Why do firms convert their joint ventures into wholly owned subsidiaries?

A multiple case study of Swedish firms' joint ventures in India and China

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ABSTRACT

International Joint Ventures are important for international Business. In recent years, firms started to convert their International Joint Ventures into Wholly Foreign Owned Enterprises. However, there is only a limited understanding for the conversion of International Joint Ventures into Wholly Foreign Owned Enterprises. The purpose of this study is to offer reasoning for this phenomenon. The theoretical framework that was developed for this thesis is based on the FDI Motive theory and the OLI framework. From a methodological perspective, a deductive approach is followed. The qualitative research was using a multiple case study design to collect primary data to answer the research questions.

The results of this study suggest, that two aspects of the FDI Motive theory have an effect on the International Joint Venture conversion into a Wholly Foreign Owned Enterprise. For the market seeking motive, firms believe to be able to better maximize their market share by taking full control over the subsidiary. Also, the resource seeking motive is in this thesis identified as an important reason for the conversions, as companies see especially advantages in taking full control over labour in those markets. However, the Strategic Asset Seeking and Efficiency Seeking motives are not included in the study. Also, several changes of OLI factors were identified as impactful for the conversion. The decrease of cultural difference between home and foreign market, the increase of perception of market size, gaining of international experience as well as the decrease of risk in the foreign market are all factors which are important for the reasoning of converting an International Joint Venture into a Wholly Foreign Owned Enterprise. In addition, no correlation between the conversion and the enforcing of contracts or the size of the company were observed in this study.

Furthermore, this thesis suggests that there are also other factors that were not identified by the theoretical frameworks. Lack of trust in the partner, liberalisation of governmental regulations, bad financial performances of the International Joint Ventures and economic crises are aspects that have an influence on conversions as well.

The findings of this thesis will help Swedish based firms to understand the phenomenon of firms converting their International Joint Ventures into Wholly Foreign Owned Enterprises in India and the People’s Republic of China.

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1 Introduction

This chapter provides an overview of the study. Firstly, the background of the study is discussed, stressing the importance of the research phenomenon under consideration. Then the chapter points out the importance research related to the topic and research gaps that provides the rationale of this study. Based on the research gaps, research question and sub-questions are constructed and the research purpose is discussed. In order to offer readers a realistic view about the study context and application of study findings, the delimitations of the study are discussed. The chapter concludes with providing definitions of the key terms as well as explaining the structure of the study.

1.1 Background

The globalization of the business environment has led the firms to internationalize (McDougall, Oviatt & Shrader, 2003). The choice of an entry mode is a crucial decision during the internationalization process and it has received significant attention from many scholars (Pedersen, Petersen & Benito, 2002; Meyer, Estrin, Bhaumik & Peng, 2009; Hoskisson, Wright, Filatochev & Peng, 2013). Different scholars have defined an entry mode in several ways. According to Brouthers and Hennart (2007), “an entry mode is the operational form that is used to enter foreign markets”, and Root (1977, p.5) defines entry mode as “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country”. IB scholars have identified several entry modes, such as export modes (e.g., direct, indirect and own) where a firm transfers the final product to the target country, contractual modes (e.g., licensing, franchising, sub-contracting and project operation) where a firm forms partnership with other companies, and foreign direct investment (e.g., joint ventures and wholly owned subsidiaries) where a firm invests in the foreign market (Bruneel & De Cock, 2016). Of particular interest to this study are international joint ventures (IJVs), which are formed as “when two or more firms bring given assets to an independent legal entity (i.e. greenfield joint venture) and are paid for some or all their contribution from the profits earned by the entity, or when a firm acquire partial ownership of another firm (i.e. acquisition joint venture). A joint venture is considered international when the nationality of one or more parents of joint venture is other than the residence of joint venture” (Brouthers & Hennart, 2007, p. 398).

During the past decades, Western firms have internationalized into emerging markets of Central and Eastern Europe (CEE), Russia, China and India (Jansson, 2007). Jansson and Sandberg (2008) suggest that Swedish firms have also developed connections and internationalized into these emerging markets. Many
scholars have reported that Western firms initially used IJVs to expand into emerging markets (e.g., Meschi & Riccio, 2008; Sinha, 2008; Puck, Holtbrügge & Mohr, 2009). However, the liberalization of emerging markets in late 1990s motivated many Western firms to convert their IJVs into wholly foreign owned enterprises (WFOEs), which ensured them total control of local operations and resources, rather than the shared control associated with IJVs (Meschi & Riccio, 2008; Sinha 2008; Puck et al., 2009). Of particular interest to this study is to identify the reasons why Swedish firms convert their IJVs into WFOEs in emerging markets of India and the People’s Republic of China (PRC). There are two particular reasons of focusing on Swedish firms’ conversion of IJVs into WFOEs in emerging markets of India and the PRC. Firstly, India has increased the trade connection with Sweden and the financial volume increased from US$ 2 billion in 2009-2010 to US$ 2.4 billion in 2014-2015 (Indian Embassy, 2016). Similarly, the PRC is an important trade market for Sweden and approximately 10,000 Swedish companies are cultivating trade connections within the Chinese market and 500 of which are established in the PRC (Sweden Abroad, 2016). This depicts that India and the PRC are very important business markets for Swedish firms. Secondly, India and the PRC both have liberalised their markets for foreign investment and many scholars (Sinha, 2008; Puck et al., 2009) have reported that this liberalization has motivated to Western firm to convert their IJVs into WFOEs. So, these two countries provide a good setting for analysing the factors that explain the conversion of Swedish firms’ IJVs into WFOEs. In the following, the backgrounds of Indian and Chinese markets are discussed to better understand the market transition and impacts on foreign investment.

The PRC was founded in 1949. For the first three decades, the PRC remained a regulated market and very isolated from the global investment and the global economy. PRC laws and understanding of an economy hindered the foreign companies to make foreign direct investment (FDI) in the PRC. However, in 1979, Chinese market-economy reformer Deng Xiaoping introduced a new reform which allowed foreign investors to enter the Chinese market (Wei, 1996; Morrison & Wayne, 2015). This reform is today also known as the “open door policy”. The purpose of the reform policy was to catch up with other Asian countries like Japan, Hong Kong or Taiwan, who had a bigger economic growth (Wei, 1996). Between 1979 and 1981, the annual FDI inflow in the PRC was less than 0.25 billion US$ per year (Wei, 1996). However, the FDI increased continuously over time. In 1991, the annual FDI inflow was already 4.37 billion US$. The rapid growth of FDI inflow in the PRC increased at an even faster rate in the early 1990s and reached 36.7 billion US$ of annual FDI in 1993 (Wei, 1996). In 2015, the government of the PRC reported the FDI inflow at US$ 126.27 without taking into account the financial industry (The people's republic of China, State council, 2016).
In the beginning of the 1990s, a vast majority of foreign firms used either joint ventures or contractual joint ventures as their preferred entry modes to enter into the PRC (Wei, 1996). In 1990, foreign firms invested 1,886 million US$ in JVs, 673 million US$ in contractual JVs, and 683 million US$ in WFOEs (Wei, 1996). However, the percentage of WFOEs continued growing at the much faster rate than the different forms of IJVs in coming years (Wei, 1996).

Similarly, India is one of the most promising markets in the world today, with its great technical and skilled human resources (Sekar, 2015). In the early 1990s, India started its economic liberalization by allowing JVs with foreign firms with certain restrictions on the foreign equity holdings in some priority sectors (Sinha, 2008; Sharma, Gupta & Verma, 2009). However, in early 2000, foreign equity restrictions were removed, and WFOEs of the foreign firms are allowed in virtually all manufacturing and service sectors. This policy change caused widespread buy out of the existing JVs by the foreign firms (Sinha, 2008).

In conclusion, both India and PRC are attractive markets for foreign investors and both have received a higher volume of FDI in recent years than few decades ago (Sinha, 2008; Dahlman, 2007; Puck, et al., 2009). The governments of both countries allowed the formation of JVs with foreign firms with certain restrictions on foreign equity holdings in the earlier stages of their liberalization, but gradually they opened up their economies and allowed the foreign firms to set up WFOEs in many sectors. This policy shift caused widespread buy out of the existing JVs by the foreign firms. Because of these interesting trends, the focus of this study is to investigate the factors that explain the conversion of Swedish IJVs into WFOEs in emerging markets of India and the PRC.

1.2 Problem discussion and research gaps

Although a great body of research has focused on entry mode choice (e.g., Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993; Zhao & Decker, 2004), there has been very little interest in the conversion of an IJV into a WFOE or in factors that explain the conversion of IJVs into WFOEs in the foreign markets. One stream of research that has looked at this important issue is the work on post entry changes (e.g., Buckley, Pass & Prescott, 1990; Swoboda, Bernhard, Olejnik, Edith, Morschett & Dirk, 2011). These studies suggest that choice of an appropriate foreign entry mode is a crucial decision, but there are no guarantees that this mode will remain suitable for longer period of time for servicing the particular market. The original entry mode may be replaced by another operation mode (Pedersen, et al., 2002). However, the focus of this research has been on entry mode change on general level rather on the conversion of IJVs into WFOEs and the factors that explain this conversion.
Puck et al. (2009) suggest that there has been very little conceptual work on the factors that explain the conversion of IJVs into WFOEs and theory based conceptual as well as empirical research is in a great need. One possible reason for this limited research may be that though many Western firms initially entered India and the PRC through IJVs due to restrictions on foreign investment level, but later slow and continuous liberalization process in India and the PRC made these firms to adapt slowly to market changes and wait longer for converting their IJVs into WFOEs. Therefore, recently, when these markets were more liberalised, foreign firms have started converting their IJVs into WFOEs.

Puck et al. (2009) and Holtbrügge, Dirk, Puck and Jonas (2008) are the exceptions that have published research on the conversion of foreign IJVs into WFOEs in the PRC. They investigated ownership and target country institutional factors to explain the conversion of IJVs into WFOEs and suggested future research to use other theories to comprehensively investigate the reasons of converting IJVs into WFOEs. Thus, in this study, it is decided to use eclectic paradigm (i.e., OLI framework) to comprehensively investigate the reasons of converting IJVs into WFOEs. OLI framework has been widely utilized in literature to explain the antecedents of entry mode since it incorporates a plethora of influential factors including ownership specific, location specific and transaction cost/internalization variables (Erdener & Shapiro, 2005). Given the continuing liberalization of investment in India and the PRC considering that these both countries are important locations for Swedish investment, it is important to use OLI framework and investigate comprehensively the factors that explain the conversion of Swedish IJVs into WFOEs in India and the PRC.

1.3 Research question

The preceding discussion about research problem and research gaps on the conversion of IJVs into WFOEs steers the course of the present study. The main research question of the study is:

**Why do Swedish firms convert their IJVs into WFOEs in emerging markets of India and the People’s Republic of China?**

The main research question is approached and addressed by the following two sub-questions:
Sub-question 1:

*How do FDI motives relate to the conversion of IJVs into WFOEs?*

The purpose of this sub-question is to investigate that how different FDI motives of market seeking, resource seeking, efficiency seeking and strategic asset seeking relate to the conversion of IJVs into WFOEs.

Sub-question 2

*How do ownership, location and internalisation factors relate to the conversion of IJVs into WFOEs?*

The purpose of this sub-question is to employ OLI framework and investigate which ownership (O), location (L) and internalization (L) factors explain the conversion of IJVs into WFOEs.

1.4 Research Purpose

The purpose of this study is to investigate the factors that explain the conversion of Swedish firms’ IJVs into WFOEs in emerging markets of India and the PRC. The motives of Swedish firms’ FDI in India and the PRC will be analyzed in relation to the conversion of IJVs into WFOEs. In addition, OLI framework will be applied to investigate the role of ownership, location and internalization factors in converting the Swedish firms’ IJVs into WFOEs. The thesis findings will also help the Swedish firms’ managers to understand that how different FDI motives and OLI factors relate the conversion of IJVs into WFOEs.

1.5 Delimitation

There are several delimitations of the thesis. Firstly, the thesis focuses on Swedish firms that first entered into the PRC and India through IJVs and later converted their IJVs into WFOEs. Therefore, those Swedish firms who undertook WFOEs to enter the PRC and India are out of the scope of present thesis. Secondly, this thesis only focuses on the Swedish firms’ IJVs into WFOEs in the PRC and India. Therefore, findings may not be applicable to other firms from other countries who have converted their IJVs into WFOEs in the PRC and India or in other emerging markets. Thirdly, the thesis does not focus on the Swedish firms’ conversion of the
WFOEs into IJVs. Fourthly, thesis does not investigate the performance outcomes of the conversion of IJVs into WFOEs.
1.6 Definition of key terms

<table>
<thead>
<tr>
<th>Keywords</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investment</td>
<td>“Foreign direct investment is an investment (&gt; 10%) in an already existing company or in a company to be established abroad, in whose management and control the investor is participating on the basis of the investment made.”</td>
<td>(Luostarinen &amp; Welch, 1990)</td>
</tr>
<tr>
<td>Entry mode</td>
<td>An institutional arrangement that is used to conduct an international business activity, such as the manufacturing of goods, servicing customers, sourcing various inputs – in fact, undertaking any business function.</td>
<td>(Welch, et al., 2007, p. 18)</td>
</tr>
<tr>
<td>International Joint Venture (IJV)</td>
<td>A joint venture arises whenever two or more firms bring given assets to an independent legal entity (i.e. greenfield joint venture) and are paid for some or all their contribution from the profits earned by the entity, or when a firm acquire partial ownership of another firm (i.e. acquisition joint venture). A joint venture is considered international when the nationality of one or more parents of joint venture is other than the residence of joint venture.</td>
<td>(Brouthers &amp; Hennart, 2007, p. 398)</td>
</tr>
<tr>
<td>Wholly Foreign Owned Enterprise (WFOE)</td>
<td>Wholly foreign owned enterprise is one in which a firm holds more than 90 % of ownership in the foreign company. However, if a firm holds between 10-90% ownership in foreign company, it is considered as an IJV.</td>
<td>(Luostarinen &amp; Welch, 1990)</td>
</tr>
<tr>
<td>Converting a IJV into a WFOE</td>
<td>Conversion of an IJV to a WFOE is the process of increasing the percentage of shares in a foreign company by starting with an ownership that is considered as a IJV up to a percentage where the foreign company is under full control, as it can be seen in the definition of a WFOE.</td>
<td>Adapted from (Brouthers &amp; Hennart, 2007)</td>
</tr>
</tbody>
</table>

Table 1: Definition of key terms (own illustration, 2017)
1.7 Structure of the study

**Introduction**
- The background of this topic is discussed in order to get an overview of the topic. Furthermore, the research problem is presented. In addition, research questions are identified and the purpose of the study is elaborated in this chapter. In the end, key terms are explained and delimitations for the research are defined.

**Theory**
- The theoretical framework that is needed to answer the in chapter one defined research question and sub-questions are discussed. This chapter is fundamental for the analysis of the empirical data at a later stage.

**Methodology**
- The methodology regarding this research is displayed in this chapter. Therefore, it is discussing the resonings behind the chosen methodology for this thesis.

**Empirical Findings**
- Results of the empirical research are elucidated in order to present the significant findings of the data that is collected from the interviewees.

**Analysis**
- The empirical findings from chapter four are analyzed with the theory that was defined in chapter two to find reasoning behind the IJV into WFOE conversion.

**Conclusion**
- Based on the analysis in chapter five, the main research question and its sub-questions are discussed and concluded. Furthermore, limitations, theoretical- and practical implications are discussed as well as suggestions for future research are presented.

Table 2: Structure of the study (own illustration, 2017)
2 Theoretical Framework

In this chapter, firstly the motives of FDI are discussed. Then the eclectic paradigm (i.e. OLI framework) and related ownership, location and internalization factors impacting the FDI strategies are elaborated. Finally, the general framework of the study is presented where motives, ownership, location and internalization factors are linked with the conversion of IJVs into WFOEs.

2.1 Motives for FDI

There are different types of FDI motives undertaken by firms, and these include: (1) market seeking, (2) resource seeking, (3) efficiency seeking, and (4) strategic asset seeking (Dunning, 1993; Dunning & Lundan, 2008). In the following, these different FDI motives are discussed.

2.1.1 Market seeking

Dunning (1993) argues that the market seeking FDI motives are related either to protect the firms’ competitive position in a foreign market or to boost its own position in the target market. The main purpose of market seeking FDI is to serve a foreign market with local production and distribution rather than exporting to the foreign market (Nachum & Zaheer, 2005; Brouthers, Gao & McNicol, 2008). Further, market seeking FDI is undertaken to increase the sales in target markets (MacCarthy & Atthirawong, 2003). Dunning and Lundan (2008) suggest that increased export barriers to target country encourage firms to take market seeking FDI. Dunning (1998) further suggests that market growth in the target country motivates firms to take market seeking FDI in that market. Franco, Rentocchini and Marzetti (2008) also suggest that many firms undertake FDI for market seeking objectives.

Dunning and Lundan (2008) and Dunning (1993) state that there are four main factors that motivate firms to make market seeking FDI.

Firstly, firms undertake market seeking FDI in foreign market if firms’ customers and suppliers are moved to that foreign market (Dunning & Lundan, 2008). For this reason, cross-border mergers and acquisitions in business-service sector have increased from 11,831 to 137,416 in 1990s (UNCTAD, 2004).

Secondly, firms also undertake market seeking FDI because of the uniqueness of target markets (Dunning & Lundan, 2008). This means that products need to be adapted in target markets according to local tastes or needs. Furthermore, this also means getting familiar with target country aspects, such as business behaviour and customs, the local justice system, the spoken language or marketing strategies in the target market (Dunning, 1993).
Thirdly, firms also undertake market seeking FDI to reduce production and transaction costs. Dunning and Lundan (2008) state that if shipping products from the home market to the target market is very expensive, then it is favourable to move the production to the target market in order to stay competitive. In addition, the authors also state that firms, which are further away from the attractive markets, are more likely to take market seeking FDI.

Fourthly, market seeking FDI is also undertaken to be present physically in attractive foreign markets (Dunning & Lundan, 2008). Physical presence in a foreign market helps to prevent other global competitors to enter the same market (Franco, et al., 2008). Furthermore, Dunning and Lundan (2008) suggest that firms also undertake market seeking FDI to follow the market leader. If the market leader in a respective industry enters into a new market, the followers also undertake market seeking FDI to follow the leader.

Kudina and Jakubiak (2008) further explain that attractive factors for market seeking FDI include; market size of target countries, GDP growth rate and GDP per capita in the target countries. Luo and Park (2001) found that in 2001, 22.9 percent of FDI in the PRC was market seeking FDI.

2.1.2 Resource seeking

Resource seeking FDI means that firms make FDI in target countries to seek cheap resource (Brouthers, et al., 1996; Dunning & Lundan, 2008). Dunning and Lundan (2008) further suggest that unavailability of cheap resources in the home market motivate firms to undertake resource seeking FDI in countries where cheap resources are available. The purpose of a resource seeking FDI is to take advantage of lower costs of the resource in the foreign country (Dunning & Lundan, 2008). Furthermore, firms making resource seeking FDI in target countries to get cheap resources from the target countries for the production of their products, but mostly these firms export the final products to developed and industrialized countries rather than selling in the target countries (Dunning & Lundan, 2008).

According to Dunning and Lundan (2008), there are two different reasons of resource seeking FDI. The first reason is to seek physical resources, such as mineral fuels, agricultural products, industrial minerals and metals. Production and manufacturing companies usually aim to get access to those physical resources at lower cost (Dunning, 1993). Bitzenis, et al. (2007) and Navaretti and Venables (2005) also suggest that those above-mentioned resources are the most popular reasons for making FDI in target countries. They further suggest that other location based resources can also be considered in this category, such as tourism, oil drilling, medical or educational services. Many Indian and PRC firms are making FDI in the African continent to seek such physical resources (Dunning & Lundan, 2008).
The second reason of resource seeking FDI is to get access to cheap labour force that is motivated and is semi-skilled or unskilled (Dunning & Lundan, 2008). Bitzenis, et al. (2007) and Dunning (1993) state that many manufacturing firms from developed countries invest in other countries where labor cost is low. For example, many European companies are investing in the PRC, Vietnam, Turkey, Morocco and Mauritius to get access to cheap labor. The authors also suggest that these target countries have established trade and export processing zones to further attract FDI as well. The most recent trend is that many telecommunication companies are moving their call centers to India to access cheap labor in India (Dunning & Lundan, 2008).

2.1.3 Efficiency seeking

Behrman (1991) argues that firms undertaking efficiency seeking FDIs look for the economic sources of production to serve a multi-country standardized market. Robson (1993) and Dunning and Lundan (2008) suggest that the potential benefits derived from undertaking efficiency-seeking FDIs are especially those of economies of scale and scope and the diversification of risk.

Dunning and Lundan (2008) state that firms, which undertake efficiency seeking FDI, are bigger in size, have a certain degree of international experience, and produce standardized products. The authors further state that resource seeking and market seeking were the two major motives for FDI in the past, but recently efficiency seeking motive has become very important. This development is also supported by the integration of cross-border markets.

Furthermore, Dunning (1993) argues that efficiency-seeking FDI has two major aspects. On one hand, firms allocate value adding activities in developed countries to access capital, technology and information, but allocate labor intensive activities in developing countries to access cheap labor (Kim, et al., 1993; Dunning & Lundan, 2008). On the other hand, firms gain economy of scale and economy of scope.

2.1.4 Strategic asset seeking

The purpose of strategic asset seeking FDI is to acquire the assets of foreign corporations, to promote their long-term strategic objectives, especially that of sustaining or advancing their international competitiveness (Dunning & Lundan, 2008). Lu, et al. (2010) and Wiersema and Bowen (2008) state that lack of competitive resources either to compete at home market or in international market motivate the firms to undertake strategic asset seeking FDI.
Makino, et al. (2002) further explain that firms undertake strategic asset seeking FDI to gain marketing, technology and management expertise’s. Dunning and Lundan (2008) and Dunning (1993) further suggest that the acquisition of these strategic assets provides ownership advantages to the firms and strengthens their competitive position on one hand, and guarantees that competitors would not be able to acquire these resources on the other hand. Asset seeking FDI is undertaken not only by developed countries’ firms, but also firms from emerging economies are acquiring well established western firms (Dunning & Lundan, 2008).

Dunning and Lundan (2008) also state that in some cases, the motive of a strategic asset seeker is driven by only the financial perspective of owning an asset. Therefore, acquiring firms do not interfere with the day-to-day business activity of acquired company, but only implement their business culture and management style into the acquired company. In almost all cases of strategic asset seeking acquisitions, joint ventures or mergers, the acquirer of assets expects that acquisition will have a positive impact on the whole firm, such as opening new markets, increased buying power in the market, decreased transaction costs, synergies in R&D, diversity of the administration, increased skills, and diversification of the risks (Dunning & Lundan, 2008).

Dunning and Lundan (2008) point out that there can be different reasons for strategic asset seeking FDI. Firms may undertake strategic asset seeking FDI to acquire key suppliers and therefore competitors would not have access to suppliers’ resources anymore (Dunning & Lundan, 2008). Furthermore, firms may undertake strategic asset seeking FDI to gain access to key distributors. Such acquisitions help acquiring firms to get complementary resources and sell their products in the market. Dunning and Lundan (2008) suggest that strategic asset seeking FDI gives firms a long-term competitive advantage over competitors.
2.1.5 Connecting FDI motives with the Conversion of IJVs into WFOEs

As discussed in previous section, firms undertake FDI due to four reasons. They undertake FDI: to take advantage of the size or growth potential of the foreign market (i.e., market seeking FDI), to access relatively cheaper labor and natural resources (i.e., resource seeking FDI), to exploiting the cheap labor and resources to serve the regionally integrated markets (i.e., efficiency seeking FDI), and to access knowledge, new distribution channels (i.e., strategic asset seeking FDI). Prior research has analysed the relative effects of these FDI motives on the choice of FDI modes (Dadzie, 2012) and on the intended and unintended termination of IJVs (Makino, Chan, Isobe & Beamish, 2007). However, the relative effects of these FDI motives on the conversion of IJVs into WFOE have not been analysed. We expect that initial FDI motives of firms can also contribute to a more comprehensive explanation of IJV-to-WFOE conversions. We therefore will drive from empirical analysis that how these FDI motives affect the likelihood of IJV-to-WFOE conversion. The following figure 1 shows the general linkages between FDI motives and conversion of IJV-to-WFOE.

![Figure 1: FDI motive and conversion (own illustration, 2017)](image-url)
2.2 The eclectic paradigm

The Eclectic paradigm, also called OLI theory, is an important framework used to explain the FDI decisions of firms over the past two decades (Zhao & Decker, 2004). The eclectic paradigm unites several theories of entry mode choice into one framework (Goodnow, 1985). The eclectic paradigm is developed by Dunning (1997) in response to several partial theories concerning the ownership and location of international production. The aim of the OLI paradigm was to “offer a holistic framework by which it was possible to identify and evaluate the significant factors influencing both the initial act of foreign production by enterprises and the growth of such production” (Dunning, 1988, p. 1). The OLI theory suggests that a firm's foreign activity depends upon the possession or creation of ownership-specific advantages, which it is beneficial to internalise in a foreign country offering location-specific advantages. In simple words, theory suggests that firms have ownership advantages that they want to exploit in attractive locations (i.e., foreign markets).

The eclectic framework of global production proposes that companies mostly pay attention on three sets of advantages during the process of FDI choice: ownership-specific advantages (risks of inter-firm relations and transactions), location-specific advantages (which are resources in a particular location) and internalization advantages (which are primarily concerned with reducing transaction and coordination costs) (Dunning, 1993). These three sets of advantages influence a firm's FDI behaviour by affecting the management perception of asset power (ownership-specific advantage), market attractiveness (location-specific advantages), and cost of integration (internalization advantages) (Agarwal & Ramaswami, 1992). In the following, ownership, location and internalization advantages are discussed in detail.

2.2.1 Ownership-specific advantage

The ability of a firm to engage in foreign production depends upon the possession of ownership-specific advantages than firms of other nationalities in particular market that it serves (Dunning, 1981; Tolentino, 2001). According to OLI framework, there are two types of advantages: asset advantages (Oa) and transaction cost minimising advantages (Ot). The Oa is an excellence which gives a company certain income-generating assets. Prior studies (Tan & Vertinsky, 1996; Dunning, 1980) suggest that Oa advantages include: firm-specific technology, patents, manpower, management knowledge, capital and product differentiation through advertisements or brand names. While, the Ot advantages increase the propensity of a firm to undertake new FDI project and include factors, such as firm size, product diversity, learning experience and synergistic economies in
production, purchasing, marketing, research and development, finance and transportation (Dunning, 2000).

2.2.2 Location-specific advantages

The second constituent of the eclectic paradigm is location-specific (L) advantages. L advantages favour a particular location for production as compared to alternative locations. L advantages are related to various characteristics in economic, cultural, legal, political and/or institutional environments across locations and affect the costs and/or revenues by producing in different locations (Dunning 1988). Earlier studies have identified a number of L advantages that effect on the propensity of firms to engage in foreign production and on the location of that activity. The most commonly evaluated L advantages include: market size, market growth, factor endowments, sources of supply, transportation costs, trade barriers and physical distance (Caves 1996; Caves & Pugel, 1982).

2.2.3 Internalization advantages

The last constituent of the eclectic paradigm is internalization (I) advantages. Dunning (1988; 1993) suggests that I advantages arise when the potential rents to be realised from the O advantages are higher if they are transferred across borders within a firm’s own organisation than if they are sold in the external market. In other words, firms usually invest in foreign production whenever the transaction costs of using the market exceed the costs of production within the same hierarchy (Dunning & Kundu 1995). Therefore, Dunning (1993) and Dadzie (2012) suggest that the need to reduce buyer, supplier and governmental uncertainty, the need to protect the quality of production, the need to possess a high level of control and increasingly, the need to capture economies of independent activities speak in favour of hierarchies and induce firms to undertake foreign production rather than other servicing modes.

2.2.4 OLI factors and conversion of IJV to WFOE

2.2.4.1 Ownership-specific factors

There are several definitions of ownership-specific advantages. According to Ikechi et al. (2004), it is a competitive advantage of the firm that helps the foreign firm to overcome the disadvantages of competing with the local firms. In the same
vein, Dunning (1991, pp.123) explains ownership advantages as “any kind of income generating assets, which make it possible for firms to engage in foreign production”. Based on previous literature (e.g., Dadzie 2012; Sanchez-Peinado, Pla-Barber & Hebert, 2007), following ownership-specific factors are identified which influence the choice of FDI modes as well as can explain the conversion of IJVs into WOFE.

**Firm size**

Padmanabhan and Cho (1999) suggest that firm size is an important factor affecting the entry mode choices. Talay and Cavusgil (2008) suggest that internationalization requires extensive capital and resources in order to absorb the high cost of setup costs for marketing activities, achieving economies of scale, establishing an operation centre and a legal entity in that country. Buckley and Casson (1998) explains that firm size reflects the potential of the firm to meet resource requirements. Prior empirical research on entry modes (e.g., Talay & Cavusgil, 2008; Dadzie, 2012) suggests that firm size increases the likelihood of choice of WFOE.

We expect that some foreign firms would have preferred to enter in emerging markets of India and the PRC via a WFOE instead of an IJV, however they might have not been able to do so because of slow liberalization of these markets. Thus, in line with the role of firm size when entering a foreign market, we suggest that, with more liberalization of emerging markets, firms that have bigger size and initially entered emerging markets through IJVs are more likely to convert their IJV into a WFOE.

**Firm's international experience**

Padmanabhan and Cho (1999) argue that international experience is an important factor that affects the entry mode choice. Internalization is a big challenge for many companies since it involves high cost and uncertainty. However, Buckley and Casson (1985) claim that past international experience helps companies to reduce possible levels of costs and uncertainty. Agarwal and Ramaswami (1992) suggest that uncertainty is not just the fear of inexperienced companies; it is a real threat for them. They further argue that a company without any international experience has a chance to face serious problems in doing and managing business abroad.

Erramilli (1991) argued that the benefits of a foreign firm having some previous international experience when choosing an entry mode suggest that the more experience the firm has, the less it will require from a partner and it will, therefore, be less inclined to use cooperative modes. Furthermore, many studies (e.g., Dikova & Wille, 2007; Lee & Sukoco, 2010; Dadzie, 2012) suggest that an increase in the firm's international experience leads the firm to use higher control mode. Thus, in line with the role of firm international experience when entering a foreign market, we suggest that, with more liberalization of emerging markets, firms that
have more international experience and initially entered emerging markets through IJVs are more likely to convert their IJV into a WFOE.

2.2.4.2 Location-specific factors

Every firm should decide very accurately while deciding the target country for internationalisation. Dunning (1988) argued that L advantages are the extent to which the firm will profit by locating its ownership advantages in a foreign market. Firms interested in servicing foreign markets, should invest into the most attractive market. This is because their chances of obtaining higher returns are better in such markets (Agarwal & Ramaswami, 1992). Overall, the OLI paradigm suggests that foreign firms will prefer those countries that provide the best location-specific advantages. Based on Dadzie's (2012) study, following location-specific factors are identified which influence the choice of FDI modes as well as can explain the conversion of IJVs into WOFE.

Market Size

Prior research suggests that a large market size provides a better opportunity for foreign firms to gain economies of scale. Wheeler and Moody (1992) argue that a large market size attracts FDI as it gives an opportunity to the firms to earn higher profits. Previous studies (e.g., Chung & Enderwick, 2001; Nakos & Brouthers, 2002) argued that in a large size market, firms tend to prefer WOFE so that they can obtain economies of scale, hence reducing cost, and also to establish a long-term market presence. Prior research (Petrochilas, 1989; Wheeler & Mody, 1992) suggests that India and the PRC are emerging markets and their big market size is privileged predictor of possible FDI in these countries. Therefore, in line with the role of market size on the choice of WOFE when entering a foreign market, we suggest that, with more liberalization of emerging markets, firms that initially entered emerging markets of India and the PRC through IJVs are more likely to convert their IJV into a WFOE.

Host country risk

Agarwal and Ramaswami (1992) and Dadzie (2012) point out that a country risk reflects the uncertainty over the continuation of present economic and political conditions and government politics, which are deemed to be critical to the survival and profitability of a firm’s operations in that country. Kim and Hwag (1992) argue that if host country environment is uncertain and unpredictable, then firms hesitate to commit themselves too much as they may lose their strategic flexibility. Prior studies (e.g., Brouthers & Brouthers, 2000; Tahir & Larimo, 2006) suggest that under high levels of risks in host countries, firms are likely to choose low control ownership modes.
Considering the liberalization process in the RPC and India had started in early 1980s and 1990s respectively (Sinha, 2008; Puck, Holtbrügge & Mohr, 2009), therefore the present economic and political conditions will be stable now. Therefore, we suggest that, with currently less country risk in emerging markets, firms that initially entered emerging markets of India and PRC through IJVs are more likely to convert their IJV into a WFOE.

Cultural distance

Chen and Hu (2002, p. 196) define cultural distance as “the difference in values and beliefs shared between home and host countries”. Puck, Holtbrügge and Mohr (2009) suggest that a high cultural distance increases the uncertainty and thus the transaction costs. Further, Jung (2004) argues that in the case of high cultural distance “firms are more likely to have difficulties in managing foreign operations alone”. Yiu & Makino (2002) found that high cultural distance has negative impact on the choice of WFOE. However, some other scholars (e.g., Padmanabhan & Cho, 1996) found that cultural distance leads toward the choice of WFOE. Thus, prior research regarding the impact of cultural distance on the choice of initial FDI mode is inconclusive. Therefore, the impact of cultural distance on the conversion of IJVs into WFOE in emerging markets of the PRC and India will be empirically assessed.

2.2.4.3 Internalisation-specific factors

Kusluvan (1998, p. 175) describes that internalization advantages refer to the advantages of controlling and coordinating ownership and location specific advantages within the firms. Dunning (1988) also suggested that it is in the best interest of firms possessing ownership advantages to transfer them across national boundaries within the own organization, rather than selling them, or giving the right to use them to foreign firms. Based on previous study of Dadzie (2012), we identify contractual risk an important internalization factor that affects the choice of initial FDI mode as well as affects the conversion of IJVs into WFOE.

Contractual risk

Dadzie (2012) suggests that contractual risk is made of risk of dissipation of knowledge, risk of deterioration of quality of services, and costs of writing and enforcing contracts, lack of patents, and license protection of laws. Dunning (1993), further describes some of the internalization advantages as follows: minimizing negotiation and transaction costs, ensuring adequate quality control, avoiding the risk of dissipation of knowledge, and avoidance of property right enforcement costs. Therefore, it is particularly critical for firms to protect their specialized knowledge while investing in target countries (Hill, Hwang & Kim 1990).
Dadzie (2012) suggest that lack of protection makes sharing of specialized knowledge risky in the long run and therefore a firm that with specialized knowledge opts for a WFOE. Therefore, in line with the role of contractual risk on the choice of WOFE when entering a foreign market, we suggest that, firms that initially entered emerging markets of India and PRC through IJVs are more likely to convert their IJV into a WFOE.

The above discussion regarding the impact of OLI factors on the conversion of IJVs into WFOE is summarized in the following figure number 2.
2.3 Framework of the study

The main purpose of this chapter was to examine the motives and determinants of firms’ conversion of their IJVs into WFOEs. Firstly, the FDI motives impacting the conversion of IJVs into WFOEs have been classified as: markets seeking, resource seeking, efficiency seeking, and strategic asset seeking. Considering that effects of these FDI motives on IJV-to-WFOE conversion have not been analysed in prior studies, we therefore expect to drive from empirical results that how these FDI motives affect the likelihood of IJV-to-WFOE conversion. Further, to investigate the determinants of IJV-to-WFOE conversion, we employed eclectic framework and theoretically reviewed that how different ownership-specific, location-specific and internalization factors influence the IJV-to-WFOE conversion. The determinants of IJV-to-WFOE conversion have been categorized into different groups: First, ownership specific advantages include firm size and international experience. Second, location specific advantages consist of market size, country risk and cultural distance. Finally, internalization specific advantage consists of contractual risk.

Based on the literature review, it is expected that a firm’s size and the firm’s international experience will lead to IJV-to-WFOE conversion. Further it is expected that market size and lack of host country risk lead to IJV-to-WFOE conversion. However, importance of cultural distance into IJV-to-WFOE conversion is implicit from prior studies and therefore it may or may not lead to the IJV-to-WFOE conversion. Furthermore, contractual risk is expected to lead to the IJV-to-WFOE conversion. Figure 3 provides a summary of the theoretical framework.
Figure 3: Connection between Motives, OLI and Conversion (own illustration, 2017)
3 Methodology

The following chapter discusses the framework of the methodology which is used to conduct the study. The chapter will begin with the explanation of the chosen approaches and a discussion why the approaches were chosen for this study. Further, it explains selected research methods and the sorts of data that were collected, ending by which techniques for the data collection were used in our paper. In the end, a presentation of the operationalization and method of data analysis are discussed, as well as the quality and criticism of the study.

3.1 Deductive approach

There are two traditional ways of scientific research, on the one hand side the inductive approach and on the other hand the deductive research approach (Ghauri & Grønhaug, 2010). The difference between those two approaches is that in an inductive research, the theory is starting from empirical evidence, whereas the deductive approach occurs from aspects such as logic, facts, but also assumptions (Ghauri & Grønhaug, 2010). Furthermore, there is also a third different approach which is called abductive approach and which is based on both, the inductive as well as the deductive research approach.

An inductive approach has a conclusion drawn from empirical observations based on a number of cases on which patterns have been established. On the other hand, a deductive approach is based on the analysis of existing theories and knowledge which is used for further learning (Ghauri & Grønhaug, 2010). The deductive approach is used in social science to compare the own empirical data that is collected in a study with the theory on which the study is based upon (Kumar, 2014). In the approach of deductive research, the researcher is using already existing literature in the given research field, or their own assumptions and use it as a fundament for their research. After the empirical data will be collected, analysed and concluded based on this fundament of previous research (Ghauri & Grønhaug, 2010).

The fact that a deductive approach is based on logical assumptions and theories, does support the authors to generate a more reliable approach for concluding the empirical part, as the conclusions that are drawn from the authors are based on those already collected logics (Ghauri & Grønhaug, 2010). In addition, a deductive approach is always based on exact observations, which does also support the researcher (Ghauri & Grønhaug, 2010). Furthermore, by applying the deductive approach, the research is either able to reject the previous theory with the data that was concluded in their research, or the research fails to reject the previous research with the conducted study.
In the case of this thesis, the deductive approach is seen as the appropriate approach, as it occurs that the basis of this research can be drawn from different theoretical frameworks, rather than from empirical findings. Even though there is a very limited amount of literature available for this research as it is stated in the introduction chapter, the study is based on theoretical frameworks from study fields that are very closely linked to this specific research problem. The research question and its sub-questions are based on previous literature and their respective theoretical framework. Although the connection between the conversion of IJVs into WFOEs cannot be based on existing theory, the used theory will be combined in a deductive way.

3.2 Qualitative research

Researches are traditionally divided into two different methods; on the one hand quantitative research, which does offer the possibility to observe in which magnitude a certain phenomena is occurring and on the other hand the qualitative research method, which is constructed to offer reasoning of the studied phenomena (Kumar, 2014) Another difference between the two is that quantitative method is in many cases used for large-scale researches, while the qualitative method is used for research that is conducted within a lesser amount of observations, as the reasoning does not need quantification to the same extent (Denscombe, 2010). Kumar (2014) describes the qualitative research as a good fit for research that is targeting to offer reasoning and understanding for the respective study. The authors of a qualitative research paper do have to understand, that by using this method, the context of the study cannot be seen as an isolated topic and therefore researchers have to be able to put the research in their respective field in a wider context in order to generate an understanding (Denscombe, 2010).

Merriam and Tisdell (2009) were observing, that for the qualitative approach, in many cases just a limited amount of theory is available for being able to do research in an appropriate way. To conduct a qualitative research, the researchers does have to observe the cases, analyze documents, and conduct interviews to be able to conduct a research by using this approach (Denscombe, 2010). The collected interview material should be written down in a shorter version or in full text in the qualitative approach, before starting with further steps of the analysis (Denscombe, 2010).

In the case of this thesis, the approach that will be applied is the qualitative method, as it is more suitable and applicable for this specific research paper, due to the reason that the conversion of IJVs into WFOEs should be discussed in a wider context in order to find reasoning for this phenomenon. Furthermore, this research is aiming to find reasoning behind the conversion of IJVs into WFOEs, which can be done best by using a qualitative approach. In addition, this research will include
the typical characteristics of a qualitative research, as the primary data will be collected through interviews.

3.3 Research design

Ghauri and Grønhaug (2010) were describing research design, as a design that is offering an overall approach on the conceptual problem of research and the practical empirical research. Furthermore, their theory is also offering a framework on how to gather data and how to analyze the collected empirical elements in a study. Bryman and Bell (2003) are describing the research design as a framework of how to gather data and how to further analyze the data in an appropriate manner for research. As there is no research design that is fulfilling the purpose for all researches that are done, the research design can be categorized in the categories of a case study, history, archival analysis and also a survey (Yin, 2009). Those different designs have to be adapted and used in a way, that is best fitting for the research that will be investigated by the authors (Ghauri & Grønhaug, 2010).

According to Yin (2009), the case study design is a good fit for research that is trying to find reasoning with “why” questions, as well as descriptive research that is asking “how” questions. Stake (2005) is in that regard stating, that the design of a study cannot be made as a methodical choice, as the decision of the design will be given by the topic that will be investigated by the researcher. The case study is a good research design, if a research problem is very complex, which has a variety of aspects that are important and therefore has to be understood in a wider context (Merriam & Tisdell, 2009).

When researchers are choosing the case study design, they have to further select either a single case study or a multiple case study design, which is depending on the research that is conducted by the authors (Yin, 2009).

For this research, the design of a case study was chosen as it will offer the best fitting model to find reasoning behind a phenomenon which is targeted in this research of Swedish firms’ conversion of IJVs into WFOEs. The case study is also a good fit for this study, as the reasoning for these conversions might be very complex, due to the reason that many factors are playing into a conversion decision and also for this reason the case study design is fitting well for this research. The decision of a single or multiple case study will be discussed in the following paragraph.
3.4 Multi-case study design

There are two different forms of case studies, defined as single- and multiple case-studies (Yin, 2009). In order to do a multiple case study, data from several different cases has to be collected and analyzed, which differs from a single case study, in which data from a single case is collected and analyzed (Merriam & Tisdell, 2009). Multiple case studies can be seen as superior studies, based on the reason that in a multiple case study the conclusions can be drawn from several different cases and not just from a single case as it is for a single case study (Yin, 2009). In addition, the single cases studies are mainly in use when a phenomenon that is analyzed is unique and therefore cannot be analyzed through a multiple case study. The multiple case study design is not exclusively used for qualitative research, however, it is the type of research that is having the largest usage of this design (Yin, 2009).

For this research, the design of a multiple case study will be used in order to analyze the research questions. This decision is based on the reason that the phenomenon does not only exist in a unique case. Therefore, the multiple case study does offer the best method to analyze the research topic that this thesis is investigating, as several cases and several reasoning’s are adding more value for the findings of this thesis than a single case study.

3.5 Cases

The following table will list the companies that were interviewed for this thesis. The table will give information about the company name, the name and title of the interviewee, as well as the date and time of the interview. Companies who preferred to stay anonymous, are listed with another name (Company X and Company Y) in order to hide their identity.

<table>
<thead>
<tr>
<th>Company</th>
<th>Information</th>
<th>Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note AB</td>
<td>Name: Tomas Fällman</td>
<td>Kista, 09-05-2017</td>
</tr>
<tr>
<td></td>
<td>Title: Business Controller</td>
<td>Time: 14:00-15:00</td>
</tr>
<tr>
<td>Company X</td>
<td>Name: Interviewee X</td>
<td>Sweden, 10-05-2017</td>
</tr>
<tr>
<td></td>
<td>Title: Key account manager</td>
<td>Time: 09:00-09:40</td>
</tr>
<tr>
<td>Company Y</td>
<td>Name: Interviewee Y</td>
<td>Sweden, 16-05-2017</td>
</tr>
<tr>
<td></td>
<td>Title: Sales manager</td>
<td>Time: 16:00-16:30</td>
</tr>
</tbody>
</table>

Table 3: Cases (own illustration, 2017)
3.6 Data Collection

The data collection is a process of searching the information for research paper and it may be studied as ordinary fragments found in the surroundings. Data could be in different conditions. Firstly, it may be concrete and measurable expressed in numbers for example. Secondly, intangibles can be taking into account, for example such things as behaviour, feelings, etc. The empirical data possibly can be collected in two different ways and depending on that it may be called primary data and secondary data (Ghauri & Grønhaug, 2010). The Authors claim that using the primary data gives an opportunity to make a deep look on the problem and this data provides relevant information on the concrete research problem. At the same time this thesis will also use secondary data to make relevant firms search more accessible and to facilitate our choice on which Swedish companies should be approached in order to gain relevant information by requesting interviews from them.

3.6.1 Primary Data

Data that is considered as primary, has to be collected by the researchers themselves (Ghauri & Grønhaug, 2010). Direct observations by the researchers or interviews are the most used primary data collection methods in academia according to the authors. Out of those different methods for collecting primary data, interviews conducted by the researcher is the most popular method to gather primary data (Merriam & Tisdell, 2009). Also, interviews do offer the possibility to gather an understanding on certain behaviour, or how interviewees interpret the trends that are surrounding them (Merriam & Tisdell, 2009). Ghauri and Grønhaug (2010) are stating that interviews can be gathered in different forms and ways, as they can be conducted through face-to-face meetings, phone calls, e-mails and more.

For the approach of this thesis, it has been decided that interviews will be conducted in the form that is best suiting for the respective company that the researchers are interviewing. Therefore, two of the three interviewees were conducted through a face-to-face meeting and one interview was conducted through electronic communication technologies. Primary data should be able to answer the research questions of the motives of firms for doing FDI in the respective countries and should also be able to answer the companies view of the eclectic paradigm and perception of OLI theory related factors. Furthermore, it should also contribute to the overall understanding of the reasoning of the change of strategy by transforming IJVs to WFOEs in India and the PRC.
3.6.2 Purposive sampling

Research has two different points of investigation different sampling approaches (Saunders, Lewis & Thornhill, 2012). The authors claim, that the first point is quota sampling, in which the main attention is payed on non-random sampling to be in correlation with the population, and the approach of self-selection or convenience sampling, which is based on fast selection of the sample and also a low degree of influencing it. On the scale between these two approaches, there are two other, which gives an opportunity to the authors to choose independently on whom to interview to have a better answer which should give an appropriate result and those are called snowball- and purposive sampling (Saunders, et al., 2012). With the support of this facts this paper consists of the purposive sample approach, as it gives more reliable results.

The main fact of purposive approach is to have some special criteria of the research to conduct an interview from the chosen cases, because it helps the authors to not miss the required information (Denscombe, 2007). Those cases should have two factors which values them to be included into the research as a sample. The first one is how relevant is the sample for the theoretical part and the second one evaluates potential sample knowledge, which is necessary for the research (Denscombe, 2007). There are some opinions, that it is better to conduct the interview with one respondent from each company (Coviello & Jones, 2004), thus, there is only one interviewee of each case presented in this research. By taking the above-mentioned information into account about purposive sampling, a list of criteria used in this research while choosing the sample is listed below:

1. Firms that are interviewed in this study must be based in Sweden.
2. Companies must operate at the present time.
3. Companies have to have a WFOE in India or the PRC.
4. Companies must have an experience in the conversion of IJVs into WFOEs.

3.6.3 Secondary Data

Ghauri & Grønhaug (2010) are stating that data that is considered as secondary does include books, articles in journals and also data that is collected online. For this thesis, secondary data has been used for several chapters. Secondary data was used in the introduction chapter by collecting data from journals. In the literature review, both, academic journals and books have been used in order to build and discuss the theoretical framework of this thesis. In addition, secondary data has been used to identify cases for the empirical chapter. The cases were identified by reading journals, articles, press releases and webpages that were offering data from which cases could be identified.
3.6.4 Structure of Interview

The structure of an interview may differ depending on what information is needed and how broad the answers of respondents should be. There are three different types of interview structures called structured, unstructured, and semi-structured (Merriam, 2009). The structured interview is more applicable for a quantitative research method, where statistical methods are applicable, because there is a standardized manner of the interview with concrete response categories, systematic sampling and loading procedures (Ghauri & Grønhaug, 2010). The unstructured interview has characteristics of broader type, due to the reason that the researcher has only an approximate list of questions or even a list of themes which covers the research questions (Denscombe, 2010). The third option is the semi-structured interview which differs itself from the previous two interview forms by having the questions prepared in advance on the one hand, but in the other hand there is no limitations on bonus questions if there is a need to gain some additional information from the respondent according to his answers (Ghauri & Grønhaug, 2010).

In this research, the decision was made to use the semi-structured interview form. First of all, interviewees have a better understanding and knowledge about the company and its activities, therefore structured interviews would limit their answers and possibly would create inaccurate results, as it would only be based on researchers’ knowledge used during the questionnaire construction. Secondly, the semi-structured interviews give an opportunity to have some additional information from the respondents which could help to discover unexpected findings for the analysis with new determinants. Finally, it will give an opportunity for the interviewees for a more own minded answer than the limited choice answers (Ghauri & Grønhaug, 2010). The semi structured interviewee does also fit well with the qualitative research method. Also, for the better interview understanding in terms of expectations of questions that would be asked, the interviewees were shortly introduced to the interview before it was conducted. By doing so, the researchers were able to make sure that the respondents will be able to answer the interview in the best way possible.
3.6.5 Operationalisation

This paragraph is offering reasoning behind the semi structured interview questionnaire that was used to conduct the interview, by illustrating how the interview was operationalized. To do so, all questions that were asked during the interview are put into different categories which should help the reader to understand the structure of the questionnaire.

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Interview Questions</th>
<th>Reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Operation</td>
<td>1-3</td>
<td>The questions are linked to a very general understanding of the company as well as the interview partner.</td>
</tr>
<tr>
<td>IJV Information</td>
<td>4-9</td>
<td>The questions were asked to identify the basic information about the IJV that was later transformed into a WFOE.</td>
</tr>
<tr>
<td>International Experience of the Company</td>
<td>9-14</td>
<td>To get an understanding on the companies’ main activities as well as creating an understanding of the companies’ international experience with focus on the studies countries.</td>
</tr>
<tr>
<td>Formation of IJV</td>
<td>15-17</td>
<td>More specific questions about the formation of the IJV in terms of ownership or form of investment.</td>
</tr>
<tr>
<td>Motives for FDI</td>
<td>18-19</td>
<td>To ask about the movies that motivated the firm to do FDI and the development of those motives.</td>
</tr>
<tr>
<td>OLI</td>
<td>20</td>
<td>Development of the market the IJV was operating in terms of risk, culture, market size, competition and disputes between the IJV partners at the time.</td>
</tr>
<tr>
<td>Conversion of IJV into WFOE</td>
<td>21-23</td>
<td>Asking specific questions for the reasoning behind the eventual conversion of the IJV into a WFOE by the interviewed company.</td>
</tr>
</tbody>
</table>

Table 4: Operationalisation (own illustration, 2017)
3.7 Method of Data analysis

Before being able to draw conclusions, it is necessary to analyse the collected data to create reasoning between the different collected empirical data (Merriam, 2009). In the quantitative method, authors should not use analytical skills, because there is already structured data such as numbers, while in the qualitative research method, authors should analyse mass of data collected from subjective opinions of respondents (Ghauri & Grønhaug, 2010). According to the same authors, the main task during the qualitative analysis is to separate the collected data into basic parts or characteristics (Ghauri & Grønhaug, 2010).

Miles and Huberman (1994) defined, that qualitative research analysis consists of the three interactive components: data reduction, data display and conclusion drawing/verifying. Data reduction is defined as the process of collection-, concentrating- and clarifying data (Miles & Huberman, 1994). The second one, called data display is the process of the analysis where all collected data information is transformed into conclusion phases (Miles & Huberman, 1994). Finally, the third component is the presenting of the conclusion and clarification, which means in other words the explanation of the collected data (Miles & Huberman, 1994).

In this research, the qualitative research method will be used, thus, there will be a process of separating answers in different categories. The different categories are based on aspects of the used theoretical frameworks. After, the different cases are compared to each other to find out if there is a pattern of answers that were leading to the conversion of IJVs into WFOEs.

3.8 Quality of research

To be able to evaluate an academic research, the two most important criterions called validity and reliability according to Bryman and Bell (2003) have to be discussed. In addition, Merriam and Tisdell (2009) are discussing, that the issue with qualitative research does exist, based on the research method and therefore it is essential that authors are able to describe the validity and reliability of their studies in a form that readers can be convinced of the trustworthiness of their research. Therefore, the following paragraph will elaborate the approach in terms of validity as well as reliability for this study, as it will describe the theories, as well as the actions undertaken by the authors go guarantee that the guidance of theory was put into practice for this thesis.
3.8.1 Validity

In academic research, the term validity of a study is referring to the accuracy of a study (Denscombe, 2010). The term accuracy can be used, when the data collection of a research has been done in a diligent way and therefore, the drawn conclusion from the data collection is accurate and reflect reality (Yin, 2009). However, as reality is cannot be represented in a research, the aim of validity within a research is that the findings and conclusions of the study can be considered as trustworthy (Merriam & Tisdell, 2009). In order to fulfill the criteria that a researcher validate the thesis, it is essential to ask questions whether the collected data and information is appropriate for concluding the research question or not (Denscombe, 2010). Qualitative research that is conducted through interviews is however difficult to determine as valid or invalid, however, the data collection through interviewing can be determined by different degrees of validity (Arthur, et al., 2012). Also, Arthur, et al. (2012) are describing that there are two aspects that should be taken into account for the validity of interviews. On the one hand side, the evaluation of the accuracy of information that is provided by the interviewee and on the other hand the interviewees experience for providing those answers (Arthur, et al., 2012).

Merriam and Tisdell (2009) are suggesting that in order to validate the collected data that was gathered from the interviewee, researchers should give the possibility to the interviewee to control weather the interviewer was interpreting the answers from the question in a proper way and did not misinterpret the given answers of the interviewee. This is also called triangulation (Patton, 2002). A further option to validate the interpretation of the respondents by the interviewee is called triangulation analysts, which means that the data that was collected will be analyzed by more than one person independently, after they can compare their individual interpretations of the data, to make sure that there is no bias of interpretation from one researcher (Patton, 2002).

For this research, the interview partners were selected in a way, that is going to guarantee that the interviewee does have the competences to be able go give meaningful answers in the interview regarding the investigated topic. Furthermore, the interviewee has been given a chance to read the material that was contributed by him for the empirical part. As it is mentioned above, this will guarantee that the researchers did not misinterpret the responses that were given during the interview and therefore the conclusions that will be taken out of those interviews are based on the proper meanings of responses from the interviews. Also, the aspect of triangulation analysis can be guaranteed, as both authors of this thesis were analyzing the collected data on interviews separately, and combined and discussed the interpretation in a later stage.
3.8.2 Reliability

According to Kumar (2014), reliability of a research is dealing with the aspect of constant measurement of the study. Constant measurements in research is leading to trustworthiness to the reader (Arthur, et al., 2012). Yin (2009) states, that the target regarding the reliability of a study is, that if another researcher would do the same research by follow the same procedure as the authors, would eventually come to the same findings and conclusions as the previous author. Therefore, the reliability of a study is aiming to minimize biases and errors within the research. Instead of reliability, also the word consistency of the study could be used in order to describe this research tool (Merriam & Tisdell, 2009).

With the involvement of people however, reliability is difficult to measure as different researchers could come to a different result while doing the same study. Due to the reason that people do not always behave in the same way as they did previously and for this inconsistency in human behaviour, the authors have to focus on documenting their research in a sufficient way in order to be able to prove to the reader that study was conducted in a consistent manner (Merriam & Tisdell, 2009). For doing so, the authors have to focus on stating the procedure in a clear way. By doing so, the reader should be able to follow the process through the different parts and also be able follow the thinking steps that were leading to the results and the conclusion (Denscombe, 2010).

To be able to achieve the replication of the research, it does require a documentation of the steps of the research, otherwise, not even the author would be able to achieve the same results while doing the same research again in a later stage (Yin, 2009). Yin (2009) is suggesting that the best approach of delivering research that can be considered reliable is to write it in a way, as someone would constantly observe the authors. In order to be able to prove that this thesis is fulfilling the measurements regarding the reliability, the methodology part should offer a good description for the reader to understand and interpret the provided data, as well as the results and conclusion of this thesis. For further assurance to the reader, an interview guide was created to get a better understanding of this research. In addition, the interviews that were conducted for this research, were collected on audio tape, and later written down on paper or written down as an interview protocol, to be able to prove that the data that was taken out from the interviewees responses were conducted and written down in an adequate way and no not misguide the reader.
3.9 Method criticism

Although, the methodology presented is suitable for the research, as it directed to the in-deep data collection through the interviews, it still has several points which deserves to be mentioned and method of the study criticized.

One point is that there were some forces or troubles to find case companies for the interview by our sample. Most of the companies were unavailable for calls and e-mails, or were not able to agree on an interview, because of different factors such as lack of time, lack of persons with knowledge in this topic or because of they were not willing to share information about their FDI. These factors made this research more difficult, because a very small amount of the companies responded.

Also, not all of the respondents were a part of the companies which they represented during the conversion process from the IJV into WFOE, thus there is a possibility of some bias of information. To manage this trouble, the questionnaire was sent to the interviewees before the meeting or conversation, what hopefully gave them some time to prepare the answer by collecting information at the workplace by asking their colleagues who worked at the time of conversion.

3.9.1 Ethical considerations

The process of data collection and analysis in the qualitative research requires high attention to ethical considerations (Merriam, 2009). The meaning of ethical responsibility in research is to conduct all data in an appropriate manner. The researcher has to do so in transparent way, with clear definition of what and why data was collected as well to answer the research questions precisely. To complete that, the methodology part should be described and presented in a form that does fulfil all requirements (Ghauri & Grønhaug, 2010).

Another important stage of the data collection from an ethical perspective are interviewees. Researchers should ask questions in a way which is not trying not to embarrass or hurt the respondent (Ghauri & Grønhaug, 2010). There were numerous researches written in the past what gave an opportunity for Denscombe (2010) to define the four main measures that should help to keep all ethical considerations during the data collection process. Those are:

(1) “Participant will remain anonymous”
(2) “Data will be treated as confidential”
(3) “Participants understand the nature of the research and their involvement”
(4) “Participants voluntarily consent to being involved”
This research contains of several ethical requirements which are listed above. Participants are anonymous, however only if the interviewee was preferring an anonymous interview. All data which was asked to be kept confidential was not mentioned in this research. All respondents who were interviewed, were in a clear understanding what is this research about and why their knowledge was needed to for this research. Also, all respondents who were interviewed in this research are volunteers and nobody was forced to answer questions during the interviews.
4 Empirical Findings

In the following chapter, the gathered empirical data is presented to the reader. In a first step, the interviewed companies are presented in context with their former IJV and the conversion into a WFOE. Afterwards the parts are split up according to the questionnaire which is based on the theoretical frameworks which are elaborated in the literature review. In a final step, the response regarding the conversion of the IJV into a WFOE are discussed in this chapter.

In this thesis, the interviewed companies did fulfill the criterion that were set in the methodology chapter. They are Swedish based and either had a joint venture in India or the PRC that they later converted into a WFOE according to the definition that was set in the introduction chapter. The interviews for the empirical part was conducted through personal meetings with the interviewee of the respective company or by using telecommunication. In the case of Company X and Company Y, the firms preferred to make the interview anonymous and therefore it is listed as Company X and Company Y.

4.1 Company X

4.1.1 Description of the Company and their IJV/WFOE

Company X was founded in the late 19th century in Sweden. At the time the firm entered the IJV in the early 1990th, another Swedish based company owned Company X. Currently Company X is not owned by the same firm anymore that owned them at the IJV formation, but is yet part of another Swedish based group. However, Company X was always a legal person (having legal rights and obligations- in this case Juridical person) themselves. When Company X entered the joint venture, they were owning a share of 55 percent of the Joint Venture whereas the local Chinese partner owned the other 45 percent. The joint venture they were forming was at the point of its formation already an existing firm and Company X was buying into the existing firm that was previously owned 100 percent by the local partner. At the formation stage of the Joint Venture, approximately 400 employees were working in the Joint Venture. The resources that were brought into the Joint Venture during the time of its formation by Company X were resources such as Research and Development, production technology, the brand name and the trademark for the products, distribution channels for the international market, knowledge about the markets that they were already operating in, raw materials, capital as well as they built a new factory complex for the joint venture. Also, Company X was originally interested in acquiring the firm with a share of 100 percent, but due to legal restrictions the firm was unable to get hand on the preferred ownership structure for the first years of the existence of their investment. The joint venture was converted into a WFOE in
the end of the 1990\textsuperscript{th} when the legal restrictions in the PRC were allowing to own the firm with 100 percent ownership. When the Joint Venture was acquired, approximately 300 people were employed in the IJV and currently between 150 and 200 employees are working at the WFOE of Company X in the PRC. In terms of experience, Company X did not have any joint ventures before they entered the South East Asian market, however the firm that owned Company X was engaged in hundreds of companies all over the world. For the specific target market, the firm was already trying to operate in another form than investing in this country, however, they did not succeed to serve the local market from the outside and also local competitors started to copy their products.

4.1.2 Motives for entering the foreign market

For entering the Chinese market, several aspects were taken into consideration and were finally factors that convinced Company X to enter the Chinese market. To get access to low cost input factors, to get access to cheap labour which are both elements of a resource seeking motive, also serving the local market in PRC and the potential in the market in terms of future growth of the market that they were identifying at the time of the joint venture formation was an aspect that motivated Company X to commit FDI in the PRC. In addition, Company X was identifying the purchasing power of the consumers in the local market as a motive to enter the PRC. Also, they were planning to have the IJV in the PRC to have better access to the local market at the time of the formation of the IJV. Better usage of the capacity and resources was also a driving factors for entering the IJV. Furthermore, to gaining strategic assets such as access to local distribution channels and knowledge of the local target markets were elements that Company X was expecting to get access to when they were forming the IJV in the early 1990\textsuperscript{th}. At the formation stage of the joint venture a very important reason to enter the Chinese market was also the development of the industry in which Company X is operating in, as well as the trend of most industry to be present in the Chinese market. In connection to this, the company that was owning Company X was deciding to enter the Chinese market. At the time of the IJV formation it was seen as essential for the interviewed firm that every company that is operating multinational should be present in the PRC. Therefore, the most important reason was the presence in the Chinese market itself. Many companies were thinking the same, as a lot of companies were making a strategic change because of the understanding that the Chinese market was the market to be in at the time. The interviewee was in connection to that saying, that this was also affecting the Indian market as companies were moving to the PRC. In addition to being present in the PRC market, also starting to generate money from this investment was seen as an important factor. The above-mentioned factors that Company X was seeking for, can all be linked to the overall reason which was a strategic one to be present in the market as it can be seen above. These factors can
be seen as they became factors after the company had the overall intention just to be present in the market.

Over time however, the motives for Company X were changing and are not the same as when they originally entered the Chinese market. One reason for the change of the motive for doing FDI in the PRC can be connected to the reason, that at the time of the IJV formation, Company X belonged to another firm than at the conversion. Therefore, the firm does not have the same strategy anymore because that strategy was connected to the owning company’s strategy. For the time after the acquisition, the main motive that can be identified in the case of company X is the low-cost input factors that they do have available in the PRC.

4.1.3 Perception of OLI factors

There were several factors that developed during the time Company X was operating in the PRC. In terms of culture, the aspects that were related to operate in the PRC was very different at the joint venture formation than it is right now. However, the business culture did stay stable over the time of the firm’s operation in this market. When Company X was entering the Chinese Market in the early 1990th, the risk in the PRC was very high. Factors for the very high risk were identified as the labour had a very high power in companies at the IJV formation, as they were almost able to decide who should be make redundant and who should stay with the Company. Also, because Company X was just owning 55 percent of the shares, both companies had their own respective strategy and therefore they were not just able to manage the IJV in the best interest of their company. At the acquisition in the end of the 1990th the risk was still considered as high, but not as high as before because otherwise the company would have not have made that investment. In recent years, the risk is not considered as high anymore, because there are now many different non-Chinese firms operating in the country and the region which makes it less risky to operate in the PRC. However, government policies are still considered as a risk, as companies can never be certain about new policies and regulations. When Company X was entering the PRC market, they were expecting that the market size would be very high based on the population, however, after they were entering the market, the company identified that the local market was rather small, as many possible customers are still operating with very old machines. Therefore, it can be noticed, that the market for Company X in the PRC is small today. In terms of competition, Company X was forming the joint venture originally with the biggest competitor in the market, who was copying their products and sold them to the local market. After entering the Joint Venture, the competition within the PRC was low afterwards and nowadays the competition for the products they are selling is still low in the PRC. During the time of the existing joint venture, the costs for enforcing contracts and agreements with the other joint venture partner was high for Company X, as there was one employee who was
4.1.4 Company reasons for converting the IJV into a WFOE

The most important reason for converting the IJV into a WFO in the case of Company X was to take full control of the subsidiary and managing it themselves. During the time of the IJV, the firm was not able to make decisions by themselves, so they were unable to decide on the number of employees that were working in the IJV in the PRC. Company X was already identifying at the formation of the IJV that having full ownership over the subsidiary would be the ownership share that would help them to achieve their FDI in the best possible way. Another factor that was taken into account for the complete ownership of the subsidiary in the end of the 1990th was, that the Company X was able to observe, that other firms were suddenly producing the same machines as they were producing themselves in the IJV in the PRC. By owning the whole subsidiary by themselves they were able to minimize the risk of such cheating where knowledge was taken out of their company illegally and was used in other competing firms. When they were developing new technologies and machines, Company X was not able to fully put trust in the Joint Venture and share all the latest developments of their innovations with the IJV, which was also leading to a less effective business performance of the IJV and by taking full ownership this risk could also be avoided by Company X. As soon as the governmental regulation was allowing them to increase the ownership share from 55 percent to 100 percent. From a financial perspective, the IJV had a very bad business performance in the years after Company X was acquiring their share, especially when it is put into relation to what they were paying for the 55 percent of shares in the early 1990th. This bad financial performance can also be connected to the factors that are mentioned above. However, the company felt that it was a necessary step to enter the Joint Venture. In terms of the relationship with the local IJV partner, the interviewee was stating that they were having a lot of problems with the local partner. They were not used to the same things that Company X was used to. Over the time of the IJV, the relationship with the local partners did increase and in the end, they considered the satisfaction with their local partners as medium satisfactory.
4.2 Note AB

4.2.1 Description of the Company and their IJV/WFOE

Note AB is a Swedish globally operating company which was founded in 1999. The major business lines of the company are the production of circuit cards and the services of programming these circuit cards in dependence on the customer’s preferences. The interviewee’s name is Tomas Fällman, he is working the company in the function of a business controller. The company has engagements in many locations around the world and what is significant for this research, they have experience in IJVs. Their first IJV was in Poland with a local partner. Later on, Note AB entered Chinese market through an IJV, but converted the IJV into a WFOE after a few years. The conversion of this specific case was the basis of this interview. According to Tomas Fällman it was Note AB’s first attempt to enter Chinese market and the decision of the formation of a IJV was the preferred entry mode because of lack of knowledge in the host country. In 2007 Note AB entered the Chinese market by the formation of a IJV in form of a 50/50 ownership split with Ionics EMS from the Philippines. Ionics EMS had already an existing subsidiary in the PRC and was located in Tangxia. Due to low profitability, Ionics EMS was looking for a partner to form an IJV. As a consequence of this search, Note AB became their IJV partner. The main Note AB investment into this IJV was equipment that would allow the IJV to produce at a higher standard/level than the tools that were used before. In 2010 Note AB converted the IJV into a WFOE as they were buying out the Philippine partner and therefore possessed 100 percent of the shares of their previous IJV called IE Note electronics control. There were difficult conditions in the Chinese market for all companies, but without any special restrictions in terms of ownership for foreign companies during the years when Note AB was first locating their business in the PRC. According to Tomas Fällman the number of employees in the company was 1213 in 2007. Later, in 2010, the year of the conversion of the IJV, the number decreased to 1000 employees and currently in 2016 the number employees decreased to 976 in Note AB. Also, Tomas Fällman was stating the number of employees that they had in their IJV in the PRC. The IJV had 100 employees in 2007 during the time of the IJV formation. In 2010, when they converted the IJV into a WFOE the number increased to 175 employees, while in 2016, the WFOE has already 400 employees, what illustrates very high growth of the number of employees’ in the WFOE in the PRC. It shows that almost half of Note AB group employees are today employed in the WFOE in the PRC.

4.2.2 Motives for entering the foreign market

One of the main motives of Note AB to do FDI in the PRC market was to reduce costs of production. They decided to move production jobs from the cost expensive Sweden to the cheaper PRC market where they had an opportunity to save money on labor expenses. Also, raw materials were an important factor. Note AB reduced costs for the shipping, because it was not so expensive to ship the products from the
PRC to western Europe, as there were already developed ways of goods transportation through shipping.

Another significant motive for Note AB was the opportunity to reach higher demands, because of the purchasing power of customers in the PRC that Note AB identified at the time. As Tomas Fällman explained, in the year Note AB entered the IJV in the PRC, there were a lot of Chinese customers, however, there was a tendency of western European companies to move their factories into the PRC, what made the demand in that location much higher. Note AB noticed that trend and today it is an advantage for Note AB, that European based customers were moving to the PRC market themselves, which is increasing the market in the PRC as well as they can take advantage of lower transportation cost due to this movement of clients to the PRC.

Also, prospects of market growth were relevant motive for Note AB during the time they were considering entering the PRC market. Tomas Fällman claims that that Note AB saw the tendency of European companies moving into the Chinese market, therefore the company had some expectation of Chinese market growth.

In addition, Tomas Fällman shared the information that Note AB expected that production will be cheap and that it they could take advantage to produce in the PRC and ship the circuit cards to western Europe. However, it did not happen as Note AB expected, because the majority of the European companies moved their factories into the PRC as well, thus there is no need for product shipment to Europe today, as most customers are located in the same country. Despite the fact, that company’s expectations did not occur, today Note AB has a huge advantage of producing and selling their products in the same market as their consumers instead of producing circuit cards in the low cost European market and ship them to the PRC for the customers. Thus, Note AB is very satisfied of how it all happened. Summing up, Tomas Fällman stated that motives of investment into the PRC were still the same at the conversion into a WFOE as in 2007 when the company formed the IJV in the PRC. Additionally, the motives did not change between the conversion and today either. By operating in the PRC, Note AB sees opportunities to have a low-cost production and the market growth perspective which are still highly valued in the company.

4.2.3 Perception of OLI factors

During the period that Note AB was entering in the PRC market and when they were converting the IJV into a WFOE, the company experienced some motives and factors related to OLI advantages. During the interview, Tomas Fällman discussed how the company perceived the PRC market in accordance of each motive and factor mentioned in the theoretical part. These factors were applied for both the period of the IJV formation and the time of IJV conversion into a WFOE.
The first factor was the culture in the PRC. Tomas Fällman stated that the company perceived the Chinese market’s culture differently in 2007 and 2010. In 2007 company’s perception of the target market from the culture perspective was very different and in 2010 it became just a little bit closer to the company culture, but remained different. According to Tomas Fällman such a change could be explained with the reason that during the time of the IJV formation in 2007, there were a lot of local customers what made the business process difficult as the culture of the Chinese market was totally new for Note AB. Although, the culture perception level grew in 2010 there still were a lot of local consumers and it was difficult for Note AB to find the right approach and get used to the way of traditional negotiation. To reduce such differences, Note AB hired a sales manager after they converted the IJV into a WFOE who lived and worked in the PRC for fifteen years and who knows all nuances of doing business with the local customers. Today the perception of the PRC market from a culture perspective is seen to be neutral and closer related to the western European market as Tomas Fällman explained. The reason is that the PRC has changed and European companies became more adopted to the Asian market and vice versa.

Another factor which was discussed during the interview was the risk in the market. Tomas Fällman explained that in 2007 the risk of doing business in PRC for the Note AB during the period of the IJV formation was very high, because of the lack of experience in the Chinese market and Note AB was completely dependent on the Philippines partners in the most business-related questions. The management team was the Philippine partner’s and they had more knowledge about the market which was leading to a very high risk to enter into IJV with them. However, in 2010 at the period of the conversion to a WFOE, Note AB hired a lot of new employees what gave them the possibility to have representatives of the company in the host country’s market. However, it did not change the risk perception. Tomas Fällman still claimed that risk remained high. He explained it as the reason of a tough economic period and lack of the business tools in the Chinese market. Also, today the risk is still high as Tomas Fällman claims, because it is still difficult to manage with Chinese customers. For example, when sending an invoice to customer with the payment term of 30 days, the company can be sure that it will be paid in that period by Swedish firms, while in the PRC it is more of a recommendation to pay in that period rather than a requirement.

Moreover, market size was discussed in the interview in accordance of the company’s perception of the Chinese market to their product during the formation of IJV and at the conversion to WFOE. Tomas Fällman claimed, that in 2007 the PRC was a good market of electronic productions and they had a lot of export for such products. For Note AB the level of market size perception was seen as neutral in 2007 at the time of IJV formation and it has grown to a high or even very high market size at the moment of the conversion in 2010. There were local companies and also European companies that moved to that market, thus it became the
potential was seen as increased at the time of Note AB IJV conversion. Today, the market is continuing its development and this year Note AB made several important investments which are one of the most significant in the past years.

Telling about the situation of Note AB perception of competition, Tomas Fällman mentioned that in 2007 there were not so many western Europe competitors in production in PRC, but it changed very quickly, therefore, in 2010 already a lot of competitors started IJV or WFOE in the PRC. Today it is seen that all competitors have their own production in PRC, thus competition has grown significantly and now it is seen as complicated to predict in what direction the company should differentiate the product or services.

Finally, Tomas Fällman explained how the company perceived the costs of enforcing contracts at the time of IJV and at the time of acquisition. In 2007, it was not a problem, because Note AB and their Philippines partner company were interested to reach the mutual goals and both sides managed all business according to the agreements. However, after the acquisition in 2010 it became as a more serious problem, because companies started doing business apart of each other and became the competitors. Both companies had production in PRC, but Note AB found the ways to gain more profitable results and it did not arise as a problem, so the costs of enforcing contracts were still not so high.

4.2.4 Company reasons for converting the IJV into a WFOE

The reason to convert the IJV into WFOE according to Tomas Fällman was mostly about growth possibilities, which mean not to share factory with any other company what makes it more complicated and limited. Also, low cost production opportunities, because consumers in western Europe were pushing the company for lower prices, as well as competitors who started their production in PRC. The last reason is that Note AB was hit hard by the financial crises and were not moving into a direction of bankruptcy, however, they were able to generate additional funding from their owners during the economic crises. By having that additional funding, Note AB had the leverage and “financial muscles” to buy the reimaging 50 percent of the shares of their IJV. The Philippine partner was struggling as well during the financial crises. However, in comparison to Note AB, they were not able to generate additional funding and were therefore keen on getting money by selling their 50 percent share of the Joint Venture. Due to the above described situation those two IJV partners were in, Note AB was able to convert the IJV into the WFOE for a very reasonable price according to Tomas Fällman.

Moreover, Note AB was not satisfied about their IJV, because profitability was extremely low and the company’s management was realising that there is some need of acquisition. They though that by possessing 100 percent of the subsidiaries shares would improve the financial performance into a better direction. Tomas
Fällman claims that looking backwards from today, it was the right choice and despite the fact that 2010 still was not a profitable and successful year, it was still the right decision to convert the IJV into a WFOE. After several years, the company stabilised their situation and profitability grew continuously in comparison to the period of IJV.

Finally, the relationship with their partners was good. In the beginning Note AB experienced the feeling of insecurity about the business in the PRC and their Philippines partners helped them, because their company as more acknowledged company in the PRC market. However, good relationships with partner did not give Note AB an opportunity to grow financially, therefore after the conversion in 2010 Note AB was able to make all business-related decisions by themselves and today Tomas Fällman claims that company realise that it was much unprofitable in the period of IJV than after acquisition in 2010. He summed up the relationship as not so satisfied, because of the lack of motivation to invest as the whole business was unprofitable.

4.3 Company Y

4.3.1 Description of the Company and their IJV/WFOE

The company was founded in Sweden and their production is divided into two areas. They produce iron powder and high-alloy metal powder. Today, the company operates globally and has around 99 percent of its product sales in the international market. Also, the company has its own production in 15 different countries, employing 1700 people within the whole organisation. Their main industry is the automotive industry. From the beginning, Company Y was in a JV with another Swedish company, but in 1969 they converted it into a WFOE. Iron powder production in India began in 1969 within their IJV. Penetration in the Indian market was not easy, because company was entering in the early years of FDI inflow in India and not many companies were brave enough to invest in India at that time. In 1969, Company Y bought 51 percent of IJV share from the Indian company. There was uncertainty about doing business in the Indian market and the first period of the IJV formation was not very promising, because India was not very open to foreign investors and only after several years the company did not feel the hard pressure from the Indian government restrictions. The best thing is that Company Y had the opportunity for an IJV, what helped them to establish their iron powder production in the Indian market. However, Company Y converted their IJV in 2001 to a WFOE, after buying the remaining 49 percent of shares. At the time of the IJV formation in 1969, the company had around 300 employees in total and 50 of them were in India. In 2001, when the company converted their IJV, the number of employees in total was 950 and the numbers of employees was growing rapidly in India to 500 employees. Before the formation of the Indian IJV, Company Y had
no experience of forming such ventures, but as it was mentioned, they had a JV from the beginning with an establishment in Sweden. The main investment of the Company Y during the period of the IJV was the complete technical know-how for the manufacture of iron powder and also the installation of the plant as well as the machinery. The main customers were local companies who produced sintered powder metallurgy components, stainless steel and welding electrode.

4.3.2 Motives for entering the foreign market

The Interviewee Y named that there were several motives for Company Y to enter the Indian market through FDI. In 1969, the company was looking to expand their business on a global level. Therefore, they were searching for a big market to expand their business. In correlation to the big market, Company Y also set the criteria that this big market should offer them access to cheap labour as Interviewee Y was describing. By analysing, different markets, India was fulfilling the set criteria and was therefore attractive for Company Y to enter.

As it was mentioned above, having access to cheap labour, as it was available at the formation stage of the Joint Venture was a motive that made the Indian market very attractive for Company Y. As it was mentioned in the previous part in the more general information, the company’s employees number in India grew rapidly between the formation stage of the IJV, throughout the conversion phase till today. This growth in the numbers of employees can be explained by their initial motive of having access to cheap labour, as it is from a financial point of view more efficient, to employ workforce in the cheap labour cost country of India, than having them in their domestic market where labour costs are much higher than in India. Secondly, Interviewee Y was stating, that the firm realised that investing their know-how and equipment in India will give the opportunity to be the first company in the Indian market and therefore be able to establish a market leading position in the Indian market, by being the first firm who is offering high quality products to customers in the domestic Indian market. In addition, Interviewee Y was explaining, that Company Y was convinced at the time, that in the nearer future, more and more non-Indian companies would seek to enter the Indian market, which would according to their thinking at the time lead to additional customers in that market. Therefore, they were convinced that the Indian market would develop in a positive direction in terms of domestic demand from which Company Y would be able to take advantage of.

4.3.3 Perception of OLI factors

The company’s factors which were discussed during the interview have significantly changed over the time of IJV formation to the conversion into a WFOE. In the beginning, Company Y had a very limited understanding of the
market they were investing in. Therefore, Interviewee Y was explaining that decisions were made without a profound market/country knowledge. The comparison of factors perception in the beginning stage and final stage shows significant difference.

First of all, Interviewee Y was stating, that the company was not very knowledgeable about the Indian Culture, when they entered the market through the formation of their IJV in 1969. Interviewee Y claimed, that the company had a very different perception of how business has to be done in India at the time. Also, the Interviewee Y explained that that they were having a difficult time with delays of meetings or with late payments of invoices by their customers. However, when they converted the IJV into a WFOE in 2001, Company Y perceived the Indian market culture neutral. According to Interviewee Y, the difference is due to the reason that they were then thirteen years present in the Indian market and therefore they were able to gain a lot of experience in the market and were also able to benefit from the experience of the local IJV partner during that time span, which is described as very important by the interviewee.

Another growing perception of the factor presented in the interview was the change of risk. In 1969, the company had a high level of uncertainty for entering the market, as the market was new for Company Y and the political environment was not so stable, therefore, they identified the risk as very high. However, it did not make any serious troubles for a company in doing business in India, therefore when the company was converting the IJV, the level of risk was lower and evaluated as high by the interviewee. At the time of the conversion, the risk was not big enough to hinder them from the conversion and they believed at the time that the risk would decrease for the years to come.

Moreover, when the company entered the market with the IJV, they saw the market as very small and were even thinking that FDI in India was a mistake, due to the small market size. However, in 2001 when the conversion of the IJV happened, managers of the company who worked there from the IJV formation already, realised that it was one of the best decisions made in that period, states Interviewee Y. The reason behind the change of market perception is due to the fact that many clients of company Y entered the Indian market, which would allow Company Y to sell their products to more clients. Due to this development, the interviewee was evaluating the Indian market potential as very high. They even opened a second manufacturing plant in India due to the demand in this market.

However, the level of competition changed in the other direction as the interviewee was hoping for. In 1969, when Company Y first engaged with FDI in India, they were able to establish themselves with their new technologies for the Indian market at the time. With their good products, the level of competition in the early stage of the IJV was very low. The reason for the low competition was due to a lack of local producers and also no international competitors, but also due to their
superior technology and equipment. At the conversion stage of the IJV, more international competitors have entered the market during the time as well as an increase of local Indian competitors evolved. However, the established networks during their presence in India helped Company Y to stay competitive and the competition was and is seen as medium.

The cost of enforcing contracts was a real problem for the company in the period of the IJV formation and operation in India, as they were having a lot of expenditures to enforce contracts. Therefore, this was seen as very high during that time period. Their local partner was trying to take advantage of the advantages in knowledge and would therefore be able to dictate the conditions. The company Y was not planning such dependence on their partners and there were several negotiations later which gave more freedom to the company. Thus, in 2001 during the conversion period, the company had no problems with their partners and the perception of enforcing cost of contracts was as medium by Interviewee Y.

4.3.4 Company reasons for converting the IJV into a WFOE

The main motivation for converting the IJV into WFOE was the independence of the company in the market, as they gained experience and familiarity with the local market in India. Also, the future of doing business looked much better at the time when they were converting the IJV into a WFOE, then the future looked years prior to the conversion. Another aspect which was mentioned by Interviewee Y, was that Company Y was not very satisfied with the financial performance of the IJV. A significant role in the conversion was also, that the fact their local partner was having financial problems at the time, which also affected the IJV in a direct way. Even though Interviewee Y considered the financial performance of their IJV in the year of the conversion in 2001 as medium, Company Y had the opinion, that the financial performance could be increased if they would manage the subsidiary by themselves and without their local partner at the time.

Summing up, the partnership satisfaction during the IJV existence from 1969 to 2001 was seen as medium by Interviewee Y. This level of satisfaction was not already perceived in the same way. When they entered the partnership, the level of satisfaction was high, as the Indian market was not familiar at the time. However, it developed in a direction of less satisfaction till the end of the 1990th to share ownership of the subsidiary. Interviewee Y is stating that the company is very satisfied with the conversion and having full ownership today.
5 Analysis

In the analysis chapter, the empirical findings are connected and compared to the theories that are presented in the literature review chapter in order to find similarities and differences between the empirical findings and the literature. Furthermore, the different empirical data are compared, discussed and analyzed against each other.

The table below is offering an overview of the empirical findings, by presenting the FDI motives of the companies as well as OLI related factors. Furthermore, the most important reasons for the conversion are listed. The answers from the formation are written in italic letters and the answers from the conversion are listed in bold letters.

<table>
<thead>
<tr>
<th>Market seeking (FDI motive)</th>
<th>Company X</th>
<th>Note AB</th>
<th>Company Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>serving the local market, market</td>
<td>Purchasing power of customers Market</td>
<td>Serving local market Market</td>
</tr>
<tr>
<td></td>
<td>growth</td>
<td>growth</td>
<td>growth</td>
</tr>
<tr>
<td>Resource seeking (FDI motive)</td>
<td>Low cost input factors, cheap</td>
<td>Low-cost input factors Cheap labour Low-</td>
<td>Cheap labour</td>
</tr>
<tr>
<td></td>
<td>labour</td>
<td>cost input factors</td>
<td>product production</td>
</tr>
<tr>
<td>Efficiency seeking (FDI motive)</td>
<td>Better resource and capacity usage</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Strategic Asset seeking (FDI motive)</td>
<td>To gain strategic assets</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Firm Size (OLI)</td>
<td>Large sized company (&gt;250) Large</td>
<td>Large sized company (&gt;250) Large sized</td>
<td>Large sized company (&gt;250) Large</td>
</tr>
<tr>
<td></td>
<td>sized company (&gt;250)</td>
<td>sized company (&gt;250)</td>
<td>sized company (&gt;250)</td>
</tr>
<tr>
<td>International Experience (OLI)</td>
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<td>Medium experience</td>
<td>No experience</td>
</tr>
<tr>
<td>Culture (OLI)</td>
<td>Very different Neutral</td>
<td>Very Different Different Neutral</td>
<td>Very different Neutral</td>
</tr>
<tr>
<td>Risk (OLI)</td>
<td>Very high High</td>
<td>Very high High</td>
<td>Very high high</td>
</tr>
<tr>
<td>Market size (OLI)</td>
<td>Very high Small</td>
<td>Neutral High/very high</td>
<td>Very small Very high</td>
</tr>
<tr>
<td>Level of competition (OLI)</td>
<td>Low Low</td>
<td>low High</td>
<td>Low Medium</td>
</tr>
<tr>
<td>Cost of enforcing contracts (OLI)</td>
<td>High High</td>
<td>Low Medium</td>
<td>Very high Medium</td>
</tr>
</tbody>
</table>

Table 5: Analysis (own illustration, 2017)
5.1 FDI motives and Conversion of IJVs into WFOEs

5.1.1 Resource seeking

As Dunning and Lundan (2008) were stating, the second factor of the research seeking motive is to have access to cheap labour force. Bitzenis, et al. (2007) were further describing, that this factor is especially attractive for companies who are either in the manufacturing industry or service industry due to the reason that business processes in this field are often labour intensive. In the cases, that are discussed in this thesis with empirical data, all companies were in the manufacturing industry and some were in addition also in the service industry. In all cases that were investigated cheap labour was one of the main, or the main aspects for operating in either the PRC or India at the formation stage. Also, all firms were still seeing cheap labour cost as a motive at the conversion into a WFOE. The importance even increases, as other motives became less important to the companies. Based on the reasons of converting the IJV into a WFOE, a pattern can be observed, that companies felt that they could seek this motive better by owning the subsidiary by themselves. Interviewee X was stating “we were not able to decide about the number of employees by ourselves.” Also, more general statements that were made during the interviews, such as the fact that they would be able to make business decisions alone, does suggest that optimizing the resource seeking motive better, when the subsidiary is wholly owned. These answers lead to the result, that firms convert IJVs into a WFOEs, due to the reason that they prefer to have the whole decision-making authority on how to seek resources in the best way, specially for the labour cost factor.

5.1.2 Market seeking

In the cases that were studied in this thesis, the market seeking motive was an important motive for entering the IJV originally. For all companies that were interviewed, serving the local market was seen as one of the most important motives to enter their IJVs in either India or the PRC. In addition, the prospect of market growth was perceived as important at the formation stage. At the conversion stage into a WFOE, two of the three companies did not change the motives, as they are still seeing market growth and serving the local market as an important aspect for the reasoning of operating in the local market. Also, in this case, having full control over the subsidiary, was seen as beneficial to reach the increasing market potential, and also not to share the income generated by the increasing market with the local partner is a motive to convert the IJV into a WFOE.
5.1.3 Efficiency Seeking and Strategic Asset seeking

In the empirical part, just one of the interviewed companies was listing Efficiency Seeking Motives and Strategic Asset seeking Motives to enter the IJV in the respective country. For this reason, those two motives are not analysed in this Thesis.

5.2 OLI theory and Conversion of IJVs into WFOEs

5.2.1 International Experience

When the case companies entered the Indian or the PRC market, they had no international experience or just a limited international experience. Puck, et al. (2009) were stating, that IJV partners were able to acquire knowledge of the local market over time to an extend, where firms did no longer have a need to have a local partner who is providing this information. Therefore, he concluded that the adaptation of relevant market information increases the chance of a conversion of IJVs into WFOEs. By conducting interviews in this thesis, similar behaviour was observed. Company Y was describing, that wen they originally entered the market, they did not have profound knowledge about the market they were entering in. Over the years of being part of the IJV however, they were able to learn about elements of the market, which was leading to the thinking to be able to manage an own subsidiary in the specific local market without needing the information of the local partner. Based on the interviews in can be observed, that were able to catch up the lack of international experience from when they entered the market, and as a result of the gain in international experience, the local partner became obsolete. Therefore, this thesis is agreeing with previous results which was found by Puck, et al. (2009) that gaining international experience is influencing the conversion of IJVs into WFOEs.

5.2.2 Firm Size

Regarding the firm size of the interviewed companies, it can be observed that all interviewed companies were large companies (more than 250 employees) at the formation stage of the IJV. When the company converted the IJVs into WFOEs, the interviewed companies were still considered as large companies. Analysing the firm size and the conversion of the IJV into a WFOE does therefore not offer a correlation.
5.2.3 Market size

The observations in this research regarding the perception of the market size do differ from one company (Company X) in China to the two others (one in China and one in India). One company saw the market size as very large when they entered the market, they realized however, that the market was very small. For the two other companies however, the market was considered as very small or neutral, but developed to very high at the stage of the conversion into a WFOE. The perception of market size was named as a reason for the conversion, as firms prefer to take advantage of those increasing markets rather by themselves than by sharing it with a local partner. Based on the perception of the market, it can be seen that the change of market size can have a positive effect on the conversion of an IJV into a WFOE.

5.2.4 Host Country Risk

Puck, et al. (2009) observed in their study, that there is a correlation between the perception of uncertainty and the conversion of IJVs into WFOEs. The authors are describing, that when the uncertainty in the foreign market decreases, foreign firms are more likely to allocate more resources into that market by converting their IJVs into WFOEs. In this research, the perception of risk was also a questioned during the interview. In all cases for both India and the PRC the perception of risk was seen as very high when they originally entered the IJV, as the firms had a lot of uncertainty regarding the market, governmental regulation and other uncertainties. At the stage of the conversion into a WFOE all interviewees were rating the risk in the respective countries as high. Therefore, this research came to similar findings as Puck, et al. (2009), due to the reason that the risk was decreasing in all studies cases. Interviewee X was stating, that the risk in the PRC market is seen as lower today, because there are much more non-Chinese firms active in the PRC, which is reducing governmental risks, as more companies would be affected by change of regulations.

5.2.5 Culture

Puck, et al., (2009) were also investigating the cultural difference between the foreign market and the culture of the firm and the correlation between a conversion of an IJV into a WFOE. They are arguing that a high cultural distance does lead to an increase of cost in different aspects such as handling suppliers, local buyers, or governmental institutions. Therefore, firms prefer IJVs over WFOEs, because local partners are more efficient in handling those factors (Puck, et al., 2009). The analyzed cases in this thesis do support the findings of the previous research of Puck, et al. (2009). Both in India and the PRC, all interviewed companies were rating the level of cultural difference between their FDI market and the Swedish home market as very different at the formation stage of their respective IJV. At the conversion stage to a WFOE however, the cultural difference has developed to
either different or neutral, which is a development for closer to neutral in all studied cases. Therefore, this research is also suggesting, that when the cultural difference perception of Swedish IJV partners is getting more neutral, Swedish firms are more likely to convert their IJVs into WFOEs. A reason for that change in perception is according to Tomas Fällman that: “the culture in the foreign market has changed, but also western companies adapted to the market and vice versa.”. The interviewees were also suggesting, that the increase in western activities in those two markets was leading to an adaptation of local culture. The adaptation to local culture is also leading to a decrease of the need for foreign companies to have a local partner who can provide the understanding of the culture.

5.2.6 Cost of enforcing Contracts

In terms of cost of enforcing contracts, the answers of the interviewees differed from each other. In the case of Company X, the costs were high from the IJV formation stage to the conversion stage into the WFOE. For Note AB, the costs of enforcing contracts were low at the formation stage, and was seen as neutral at the conversion. For Company Y, the costs were very high at the formation stage of the IJV, and later decreased to a medium level. Based on those different responses of the costs of enforcing contracts with the local partners, there is no correlation seen in this thesis between an increase of costs for enforcing contracts and the conversion of an IJV into a WFOE. Therefore, the thesis cannot conclude this as a factor for conversions.

5.3 Non-theory related findings

5.3.1 Bad Financial performance

In terms of financial performance of the IJV, all interviewees were stating that the satisfaction during the IJV was not considered as high or even very high. In some cases, the financial performance of the IJV was even considered below medium. The reasons for those performances were not the same in all cases however. In one case the market was smaller than the company was expecting, whereas in other cases, the global economy had an influence on the dissatisfaction of the IJV among other factors. However, all interviewees were describing that at the time before the conversion into a WFOE, the company was thinking that the satisfaction of the financial performance would be higher, if they would convert it and make all performance related decisions by themselves and not with a partner. Furthermore, in all cases that were observed in the empirical part, the financial performance was or is now more satisfying than during the time of the IJV. Therefore, the empirical data is suggesting, that the satisfaction of the financial performance of an IJV is a significant factor for the conversion into a WFOE.
5.3.2 Lack of Trust

By analyzing the cases, it can be observed, that for the foreign IJV partners who are bringing aspects such as technology or knowledge in a Joint Venture, the conversion into a WFOE is beneficial for several reasons. On the one hand, companies with those technological and knowledge based investments are able to make sure that local partners and their employees do not take away the knowledge to other companies. Interviewee X was therefore stating: “A other local Company was suddenly selling the exact same machine as we were producing in the IJV.” On the other hand, it was discussed during interviews, that a mistrust in terms of stealing knowledge from the IJV can lead to the result that the foreign IJV partner hesitate to bring all his resources and knowledge in the IJV, which will have a negative effect on the business- and financial performance of the IJV. By having those negative effects that are based on trust, Swedish firms can improve the performance of their subsidiary, if they are able to trust their subsidiary and therefore a conversion into a WFOE is a reason for partners who are offering knowledge and technology.

5.3.3 Liberalisation of Governmental Restrictions

The empirical part is also suggesting, what was already discussed in the introduction chapter regarding ownership limitations. Two of the three interviewed companies did have governmental restrictions at the time when they were entering their IJV and therefore had no option to establish a WFOE right away. Those restrictions were an issue when they entered in both India and the PRC. Interviewee X was in that regard stating: “We were already thinking that having an WFOE would be better for us at the formation of the Joint enture, but we could only enter through an IJV at the time.” Because of those restrictions, the firms were explaining, that due to the reason that they were not able to open a WFOE at the time, having a IJV, would be therefore the best option to serve the motives that the companies were seeking in those markets. Based on those observations, the liberalisation of governmental restrictions is one of the reasons that were found for Swedish based firms to convert their IJVs into WFOEs.

5.3.4 Economic Crisis

An aspect that was not identified in the literature review, but which was relevant in a case of this research was related to economic cycles and timing. During the economic crises, some of the Swedish based firms that were interviewed were able to get additional funding from their shareholders, when their financial situation was not stable. This additional funding and therefore having additional financial resources, can allow companies to convert IJVs who are not performing well financially into WFOE, when the local partner of the IJV is also hit by the crisis but
is unable to get additional funding. In the two analyzed cases, the local partner was not able to generate additional financial resources, therefore, they were looking to get funding through the sellout of their share of the IJV that was not making money, to prevent their company from illiquidity or bankruptcy. In the case of Note AB, it was described, that due to the pressure their partner was in, they were able to acquire the not profitable IJV at the time to a very reasonable price. In those observations, it can therefore be seen, that external circumstances such as economic cycles, can lead to conversions of IJVs into WFOE, as assets are evaluated differently by firms who are short of financial resources, as they would evaluate them during better business cycles.
6 Conclusion

This chapter contains the answer for the main research question as well as sub-questions. Also, theoretical and practical implications will be discussed with an addition of limitations of this research. Finally, suggestions for future research in this field are presented.

6.1 Answering the research question

As it is discussed in the introduction chapter, internationalisation has gained more interest during the past decades, because of the influence of globalisation (McDougall, Oviatt & Shrader, 2003). Thus, companies make different decisions during this process trying to maximize their advantages. One of the presented entry modes was FDI, which is the bases of this research. The main problem that is discussed in previous researches, was which entry mode firms should choose and also why they should choose it (Agarwal & Ramaswami, 1992; Zhao & Decker, 2004), whereas this research is discussing a related topic which is not discussed often in academia (Puck et al., 2009). Therefore, the purpose of this research was to answer the following research question “Why do Swedish firms convert their IJVs into WFOEs in emerging markets of India and the People’s Republic of China?” which was supported by two sub-questions: “How do FDI motives relate to the conversion of IJVs into WFOEs?” and “How do ownership, location and internalisation factors relate to the conversion of IJVs into WFOEs?”.

The theoretical part is offering linkage between motives and ownership, location and internalisation factors to understand and explain this study’s research questions. By answering the research questions, reasoning behind those decisions with the support of theory are presented in the paragraph below.

In this study, one very important motive companies were seeking to do FDI in India or the PRC was resource seeking. More specifically low input factors and cheap labour cost. Based on the analysis of the interviews, companies convert their IJVs into WFOEs, because they feel like they would be able to maximize the motive by managing the subsidiary by themselves, due to the reason that local partners are not sharing their opinion on how to maximize the benefits from those resources. For the market seeking motive, it can be concluded that companies are converting the IJVs into WFOEs, when they think that the potential of the market can be maximized in a better way when applying the companies’ strategy rather than a shared strategy with the partner. There is no conclusion on the efficiency seeking motive and the Strategic Asset seeking motive, due to the reason that those motives were not included in this study.
In the analysis, several OLI factors were identified to have a positive effect for Swedish firms converting IJVs into WFOEs. One of the factors is the perception of culture in the foreign market. Based on the samples in this research, cultural adaptation is a factor which is influential of IJV conversions. The reason for this adaptation of culture which is leading to conversions is both, Swedish firms getting more familiar with the local markets, but also the local markets getting more familiar with the western business culture and adapt the culture themselves. Therefore, they need a local partner at the beginning, but over time, a partner who is offering cultural knowledge can become obsolete. Another factor which was changing during the IJV operation was the perception of risk. All companies were describing that the risk decreased from “very high” to “high” at the conversion stage, which does also have a positive effect. Also in this case, the increase of foreign firms has according to the data an influence on the risk. Therefore, both of the above-mentioned factors are influenced in a positive way for the conversion of IJVs into WFOEs by the increase of foreign firms entering these markets, due to the reason that this has a positive effect on both culture and risk. As the research is also suggesting, that the growth in the market was leading to the conversion, as companies were planning to reach the potential and profits by themselves and their own strategy. In addition, the gain of international experience during the time of the IJV was identified as an influence on converting IJVs into WFOEs, as the companies entered the countries with very limited international experience, but were able to learn during the IJV operation. However, the analysis of the empirical findings does not suggest a correlation between enforcing contracts with the partner and the conversion, as the answers did not show a pattern and also no correlation between the company size with the conversion of IJVs into WFOEs, as the company sizes did not change significantly.

This research findings and analysis of the findings give a clearer picture of issues which exist during FDI operations. Also, it clarifies what internal and external changes that may influence the company’s decision to convert IJVs into WFOEs. However, there were some issues which were not discussed in the theoretical part by using the FDI motive theory and the eclectic paradigm theory, but were according to this research also important reasons for the conversion of IJVs into WFOEs.

First of all, the financial performance of IJV plays significant role for the conversion of IJVs into WFOEs. The data collected in this research suggests that the satisfaction of financial performance of an IJV is an important reason for the conversion, as in all cases the financial performance was not satisfying before the conversion into a WFOE and companies felt to be able to manage it more successful by themselves. Moreover, trust between IJV partners is an important reason for the conversion. Companies who bring knowledge and technology in an IJV, are avoiding losing their knowledge by converting IJVs into WFOEs. Also, this thesis is suggesting, that liberalisation of governmental restrictions, made companies
convert their IJVs into WFOEs in India and the PRC, as some companies already knew at the IJV formation, that owning a WFOE would be the best decision for the company but they were not able at the time. Finally, this research is suggesting, that economic crisis is a reason why Swedish firms are converting their IJVs into WFOEs. During crisis, companies with enough financial resources are able to convert IJVs into WFOEs at reasonable prices, due to the reason that the local partner is desperate to sell their shares to generate funding for their main firms.

By analyzing the empirical data, the thesis is suggesting an adaptation of the model that was defined as the framework of this study. Therefore, the two FDI motives that were not applicable for this study are removed. Furthermore, there are four new aspects (bad financial performance, Financial Crisis, Liberalisation of Governmental Restrictions, Lack of Trust) that were discovered in this research and therefore added to the framework below.

![Figure 4: Adapted Framework (own illustration, 2017)](image-url)
6.2 Theoretical Implications

Research on IJV conversion into WFOE is an understudied field, as there is just a very limited number of previous scholars on this topic available (Puck et al., 2009). Moreover, this research paper is focusing on concrete countries, Sweden as the FDI outflow country and India and the PRC as FDI inflow countries. That differs from the previous researches, which is not focusing on such a concrete case and therefore helps to complete the research gap. Also, the theories used in the previous researches were different with current research, as they were using theories such as the transaction cost theory and institutional theory (Puck et al., 2009). The combination of this phenomena with the FDI motive theory and the Eclectic paradigm theory offers a new connection between the theories and the conversion of IJVs into WFOEs. Thus, it is important to find more theories which may fit for this research and can therefore bring other angles to the research area. Such development of the theories with that topic should give more transparent information for academia. Also, this research is showing, that the theories used in this study are supporting the conclusions of Puck et al. (2009) who were using different methods, but had findings in common with this research.

6.3 Practical Implications

The analysis of the empirical data was showing interesting findings. This paper should therefore help Swedish firms who are operating with IJVs in India and the PRC to guide through the decision making of converting to a WFOE or to keep operating with an IJV. With the help of the theory and the conversion reasons, firms should have a better overview on reasons who are favourable for converting to seek a specific asset in the foreign market. Also, the eclectic paradigm is offering guidance in the conversion for companies, as it is offering cases, where they can orientate themselves, on how those changes of the factors have influenced other companies in their decision making towards a conversion of an IJV. Also, these factors can be used as a benchmark for companies to measure their internal readiness for a conversion, as they can observe if those factors have increased in a better direction or not.

Furthermore, companies should think about the financial situation and potential profitability in the IJV with the local partner, as in the studied cases, companies who were taking full control over a subsidiary that was struggling financially, were able to perform better in the long run by managing the subsidiaries themselves. Also, it should offer companies a new perception of crises, as the study is showing, economic crises can be very beneficial for international firms in terms of IJV conversions into WFOEs, due to the reason that the study is showing that companies
were able to convert their subsidiary at a price which made the conversion beneficial by the acquisition cost itself.

6.4 Limitations

There are several limitations regarding this thesis. First of all, this study is limited to Swedish firms who were converting their IJVs into WFOEs and does therefore not include companies from other countries who were doing FDI in the PRC or India. Secondly only conversions that happened in either India or the PRC were studied and does therefore not offer reasoning for other markets. Furthermore, no reasoning behind other conversions such as WFOE to IJV are discussed in this research thesis. Furthermore, the thesis is only offering reasoning behind the conversion and does not evaluate performance which is related to the conversion. In addition, the used theory is limiting the outcome of this thesis, due to the reason that not all factors of IJV conversions into WFOE that are not linked to either the FDI motive theory or the eclectic paradigm theory were discussed with the interviewees. The final limitation of this research is, that this qualitative research has the reasoning of three different companies included in the empirical part. Therefore, not all motives that are listed in the FDI motive were discussed in the thesis, due to the reason that the case companies did not cover all different motives for FDI.

6.5 Suggestions for future research

As it was already stated in the introduction chapter, the conversion of IJVs into WFOEs is a highly-understudied topic in academia. After this topic has been studied, both, though literature review and empirical findings, it can be observed that the topic is still understudied. Also, the topic is understudied with the connection of the phenomenon and theoretical frameworks. Therefore, we are able to observe several research gaps in this research field that could be studied in the future:

1. Future researchers could investigate this phenomenon in more depth, by analyzing the conversion of IJVs into WFOEs isolated to one specific industry to get more specific results for the reasoning of conversions in those markets.

2. To investigate the same research topic of IJV conversions into WFOEs, but limit it to a certain company size such as SMEs or MNCs, which would
offer another angle based on the reasoning in correlation to company sizes. Also, reasoning between company sizes could be compared and explained.

3. Researchers could also investigate the phenomenon by studying the same research question with a context of another BRIC country or countries. Therefore, also comparisons between different BRIC countries could be drawn.

4. The study can be researched based on northern Countries in the same target market instead of reducing it to the Swedish Market, which would offer a bigger picture to investigate.

5. Researchers can investigate the conversion of IJVs into WFOEs in a larger scale than just a limited number of cases. A larger scale of research can increase the meaningfulness of reasoning of the results, as this case is limited in responses.

6. Researchers can investigate the research topic by using different theories other than the FDI motive theory and the eclectic paradigm theory and compare the outcome to the existing research.
7 References

7.1 Interview Participants

1. Interviewee X, Key account manager at Company X, face-to-face interview, 2017-05-10
2. Tomas Fällman, Business Controller at Note AB, face-to-face interview, 2017-05-09
3. Interviewee Y, Sales Manager at Company Y, telecommunication interview, 2017-05-16

7.2 Written sources


Stake, R. E., 2005. *Qualitative Case Studies*. s.l.:s.n.


8 Appendix

8.1 Interview Questionnaire

SEMI-STRUCTURED QUESTIONS FOR INTERVIEW

1. Company name: ________________________________________________________________
2. Interviewee’s name: ___________________________________________________________
3. Interviewee’s title: _____________________________________________________________
4. Name of IJV and location: ______________________________________________________
5. Year of IJV formation: _________________________________________________________
6. Partner company name: _________________________________________________________
7. Ownership split between partners at formation of IJV: _____________________________
8. Were there any legal restrictions on foreign ownership in target country at the time of IJV formation? _________
9. Which year your company acquired the IJV: _______________________________________

10. Company information:
11. What are your firm’s major business lines: _______________________________________
12. What was the number of employees in your firm at the time of IJV establishment and at the time of IJV conversion to WFOE? (Rough estimate) _______________________
13. How many manufacturing IJVs and WFOE your company had before forming this IJV? ________________ How many were in South Asia? _______________________
14. What were your firm’s operations in the target country before forming this IJV? (No prior activity, sales office, licensing agreement, exporting, a manufacturing JV, a manufacturing WFOE, several manufacturing units, or other operations) _______________________

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**IJV information:**

15. Was the joint venture a new separate firm established or you partially acquired the partner firm?

16. Did your firm seek for another ownership share (e.g., 100% Greenfield investment, acquiring 100% of partner firm, or another ownership share in IJV) in the IJV at the formation stage of IJV?

17. When firms form IJVs, they usually made some important investments in the IJVs. What kind of resources have your firm and partner firm invested in the IJV (e.g., Basic R&D, production related technology, brand names\trademarks, distribution channels to local market and international markets, local market knowledge, raw material, HR, capital)?
   a. ___________________________________________________________

**Target Country Information:**

18. Why did your firm choose to invest in this country?
   a. To gain low-cost input factors (e.g. raw material)
   b. To get access to cheap labor
   c. To serve the country local market
   d. Because of the purchasing power of customers
   e. Because of prospects of market growth
   f. Access to regional markets
   g. Better resources and capacity usage
   h. To gain strategic assets (technology, access to distribution channels, target country knowledge)

19. Would you consider that the motives to invest in target country were still the same at the time of IJV acquisition?

20. How did your firm perceive the target market at the time of IJV formation and at the time of IJV acquisition:
   a. Culture at the time of IJV formation (1: Very different, 2: different, 3: neutral, 4: similar, 5: very similar)
   b. Culture at the time of IJV acquisition (1: Very different, 2: different, 3: neutral, 4: similar, 5: very similar)
c. Risk at the time of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
d. Risk at the time of IJV acquisition (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
e. Market size at the formation of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
f. Market size at the time of IJV acquisition (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
g. Level of competition at formation of IJV (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
h. Level of competition at acquisition (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
i. Cost of enforcing contracts at the time of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)  
j. Cost of enforcing contracts at the time of IJV acquisition (1: very small, 2: small, 3: medium, 4: high, 5: very high)  

**More specific reasons of IJV conversion to WFOE**  

21. What factors motivated your firm to convert the IJV into WFOE?  

22. What was your firm’s level of satisfaction with financial performance of IJV at the time of IJV acquisition? (1: very low, 2: low, 3: medium, 4: high, 5: very high)  

23. How satisfied was your firm’s relationship with IJV partner at the time of IJV acquisition? (1: very low, 2: low, 3: medium, 4: high, 5: very high)  

8.2 Interview responses  

Two of three responses are saved as an audio file.  

The third interview is written as a phone protocol.