Oviatt, 2000).

According to some authors (Coviello & McAuley, 1999; Elo, 2005; Rialp & Rialp, 2001), it is difficult to find one single theoretical perspective that can explain by itself the internationalization of firms. In this paper, the internationalization process will be studied through a process model (behavioral perspective), the Uppsala model of internationalization (Johanson & Vahlne, 1977), which after revisited by its authors (Johanson & Vahlne, 2009) become a business network model of internationalization (relational perspective).

The advantages of the process models are that they are dynamic and have gained empirical and theoretical support (Björkman & Forsgren, 2000; Johanson & Vahlne, 1990). According to Coviello and McAuley (1999), the first and most influential process model is the Uppsala model of internationalization (Johanson & Vahlne, 1977), which as stated before, will be the process model used in this paper.

3.2.1 The Uppsala model of internationalization.

The Uppsala model of internationalization (Johanson & Vahlne, 1977, Johanson & Vahlne, 1992) is one of the most recognized models of internationalization for a firm’s early internationalization (Wictor, 2012). One of the most critical challenges that a firm faces in its internationalization process is the lack of market knowledge (Johanson & Vahlne, 1977,
Johanson & Vahlne, 1992). Because of this lack of market knowledge the internationalization of a firm is seen as a process in which the experiential learning and incremental commitments will lead into an evolutionary development in a foreign market (Ibid).

According to the first assumption of the model, internationalization will frequently start in foreign markets that are close to the domestic market in terms of psychic distance which is defined as factors that make it difficult to understand foreign environments (Johanson & Wiedersheim-Paul, 1975). As the level of knowledge and experience grows, the companies will then gradually enter other markets that are further away in psychic distance terms (Ibid). The other basic assumption of this model is that the lack of knowledge about foreign markets is a main obstacle to internationalization, but that this knowledge can be acquired mainly through experience in the market (Johanson & Vahlne, 1977) and also through objective learning via published materials (Ibid);

According to Johanson and Vahlne (1977), there are two kinds of experiential knowledge which are: market knowledge that refers to the specific characteristics and circumstances of a particular country and cannot be generalized to other countries, and internationalization knowledge which is related with the experience that a company has acquired that gives it the internal capability to expand to other countries. The knowledge that a company can acquire, will determine the resources commitment the company will need to establish in a foreign market (Awuah et al., 2010).

Owing to the lack of knowledge, the firm will tend to pursue a gradual process of internationalization characterized by a sequence of stages presented in what has been called “the establishment chain” (Johanson & Wiedersheim-Paul, 1975). Thus, the development of operations in foreign countries is expected to have an evolutionary, stepwise character in which certain steps will tend to be followed; starting with occasional exports and ending with establishing a subsidiary in another country (Andersson & Victor, 2003). According to Johanson and Vahlne (1990) the incremental commitment made in small steps can be generalized unless firms have large resources which can help them to skip intermediate stages; or the market conditions are stable and homogeneous so that market knowledge can be obtained in alternative ways than through experience; or the firm has considerable experience from markets similar to the one that the firm wants to enter (Ibid).

However, this model has received several critiques:
The model limits the choices of companies and ignores the effects that managerially proactive or risk-taking behavior of an entrepreneur could have (Andersen, 1993).

The model is deterministic and states the steps that a company follows for penetrating in other country not allowing the possibility to skip steps (Melin, 1992).

Lack of market knowledge, because of the increasing globalization and internationalization of markets and industries, is not a limitation any more for a company to internationalize (Awuah, et al., 2010).

Despite this criticism, the Uppsala model of internationalization still stands as one of the main theories of internationalization of the firms (Lommelen, 2004). However, this model does not take in consideration the increasing importance of networking in the internationalization of firms (Johansson & Vahlne, 2009); owing to this, in this paper we will make use of the Uppsala model revisited (Johansson & Vahlne, 2009).

4. THEORETICAL FRAMEWORK

In this chapter the theoretical framework for this study is discussed. It includes a description of the Uppsala model of internationalization revisited and the CAGE distance framework of internationalization. Furthermore the internationalization process of the firm framework is introduced, which will serve as our analytical tool in the present study.

4.1 The Uppsala model revisited

The Uppsala model of internationalization was revisited by Johanson and Vahlne (1990, 2003, & 2009) and become a “business network internationalization process model” owing to changes in the way business is currently conducted and theoretical advancements. One of the main reasons for this revision of the model was the increasing importance of networks in the internationalization of firms (Ibid).

According to this model (Johanson & Vahlne, 2009), the internationalization of a firm is about taking steps in order to become an “insider” in a foreign business network. Further internationalization will take place through strengthening the current position in the network (Ibid). Thus, the main barrier for internationalization of the firm will be the liability of outsidership (when the firm does not have a relevant network position) rather than liability of foreignness (Ibid). Therefore, a firm success will require to be established in one or more networks (Ibid).
In this revised model, Johanson and Vahlne (2009) stated that the establishment chain may have many exceptions owing to the networking of the company which may help to accelerate the process of internationalization of the company. The authors stated as well that the model is not deterministic, as the company will decide to increase, maintain or even cease the commitment depending on the performance and prospects. However, the process of internationalization will keep going as the expectation of prospects is favorable (Ibid). This model can be used for risk management but it cannot be considered as a risk reduction model, as the risk is unavoidable when a company decides to go into the unknown (Ibid).

In the revised Uppsala model of internationalization (Johanson and Vahlne, 2009) the concept of psychic distance is relevant in the internationalization of the company in the way that a short psychic distance may facilitate the creation and development of a firm’s network (Johanson & Vahlne, 2009). Psychic distance was defined as: “the sums of factors preventing the flow of information from and to the market, examples are differences in language, education, business practices, culture, and industrial development” (Johanson & Vahlne, 1977, p. 24). However, this model does not explain how the different dimensions of distance can affect the internationalization of the firm in a foreign market. Therefore, in order to get a better understanding of this matter, the CAGE distance framework will be used in this paper as a complement to the Uppsala model of internationalization.

### 4.2 The CAGE distance framework of internationalization

The CAGE distance framework of internationalization is linked to the Uppsala model of internationalization through the concept of psychic distance. Ghemawat (2001) stated that when it comes to business, distance is still present and is a very important factor to take into consideration. He stated that many companies, when analyzing in which countries they want to operate, were putting all emphasis in the potential sales and were ignoring most of the risks of operating in foreign markets which come from barriers created by distance (Ibid). In order to identify and understand these risks and barriers created by the different dimensions of distance, Ghemawat (2001) proposed the CAGE distance framework.

The CAGE distance framework is a strategy for companies aiming to develop in foreign markets and identify and point out the differences between countries (Ghemawat, 2001). The framework is divided into four categories which are the following: cultural, administrative, geographic and economic (Ibid); based on the CAGE distance framework, a study performed by Hutzschenreuter, Kleindienst, and Lange (2013), shows that cultural, administrative, geographic and economic distance could have a negative impact on MNCs (multinationals) performance.
When going international, MNCs have to take into consideration that they will deal with all kinds of differences between their home country and the countries in which they want to establish their business (Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010). The negative impact on MNCs performance could vary according to the level of awareness of inter-country differences, and how MNCs address those differences in advance (Hutzscheneuter, Kleindienst & Lange, 2013).

Some of the most important applications of the CAGE framework in the industry according to Ghemawat (2001) are the following: making differences between countries visible and helping companies to understand the liability of foreignness. By making all distance differences visible, companies will not make decisions based on experience or intuition, as this has proved to be one of the reasons for business failure for international companies (Ghemawat, 2001).

Therefore, the position and differences of an international company compared to local firms will help the company to understand its liability as an entrant foreigner competitor (Ghemawat, 2001). If the liability gap between international and local companies is considerable, international companies should look for joint ventures to overcome those obstacles (Ibid). Figure 3 shows some factors that may increase the distance between two countries and some examples of how the distance between countries may affect different industries.
### Theoretical framework model:

In Figure 4 is presented the framework that will serve as our analytical tool in this study. This framework was created based on the insights of the Uppsala model of internationalization revisited (Johansson & Vahlne, 2009) and the CAGE distance framework of internationalization (Ghemawat, 2001).

#### Table 1: The CAGE Framework: Country-Level Analysis

<table>
<thead>
<tr>
<th>Distance between two countries increases with...</th>
<th>Cultural Distance</th>
<th>Administrative and Political Distance</th>
<th>Geographic Distance</th>
<th>Economic Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Different languages, ethnicities, religions, social norms</td>
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<td></td>
<td></td>
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<tr>
<td>• Lack of connective ethnic or social networks</td>
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<tr>
<td>• Absence of shared monetary or political association</td>
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<tr>
<td>• Political hostilities</td>
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<tr>
<td>• Weak legal and financial institutions</td>
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<tr>
<td>• Lack of common border, waterway access, adequate transportation or communication links</td>
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<tr>
<td>• Physical remoteness</td>
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<tr>
<td>• Different climates</td>
<td></td>
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<tr>
<td>• Different consumer incomes</td>
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<tr>
<td>• Different costs and quality of natural, financial, and human resources</td>
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<tr>
<td>• Different information or knowledge</td>
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<tr>
<td>Distance most affects industries or products...</td>
<td>With high linguistic content (TV)</td>
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<td>• Related to national identity (foods)</td>
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<tr>
<td>• Carrying country-specific quality associations (wines)</td>
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<tr>
<td>• That a foreign government views as staples (electricity), as building national reputations (aerospace), or as vital to national security (telecommunications)</td>
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<tr>
<td>• With low value-to-weight ratio (cement)</td>
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<td>• That are fragile or perishable (glass, fruit)</td>
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<tr>
<td>• In which communications are vital (financial services)</td>
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<tr>
<td>• For which demand varies by income (cars)</td>
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<tr>
<td>• In which labor and other cost differences matter (garments)</td>
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</table>

Source: Ghemawat (2001, p.5)

Figure 3: The CAGE Framework: Country-Level Analysis

4.3 Theoretical framework model:
The variable “network position” states that business relationships will help a firm to identify and exploit opportunities and will be decisive for a company to decide not only in which market to operate but also how to enter (Johanson & Vahlne, 2009). The networking of a company will be decisive in avoiding barriers existing in a foreign market and will be determined by knowledge, commitment and trust (Ibid). The process of creating knowledge will be determined not only from the activities of the firm, but also from activities of its partners; therefore the networking of the company will provide a firm with an extensive knowledge base (Ibid).

The ‘relationship commitment decisions’ variable implies that the firm will decide whether it increases or decreases the level of commitment to one or more relationships in its network (Johanson & Vahlne, 2009).

Trust will play an important role in the relationships within the networking, and can substitute knowledge on occasions when the firm lacks the necessary market knowledge (Johansson & Vahlne, 2009). Furthermore, trust will be mandatory for creating commitment among the business partners (Ibid). Another important element of this model will be the recognition of opportunities as part of the knowledge which drives the internationalization process (Ibid). The recognition of opportunities will take place during the interaction between parties within the networking; partners’ interaction will result in a transfer of knowledge which may help them to discover and/or create new opportunities (Ibid). A firm will internationalize wherever it or its partners see an opportunity. The variable “learning, creating and trust-building” shows that regular daily activities of the company are very important for a company and may lead to increased knowledge, trust and commitment (Ibid).
The concept of psychic distance is very important in the internationalization of the company in the way that a short psychic distance may facilitate the creation and development of a firm’s network (Johansson & Vahlne, 2009). Therefore, psychic distance will affect the variable “network position” which, as previously stated, it is determined by knowledge, commitment and trust. Furthermore, the physic distance will determine the choice of country and the choice of mode of entry (Johansson & Vahlne, 1977). The analysis of the psychic distance is divided in various cultural, administrative, geographic and economic differences or distances between countries that managers should address when creating strategies of internationalization (Reilly & Scott, 2014).

Cultural distance is defined as the values and social norms that characterize the way people behave in society, it also includes religion, race/ethnicity, and language (Ghemawat, 2001). In comparison to economic or geographical differences, culture is not easy to differentiate from the rest, as is highly inferred within society (Hutzschenreuter, Kleindienst & Lange, 2013). The difference in behaviors between countries and societies has a direct impact on how business is conducted (Ghemawat, 2001).

It is expected that as the distance in culture increases, firms will possess less available information of the foreign country (Hutzschenreuter, Kleindienst & Lange, 2013) and could easily lead to misunderstandings and obstruct interpersonal communication (Ibid).

The analysis of cultural distance is subjective and mostly intangible (Schein, 1984); for a better adaptation in an international environment, MNCs should align a company’s policies according to the new market as part of closing the gap regarding cultural distance (Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010). Furthermore, cultural differences impact on the perception of consumers for specific products (Ibid).

Administrative distance consists of free trade agreements, common currency, political relations, colonizer links and economic exchanges between countries. All these factors, along with country policies, institutions and levels of corruption, have a direct effect on foreign investment (Ghemawat, 2001; Zurawicki & Habib, 2010). A good knowledge of governmental regulations in foreign countries will decrease the risk of governmental reactions when doing business in a foreign country (Dow & Karunaratna, 2006).
Hutzschenreuter, Kleindienst and Lange (2013, p.43) refer to geographic distance as ‘the psychic separation between two countries’. Geographic distance includes different time zones, distance between countries and their borders within the country and country’s size (Ghemawat, 2001). Costs in transportation and communication related to geographic distance have been reduced and will keep decreasing with the continuous development of technology (Hummels, 2007; Nachum & Zaheer, 2005; Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010).

The two most important aspects to consider within economic distance between countries are the following: consumer income and labor cost (Ghemawat, 2001); resources, infrastructure and organizational capabilities are also important (Ibid). Evans and Mavondo (2002) state that you can identify the market potential of a country by its economic development; countries with similar economic development will represent a minor challenge to conduct business between them, as they might have similar consumption patterns, distribution channels, demand structures in comparison with countries with a different development in their economy (Ghemawat, 2001; Mitra & Golder, 2002; Linder, 1961). MNCs may benefit on cost advantages on countries with less development economies (Evans & Mavondo, 2002).

5. METHODS

In this chapter are presented the methods used in this paper which include: research approach, research strategy, research choice, data collection, and notes relating to the validity and reliability of this study.

5.1 Research approach

Depending on the purpose of the study, the researcher will have to choose between a deductive approach and an inductive approach as they seem to stand for opposite types of research (Saunders, Lewis & Thornhill, 2007). This choice will affect the type of empirical data used in the study where in general, the deductive approach will use quantitative data and the inductive approach will use qualitative data (Neuman, 2005).

In the deductive approach a hypothesis is developed from the knowledge of the researcher together with theoretical considerations, and this one will be tested in a real case (Bryman & Bell, 2007). This kind of approach is chosen when the purpose of the study is testing a certain theory in practice (Ibid). Normally this kind of approach uses quantitative data and reaches a big sample of the population with the idea that the findings can be generalized (Saunders, Lewis & Thornhill, 2007).
The inductive approach starts from the other end and intends to develop a theory that is developed from the empirical findings (Bryman & Bell, 2007). In this kind of approach, qualitative data will be used and this one will reach to a small population because it will not aim to generalize because the context is what is important for it (Saunders, Lewis & Thornhill, 2007).

For our study we have chosen mainly an inductive approach as we have conducted a qualitative research using a single real life case.

5.2 Research Strategy

The research strategy should be aligned to the situation of the study and to the research question presented (Marschan-Piekkari & Welch, 2004; Yin, 2009); the focal point of the current research, is to analyze how companies can address the obstacles and challenges when penetrating an emerging economy. As a research strategy a case study was selected, Hartley (2004, p. 323) mentioned that a case study research is commonly used in organizational studies as it can be revealing and rich in data; the objective of a research case study is to analyze research questions and concerns by adapting the study to a causal perspective (Hartley, 2004, p. 324). With using a case study we will be able to collect data in natural sceneries compared to relying on “derived” data (Bromley, 1986).

Through this paper, a single case study has been conducted as we are viewing a particular situation/problem within the firm. According to Yin (2009) a single case study can help to test and confirm evolved theories, and has the unique advantage to be able to deal with a full range of evidence. However, when a single case study is performed, the results cannot be generalized because they are influenced by the context (Ibid).

The case study was conducted on Absolent AB, a Swedish international company with subsidiaries in US and China, and with presence in more than 50 countries. The selection of this company was due to the following reasons: the firm is in continuous expansion within the international market which makes it suitable for this research, the plans of the decision-makers staff is to keep pursuing company’s growth by including emerging economies like countries in South Asia. One of the main targets of the firm is to penetrate the Thailand market as strategy of expansion which motivated our choice to delimitate our study to this market.

5.3 Research Choice
Yin (2009) states that research choice will establish the way a research will be carried out, either using a quantitative method or a qualitative method. Basically, while a quantitative research will focus on quantification in the collection and analysis of data, a qualitative research will emphasize in words (Bryman & Bell, 2007). For the purpose of our study it was conducted a qualitative study which included a combination of secondary data collection (theory) with primary data collection through a structured interview to a key player within the Swedish company studied. According to Holme, Solvang and Nilsson (1997), interviews and observation are the most common ways for performing a qualitative research. A qualitative method provides a broader picture of the research and helps to highlight the researcher’s point of view (Ibid).

To answer our research question, information of the company was needed in order to understand their internationalization strategies and their objectives with regard to penetrating the market of Thailand. According to Yin (2009) a qualitative approach is appropriate when a deeper understanding of the problem is needed. There are some aspects that need to be taken into consideration when performing a qualitative research, for example it is important to understand the event from the perspective of the participant and not from the researcher's (Merriam, 1998), which is a fact we took in consideration when analyzing the empirical data obtained from the company.

5.4 Data Collection

5.4.1 Primary Data

Yin (2009) argues that it is helpful to prepare for data collection by setting up a research protocol. When viewing a single case study, the data collected through individual interviews is effective (Yin, 2009), which was the case of this research. The primary data was collected via an interview: the first phase was to adapt the questions to the research, and then structure the interview in three parts, general information of the respondent, global international processes of the company, and international processes in emerging economies.

Due to availability restriction for the company’s experts in the topic of internationalization, a single interview was performed; the interview was conducted via the program Skype with a length of one hour with Mats Persson, the Asia Business Development Manager of the company. This interview was complemented by questions answered via email by Mats Persson.

Interviews can be performed by telephone, face-to-face, or through emails and can be structured or unstructured (Bryman & Bell, 2007); in this study we performed a semi-structured interview.
Semi-structured interviews are composed by a list of questions equally divided into specific topics to be covered as an interview guide; this kind of interview possesses the characteristic that the respondent has the liberty to express freely on their answer (Bryman & Bell, 2007).

5.4.2 Secondary Data

According to Bryman and Bell (2007) secondary data is the analysis of data that others have collected. Secondary data was used in the study to make a description of the company and as a foundation for primary data collection. The sources of secondary data of this study were the website of the company along with past thesis, books, articles, journals and other academic data written on the topic internationalization and emerging markets. Secondary data analysis offers the following advantages: savings of cost and time, high quality data, opportunity for longitudinal analysis, subgroup or subset analysis, opportunity for cross-cultural analysis, more time for data (Ibid).

5.5 Research validity and reliability

In order to reach a good standard of quality, quality research needs to fulfill several criteria like internal and external validity and reliability (Bryman & Bell, 2007).

Internal validity deals with the matter of whether the researches have been able to measure what was intended to be measured (Zikmund, 2000). According to Christie, et al. (2000) in a qualitative research internal validity can be established by the use of a case study. Yin (2009) stated that internal validity in a qualitative research can be demonstrated by linking the empirical findings to relevant theory. In this paper, we have used a case study and the empirical findings have been linked to relevant theories which establish the internal validity of our research.

External validity refers to representativeness; the extent to which the results of this study can be generalized (Bryman & Bell, 2007). In the case of this study, a single case study which according to Yin (2009) cannot be generalized because is influenced by the context. However, even when the results of this study cannot be generalized, we consider that they can contribute to add knowledge in the field of internationalization of emerging markets.

The reliability of a research refers to the probability that the same results could be obtained from other researchers (Zikmund, 2000). In order to facilitate replication all our research is been documented, including the record of the interview which would allow researchers to follow the
steps performed in this study. However we consider that, as stated by Christensen, et al. (1998), the reality is characterized by constant changing and therefore it is not possible to repeat a study and obtain exactly the same results.

6. EMPIRICAL FINDINGS

In this chapter it is provided a full and comprehensive outline of the company case study along with the information gathered through the interview.

6.1 ABSOLENT AB

Absolent AB was founded in 1993. The company is part of the Mexab Holding Group since 2006 and is independent of any external commercial interests company. With presence in more than 50 countries, three subsidiaries around the world, United States, Sweden and China, and two more offices in the UK and Singapore, Absolent AB has worldwide presence with their headquarters located in Lidköping, Sweden (Absolent AB, 2013).

The Absolent Group is currently known for two brands, Absolent AB and Filtermist and is one of the world’s leading suppliers in process-air cleaning equipment for industrial application; Absolent AB clean the contaminated air caused by oil smoke, oil mist and dust filters (Absolent AB, 2013). The market segments and business concept of the firm is primarily industrial, based for all kind of sectors, such as automotive, aerospace, railways, steel production, power generation and food processing (Ibid).

Companies like Alcoa, Bosch, Volkswagen, and Volvo among others are within this group of clients; by spreading their customer base from different industries, Absolent AB has established a position within the industry, and reduces the risk of being hit by a financial crisis by spreading the risk with different types of clients (Absolent AB, 2013).

The company focuses on innovation, high quality and tailor-made solutions and also on improving the environment, as their filter units clean the air for a large number of customers (Absolent AB, 2013). Their worldwide filter units help workers to avoid lung problems and prevent the contaminated air from reaching the surrounding atmosphere (Ibid). Oil is also recycled through the year; up to three tons of oil are recycled helping the environment considerably and saving a lot of money for the companies. Absolent AB also helps their
customers to reduce their energy consumption by recirculating the heated or cooled indoor air once it is cleaned in their filter units (Absolent AB, 2013).

With a certification in ISO 14001, Absolent AB is committed to a systematic environmental work ethic, which is composed by the care of the environment in general and the health of employees. The company endeavors to have a minimal negative impact as possible on the environment (Absolent AB, 2013).

### 6.2 Knowledge opportunities

According to Mats Persson, in order to select new countries to enter, the company has to be aware of what is happening in the world: reading newspapers, listening to TV programs, reading financial papers, etc. That way they get a picture of what is happening right now, where the money is moving.

In the case of Thailand, Absolent AB has a business development team, which includes a field employee who looks for distributors, learn about the culture, how business transactions are conducted in the country. According to Mats Persson, the more information they have about the country, the better. This knowledge will be important as well to understand what challenges will Absolent AB find when penetrating Thailand.

### 6.3 Networking position

One of the responsibilities of the business development department of Absolent AB is to find new networks. They also have an employee in Thailand trying to make contacts and looking for distributors. Absolent AB sometimes gets the help of Business Sweden\(^1\). This institution has some programs where they can help you to find companies and distributors around the world, and also help you to build your own network. The Swedish trade council of Business Sweden has been useful for Absolent AB several times and they are already in contact with this institution looking for networks to penetrate Thailand.

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\(^1\) Business Sweden helps Swedish companies to grow internationally by offering advisory, skills development for companies, events, and targeted campaigns; including Sweden it has 57 offices around the world. Business Sweden’s mission is also to attract and facilitate foreign investment into the country (Business Sweden, 2014).
“In countries where we have acquired new companies and those new companies have their own network and those networks have their own office, we might benefit from there, we ask those people to work with us as well by selling their products in our companies”.

Mats Persson, Business Development Manager, Absolent AB

The internationalization process in Absolent AB works in many cases following customers around the world, sometimes large companies decide to go overseas, and then the company decides to follow them. Absolent AB also focus on specific needs of the market, on what does the company has to do to fulfill that need, to know where the money is flowing (Mats Persson).

Mats Persson, when questioned about how Absolent AB can address some of the existing challenges in Thailand, stated: “We need to talk to other companies doing business already in those countries, the best way to do it, would be to discuss in forums, seminars, where export trade companies present their ideas, and you get information through business Sweden and from people you know in the seminars, representatives from other countries, etc. Not so long ago Business Sweden helped us to go to southern part of India, one guy working in Indonesia, he shared his experiences, how to do it, how not to do it, then you share information to each other, also you have experiences from other countries, and you use those experiences as well”.

6.4 Learning creation trust-building

‘Sometimes for selecting new countries to enter you just learn on the way. Learning in the market sometimes is about trial and error, we have to start somewhere and go in the right direction’.

Mats Persson, Business Development Manager, Absolent AB

6.5 Relationship commitment decisions

When questioned about the actual situation of Absolent AB in Thailand, Mats Persson stated: ‘We have not focused on Thailand before, because there was no time, the focus was on China and India also, so we take it step by step, but now very soon we will focus in South East Asia, Malaysia, Thailand, Indonesia and Singapore, now we have a business development plan finding distributors, that’s the plan to have business in Thailand by the end of this year’.

Mats Persson explained that there is no intention of opening a subsidiary in Thailand, as it is not easy to start a new company; first Absolent AB will try to go with distributors as much as
possible. One of the reasons for this is the difficulty to open a subsidiary in a foreign country. However, if having distributors does not work, the company will try to find other ways such as setting up an office considering the situation of the market along with its customer’s needs. As an example, Mats Persson explained the case of the US subsidiary.

“The company we have in the US started because we needed to have, it was an optimistic to do business in America, doing business from here was difficult, because you have to do business with the distributor quite often, because at the end you have to understand the situation, helping them. It is really to be very quick in the market, you have to be local, either by a good distributor or you have to be local with your own company, in a country as large as the US, you need plenty of distributors to cover the whole area, and then you have to have some sort of spider network, contacts”.

6.6 Cultural distance

For Absolent AB, the main problem that the company faces when entering in Thailand and other countries in Asia is to find good distributors. They need to find them and train them in order to get a good performance.

Mats Persson mentioned that operating with distributors can create some problems; for example when distributors do not want competitors in their countries (other distributors selling Absolent AB products), or when distributors have a lack of experience in selling the products which you would like to sell in this foreign country. This fact is taken in consideration by the company when looking for distributors in Thailand.

Sometimes Absolent AB must adapt its products to different countries but Mats Persson stating that in many cases the same product can be applied to many different countries. He stated as well that the firm must adapt more to the people than to the machines.

Even when the cultural differences with Thailand are huge they are not that important in business as stated by Mats Persson “at the end of the day, there are two things that people want, they want more money and they want more power, it doesn’t matter if you are American, German, or Thai, you want more money and more power. The only thing that is different is the culture, is not really changing the way you are working, it is only the final touch, and that is why you need the distributors. From the head office we know how to send the products, but the distributors know
how to communicate with the customers, read between the layouts, and understand the people from foreign countries, same language, and same culture”.

6.7 Administrative distance

When questioned about the effects that the administrative differences with Thailand may have, Mats Persson explained that they did not know that much about Thailand at the moment. However he stated that first you have to find distributors, and then you start working with them. The normal rule to deliver a product in Asia is that you have to work local, and that way you will be in the safe side and avoid a lot of the administrative barriers.

When talking about possible risk that Absolent AB may find in Thailand, Mats Persson stated that any country has corruption problems, some more than others, but by having distributors the company avoids the issue of corruption, because the distributor is buying the product from the firm and then they sell it into the market. However, when questioned about currency stability in Thailand, he stated: “currency stability is definitely a problem, right now the euro and the dollar are very expensive we have to be very precautious to overcome that challenge, we have to show the customer that it is really not choice of currency that matters but the choice of product, sometimes you have to give discounts or stop production”

6.8 Economic distance

Mats Persson stated that it is important to adapt the cost of the product to the economic capacity of the country. Therefore, one of the tasks of the development team in charge to search information about Thailand will be to detail the economic situation of the country. He stated as well that Sweden is obviously a much richer country than Thailand, but that should not be a problem to operate in the country.

6.9 Geographic distance

About the relevance that the geographic distance with Thailand may have for Absolent AB, the most important thing is to find the best channels of distribution. Mats Persson mentioned that owing to the development of technology and transportation, the delivery is now much easier and cheaper than before.
6.10 Overview of the empirical findings

In figure 5, an overview of the main empirical findings is presented.

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Figure 5: Empirical findings overview
7. ANALYSIS

In this chapter the empirical findings presented in the previous chapter are analyzed and connected to the theoretical framework.

7.1 Knowledge opportunities

Sometimes the company may find internationalization opportunities by focusing on specific needs of the market. Therefore, the recognition of opportunities of the company can happen outside the networking of the firm; in this case Absolent AB looks for new opportunities in Thailand based in the market needs. As stated by Arnold and Quelch (1998) the attractiveness of emerging economies have increased owing for two reasons, firstly because a target market has emerged, and secondly because technology has made it possible for companies to reach customers in emerging markets.

According to The World Bank (2014), Thailand has gone from a lower-middle income economy to an upper-middle income economy, and it is forecast that Thailand will reach most if not all their global Millennium Development Goals by 2015; Guarino (2010) says that emerging markets provide great opportunities for developing countries as they are experiencing significant economic strength.

For selecting new countries to enter, Absolent AB takes world wide information into consideration. Johanson and Vahlne (2009) stated that the knowledge of the firm will be determined not only from the activities of the firm, but also from activities of its partners. The knowledge of the company can be acquired, like in this case, through objective learning like published materials (Johanson & Vahlne, 2009).

Absolent AB has a business development team in Thailand looking for distributors, and learning about how business is conducted in the country. All this knowledge that Absolent can acquire will be important as well to understand what challenges Absolent will find in Thailand. As stated by Awuah, et al. (2010), the knowledge that a company can acquire, will determine the resources commitment that the company will establish in a foreign market.

7.2 Networking position

Based on the gathered data, the internationalization process of Absolent AB is based in many cases on the networking position of the company. As stated by Johanson and Vahlne (2009)
business relationships will help a firm to identify and exploit opportunities and will be decisive for a company to decide not only in which market to operate but also how to enter.

The networking of the company can provide knowledge to the firm, and this knowledge can result in new opportunities for the company (Johanson & Vahlne, 2009). In the case of Absolent AB, the company uses several sources of networking, such as Business Sweden, Swedish Trade Council, acquired companies, firms that are not direct competitors, and following current customers to other countries.

With the help of Business Sweden, Absolent AB has found new potential distributors from the country of interest, along with exchange of information with other companies during forums, seminars, and export trades. This is a good example of how interactions in networking, as stated by Johanson and Vahlne (2009), can produce transfer of knowledge which may help to create or discover opportunities for the firm.

The Swedish Trade Council of Business Sweden helps companies to research into countries around the world, as confirmed by Absolent AB, they help firms to overcome the challenge of the lack of knowledge on the country, and the lack of networking by building one for the firm. In the case of companies already operating in those countries, Absolent AB gets in contact with them to know how they are performing, what is the safest way to enter the country.

The current customers of Absolent AB may see an opportunity in other countries, and Absolent AB will follow them as it is a new opportunity for them as well. As stated by Johanson and Vahlne (2009), the firm will internationalize wherever the firm or its partners see an opportunity.

Therefore, Absolent AB is building its network to penetrate Thailand; first by deploying an employee in the country to start building the relationship and also by making contact with some institutions in Sweden that have been helpful in other occasions to penetrate foreign countries as they are already in contact with Business Sweden and with The Swedish Trade Council trying to look for a network in Thailand. According to Johanson and Vahlne (2009), internationalization of a firm is about taking steps in order to become an insider in a foreign business network. Further internationalization will take place through strengthening the current position in the network (Ibid).
The knowledge that Absolent AB can get from others like Business Sweden will be also used to address challenges and barriers existing in Thailand. This is another example of the importance of the networking position of a company which can be used to find new opportunities and also to address possible challenges in Thailand.

7.3 Relationship commitment decisions

Absolent AB is planning to penetrate Thailand using distributors, which is the way they usually use to penetrate new countries. After that, Absolent AB normally keeps the commitment to having distributors operating in the country, which is also the plan for Thailand. As stated by Johanson and Vahlne (2009) the company will decide to increase, maintain or even cease the commitment depending on the performance and prospects. Opening a new subsidiary in Thailand is very difficult, and it would only happen if the company needs to do it.

Therefore, Absolent AB starts penetrating in new countries with a low level of commitment which follows one of the fundamental assumptions of the Uppsala model of internationalization, the establishment chain (Johanson & Vahlne, 1977). This establishment chain may have exceptions owing to the networking of the company which may help to accelerate the process of internationalization of the firm (Ibid), but this is not the case of Absolent AB.

7.4 Learning creating trust-building

In some cases, Absolent AB has been learning on the way, ‘trial and error’. According to Johanson and Vahlne (2009), experiential learning is a base mechanism of the internationalization process. There are two kinds of experiential knowledge (Johanson & Vahlne, 1977): market knowledge that refers to the specific characteristics and circumstances of a particular country and cannot be generalized to other countries, and internationalization knowledge which is related with the experience that a company has acquired that gives it internal capability to expand to other countries. With presence in more than 50 countries, Absolent has a solid internationalization knowledge which gives them internal capability and experience to expand to other countries. In some cases, the company lacks market knowledge and decides to acquire this knowledge learning on the way. However, it seems that doing this in a country with so much uncertainty as Thailand would be very risky.
7.5 Cultural distance

The main problem that Absolent AB is finding to penetrate Thailand and other countries in Asia is to find good distributors; as previously stated by Mats Persson, local distributors know how to communicate with local customers as they share the same language and beliefs. Ghemawat (2001) mentioned that the difference in behaviors between countries has direct impact on how business is conducted; cultural distance is the way people behave in society (Ghemawat, 2001).

Absolent AB tries to find proper distributors to operate in the selected market and work on training the distributors they currently have; while doing that, it will be very important to consider the cultural aspects of the distributors in Thailand in order to succeed in the country. As stated by Hutzschenreuter, et al., (2013) culture is not easy to differentiate, as it is highly inferred within society. Therefore, it will be important to get knowledge about the cultural aspects that Absolent will need to take in consideration in order to find and train proper distributors to sell the product.

Absolent AB normally experience two main problems with distributors, which will not be different in Thailand. When going international, MNCs have to take into consideration that they will deal with all kind of differences between their home country and the countries in which they want to establish their business (Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010). One of the problems that the company finds is the performance of the distributors, and the second problem is that they do not want Absolent AB to sell its product through other distributors.

As stated by Mats Persson, Absolent AB must adapt more to the people than to the machines in foreign markets. This adaptation is necessary owing to cultural differences. According to Ghemawat (2001) the difference in behaviors between countries and societies has a direct impact on how business is conducted, and these differences could easily lead to misunderstandings and obstruct interpersonal communication.

On the other hand Absolent AB considers that the cultural differences are not that important when it comes to selling the product as in every country, people doing business are looking always for the same two things which are more money and more power. Even when the cultural differences between Sweden and Thailand are considerable, by selling the product through local distributors, Absolent AB is avoiding a possible cultural barrier.
7.6 Administrative distance

Administrative distance consists of free trade agreements, common currency, political relations, colonizer links and economic exchanges between countries. All these factors, along with country policies, institutions and levels of corruption, have a direct effect on foreign investment (Ghemawat, 2001; Zurawicki & Habib, 2010). A good knowledge of governmental regulations in foreign countries will decrease the risk of governmental reactions when doing business in a foreign country (Dow & Karunaratna, 2006). In this case Absolent AB does not have much information about Thailand and its administrative specifics. However, according to Mats Persson, with using distributors most of the possible risks arising from the administrative distance will be avoided.

The corruption problems in Thailand are not that important for Absolent AB because they will use distributors to penetrate the country, by doing it, the product will be purchased by distributors and therefore, the corruption risks will be their problem, and not Absolent’s. However, the currency stability is seen as a challenge for Absolent AB that will require some actions in order to solve it. According to Mats Persson, some possible solutions to this currency stability challenge are: trying to show the customer that it is really not choice of currency that matters but the choice of product, or offering discounts to sell the product.

7.7 Economic distance

For Absolent AB it is important to adapt the cost of the product to the economic capacity of the country. With this in mind, one of the tasks of Absolent’s development team in charge to search information about Thailand will be to detail the economic situation of the country.

According to Evans and Mavondo (2002) countries with similar economic development will represent a minor challenge to conduct business between them. In this case, the level of development in Sweden and Thailand is very different but that fact should not affect the performance of Absolent AB in Thailand. As it has been show in this study, Thailand has sustained strong growth (see figure 1, p.13) and has been denominated as a business-friendly environment for entrepreneurs (The World Bank, 2014). These factors make Thailand a very attractive country to operate in even when the economic distance with Thailand can be quite large.
7.8 Geographic distance

The geographic distance with Thailand is not perceived as important for Absolent AB. With the development of the technology and transportation, the costs decrease and the time delivery of the product are much easier and cheaper than before. For Absolent AB, the most important thing related to the geographic distance is to find the best channels of distribution in Thailand.

Thailand ranks 49th in terms of infrastructure worldwide, twenty percent of the country’s GDP will be invested in new roads, railways during the next seven years; with the development of the technology and transportation, the costs decrease and the time delivery of the product are much easier and cheaper than before. As stated by several authors (Hummels, 2007; Nachum & Zaheer, 2005; Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010), costs in transportation and communication related to geographic distance has been reduced and will keep decreasing with the continuously development of technology.

Thailand’s government will heavily invest in infrastructure, road constructions and maintenance which are attracting many investors into the country (Credit Suisse, 2013).
8. CONCLUSIONS

In this chapter the conclusions of our study based on the analysis of the empirical findings are presented.

The aim of our topic was to analyze how a company can address the challenges and obstacles when penetrating an emerging market. In order to achieve this goal, data collected through a structured interview with one relevant figure of the company has provided a good insight of how the internationalization process work in Absolent AB and furthermore, of how the company intends to penetrate the market of Thailand. By linking these findings to relevant theories about internationalization, this study can answer to the research question of this study, which was:

*How can a company address the challenges and obstacles existing in an emerging market?*

With presence in more than 50 countries, Absolent AB has a solid internationalization knowledge which gives them internal capability and experience to expand to other countries. However, they lack market knowledge in Thailand as they have never operated in there.

In order to overcome this lack of market knowledge, the empirical data show how the networking of Absolent AB can provide knowledge to the company and this knowledge can help to identify and exploit new opportunities for the company that may help them to penetrate Thailand. Absolent AB has several sources of networking, such as Business Sweden, acquired companies, firms that are not directed competitors and following current customers to other countries. This networking has been decisive to penetrate other countries and Absolent AB is already in contact with them in order to look for knowledge and opportunities to go into Thailand.

All the knowledge that Absolent AB can get will help them to identify and exploit new opportunities and also to address challenges and barriers existing in Thailand. This knowledge is determined by its networking and also by objective learning.

Another crucial point in order to address the obstacles and challenges existing in an emerging market is to take into consideration that they will deal with all kind of differences between their home country and the countries they want to establish their business (Morilha, Nunes, Galvão, Bertoia & Lawrence, 2010). The empirical findings showed how Absolent will deal with the differences existing between Sweden and Thailand:
Cultural differences: in the case of Thailand and Sweden are very big; however with selling the product through local distributors, Absolent will avoid this possible cultural barrier. However, Absolent is having problems finding proper distributors to sell the product in Thailand, and will have to take these cultural differences when dealing with distributors of the country.

Administrative differences: Concrete challenges existing in Thailand like corruption, can also be avoided by selling the product through distributors. However, other challenges existing in these markets like currency stability are a problem that cannot be solved by using distributors. To deal with currency stability in Thailand, Absolent will try to show the customer that it is really not choice of currency that matters but the choice of product, or will have to offer discounts to sell the product.

The geographic distances between Sweden and Thailand are not that important to penetrate Thailand owing to the improvement in transportation and communication.

The economic differences between Sweden and Thailand are taken in consideration for some aspects like adapting the cost of the product to the economical capacity of the country. With this in mind, one of the tasks of Absolent’s development team in charge to search information about Thailand will be to detail the economic situation of the country.

In summary, as Absolent lacks market knowledge, the knowledge that Absolent AB can acquire about Thailand will be the key element to address the challenges and obstacles existing in it. This knowledge, which will come mainly from the company’s network but also from the firm’s own activities, will help Absolent AB to understand the existing differences between Sweden and Thailand and how to solve them. Finally, another important aspect of Absolent AB’s strategy in Thailand is the use of distributors as they are the entry mode chosen to penetrate Thailand and the company plans to go with them as long as possible. With this strategy, Absolent AB is keeping the level of commitment and risk low. Furthermore, the appropriate selection of distributors will be very important in order to avoid some of the challenges and barriers existing in Thailand.

9. PRACTICAL IMPLICATIONS

This study shows the decisive role that the networking of the company may have when internationalizing in an emerging market, especially when the company lacks market
knowledge. As stated by Johanson and Vahlne (2009), the networking of the company can provide knowledge to the firm, and this knowledge can result in new opportunities for the company (Johanson & Vahlne, 2009). Furthermore, the company can also get knowledge from other sources such as the firm’s own activities. All this knowledge that the company can acquire will be very important to address the challenges and barriers existing in the emerging market.

This study shows as well how, in order to success in an emerging market, companies will need to get a good understanding of how the different dimensions of distance can affect the internationalization of the firm in a foreign market. The analysis and understanding of the differences of an international company compared to local firms will help the company to understand its liability as an entrant foreigner competitor (Ghemawat, 2001) and will help the company to address the challenges and obstacles existing in the emerging market created by the differences between the countries.

Finally, with using distributors to penetrate an emerging market, companies will keep the level of commitment and risk low in the country, and will be able to avoid some of the challenges and barriers existing in them.

10. LIMITATIONS AND FURTHER RESEARCH

The most significant limitation of this study might be the impossibility to make generalizations from the findings, due to the chosen case study strategy. As stated in the methods, this case was supported on a single case study and therefore the results cannot be generalized because they are influenced by the context (Yin, 2009).

Furthermore, the empirical data was gotten through interviewing only a person. Therefore, and even when this person is a key player inside the company, his answers cannot be generalized to all the company.

Another limitation of this study is the fact that the data used from Thailand was secondary; having primary data from the country could enrich this study in certain aspects.

Finally, this research is based in the case of a company entering a concrete emerging market, in this case Thailand. Even when emerging markets may share a number of characteristics, every market is different and should be analyzed separately. Furthermore, it would be recommended to study how to internationalize emerging markets from
companies coming from different countries than Sweden. Therefore, further research is recommended in other scenarios, with companies from different countries going into different emerging markets.
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APPENDIX-INTERVIEW GUIDE

Personal Information

- Name
- Title
- Can you tell us about your trajectory in Absolent?

Absolent AB strategies

- How does the process of internationalization works in Absolent?
- How do you get knowledge about the market?
- How does Absolent select the next country to enter? What does the company take into consideration?
- Once the company has chosen the country they want to enter, how do they select the mode of entry? What do they take into consideration?
- What kind of channels of distributions do they use? How do they select them?
- Does the product experience any change according to the market?
- What do you take into consideration to open a subsidiary in a foreign market?
- Do you have plans of expansion in the countries where you have distributors?
  - If so, which countries? Which variables do you take into consideration?
- How important are the local partners? How do you proceed in the selection of a foreign partner?
- Could you mention unsuccessful scenarios in entering emerging economies? What were the lessons learned?

Absolent in South Asia/Thailand

- Which countries in South Asia are you collaborating with, and since when?
- What are your programs for further development in South Asia/Thailand?
- What are your medium and long-terms objectives in the South Asia/Thailand in terms of growth?
- What are the objectives of Absolent in the Thai market?
- Emerging countries like Thailand have some concrete challenges like ineffective environmental programs and currency instability. How will Absolent deals with it?
• How much Absolent does know about Thailand’s market?

• Does Absolent has any network to help them to get knowledge about Thailand and can help them to understand and overcome barriers?

• How does Absolent plan to create a network in Thailand?

• How relevant are for Absolent the cultural differences with Thailand and how Absolent will deal with it?

• How relevant are for Absolent the differences in the law system with Thailand and how Absolent will deal with it?

• How relevant are for Absolent the geographic differences with Thailand and how Absolent will deal with it?

How relevant are for Absolent the economy and politics differences with Absolent and how Absolent will deal with it?