



Linnæus University

Sweden

Bachelor Thesis

Emerging Market Selection for Offshore Production

A case study on the international market selection into an emerging market



Author: Jimmy Källgren, Sebastian Magnusson, Tom Viberg
Supervisor: Clarinda Rodrigues
Examiner: Susanne Sandberg
Date: 2015-05-27
Subject: International Business
Level: Bachelor
Course code: 15VT-2FE50E

Abstract

The purpose of this thesis is to conduct an international market selection which will result in a suitable choice of market for an SME that is about to place offshore production in an emerging market. A focus during the thesis is directed towards potential risks that may occur and how SMEs can manage these. In order to fulfill this purpose the authors have developed two main research questions:

How can an SME use the IMS-framework to select an emerging market for offshore production?

How can an SME manage potential risks when placing offshore production in an emerging market?

The theoretical framework consists of the description of the international market selection process that is relevant as it is the framework from which the selection of a target market originates. Further, a description of theories on entry modes and risk management is presented in order to provide insight on how SMEs can manage risks when placing production in an emerging market. The empirical chapter consists of interviews from a case company as well as Business Sweden and is structured in accordance to the theoretical chapter.

In the analysis the theoretical frameworks are discussed and connected to the empirical findings. In the initial part of the analysis the international market selection is presented and discussed before it culminates in the authors chosen target market. The latter part of the analysis addresses the risk management SMEs is faced with when placing offshore production in an emerging market.

The conclusion provides the reader with the chosen target market for the case company. It also shows that SMEs ought to apply a risk averse mindset when placing their production in an emerging market. The authors finally present suggestions for further research regarding SMEs ventures to place production in emerging markets.

Keywords

International Market Selection, SME, Risk Management, Entry Modes, Offshore Production.

Thanks

The authors of this thesis would like to thank the people who has contributed to this thesis and made it possible to accomplish. Appreciation goes to the interviewees at our case company Norden Machinery, for taking the time to provide us with information on the venture that they are about to undertake: Lars Hammarstedt, Jörgen Lindgren, Jörgen Johansson, Christer Bäck and Kjell Säveborn. We would also like to thank Carl Malmqvist at Business Sweden for participating in an interview and providing the authors with relevant and required information.

The authors would also like to thank our supervisor and examiner during this thesis, Clarinda Rodrigues and Susanne Sandberg, for guidance as well as for necessary insights and comments. Finally, the authors would like to thank our opponents for providing feedback during this entire process.

Table of Contents

1 Introduction	1
1.1 Globalization	1
1.2 International Market Selection	2
1.3 Foreign Direct Investment	3
1.4 Problem Discussion	4
1.5 Research Questions	7
1.6 Purpose	7
1.7 Delimitations	7
2 Theoretical Framework	8
2.1 International Market Selection	8
2.2 Entry modes	10
2.2.1 <i>Export entry modes</i>	12
2.2.2 <i>Contractual entry modes</i>	13
2.2.3 <i>Investment entry modes</i>	13
2.3 Risk management	15
2.4 Conceptual Framework	17
3 Methodology	20
3.1 Disposition of methodology	20
3.2 Abductive research approach	20
3.3 Qualitative research method	22
3.4 Data collection	23
3.4.1 <i>Secondary data</i>	23
3.4.2 <i>Primary data</i>	23
3.5 Research Strategy	23
3.5.1 <i>Case Study</i>	24
3.5.2 <i>Sample selection</i>	24
3.5.3 <i>Case company</i>	25
3.5.4 <i>Semi-structured interviews</i>	26
3.5.5 <i>Operationalization</i>	27
3.6 Methodological approach to the IMS framework	27
3.7 Research Quality	28
3.7.1 <i>Construct Validity</i>	28
3.7.2 <i>Internal Validity</i>	28
3.7.3 <i>External Validity</i>	29
3.7.4 <i>Reliability</i>	29
4 Empirical Findings	30
4.1 Primary Data	30
4.1.1 <i>Sales Director and Project Leader</i>	30
4.1.2 <i>Area Sales Manager – India</i>	32

4.1.3 Area Sales Manager – Indonesia and Malaysia	34
4.1.4 Quality controller – China	36
4.1.5 Country Manager – Malaysia and Indonesia	37
4.2 Secondary data	42
4.2.1 Free Trade Areas	42
4.2.2 Ease of doing business	42
4.2.3 Infrastructure	43
4.2.4 Political situation	48
4.2.5 Demography	49
4.2.6 Economic situation	50
4.2.7 Policies towards investment	50
4.2.8 Wages	51
5 Analysis	53
5.1 The international market selection process	53
5.1.1 India	54
5.1.2 China	55
5.1.3 Indonesia and Malaysia	56
5.2 Entry modes	58
5.3 Risk Management	60
6 Conclusions	62
6.1 Answering the research questions	62
6.2 Theoretical contributions	64
6.3 Managerial implications	65
6.4 Limitations	65
6.5 Suggestions on further research	65
7 References	66

Attachments: Interview guide Norden Machinery and Business Sweden

Table of figures

Figure 1: Model of the conceptual framework	19
Figure 2: Disposition of the methodology chapter	20
Figure 3: Ease of doing business index	44
Figure 4: Logistics performance index	47
Figure 5: Index of economic freedom	49
Figure 6: Democracy index	49
Figure 7: Population	50
Figure 8: Urban population	50
Figure 9: Human development index	50
Figure 10: Annual GDP growth	51
Figure 11: Inflation	51
Figure 12: Total GDP	51
Figure 13: Model of a sequential approach of the IMS process	64

1 Introduction

In this initial chapter the authors will begin by presenting globalization in order to provide a view of why firms, to a greater extent than before, are considering relocating their operations abroad. This will be followed by a brief discussion of why the international market selection framework and foreign direct investment is relevant for this thesis before the problem discussion is presented and subsequently the purpose, delimitations and the study context are accounted for.

1.1 Globalization

“Companies must learn to operate as if the world were one large market – ignoring superficial regional and national differences” – Theodore Levitt (1983)

The global business environment of the 21st century is hectic. To understand it one must first widen the horizons of the problem and present the surrounding issues. Levitt (1983) argues that the globalization began when the development of technologies made people more aware of what they could have. As the worldwide communication improves and spreads across the world the globalization will generate modern possibilities to people that need it the most, raising living standards and enhancing work.

Lee *et al.* (2015) describe globalization as a process that enables the integration of economies and societies around the world. These developments have liberalized the global market by reducing entry barriers and obstacles that prevents foreign investments. Through this advance in the global business system the movement of material and immaterial products has increased significantly over the past decade. Lee *et al.* (2015) further claims that in some parts of the world there are markets that in previous years have fallen behind in the development. Today, however, these markets are eager to catch up in the globalization process. These markets are called emerging markets and have great potential in technological development and economic growth which attracts foreign investors. Cavusgil *et al.* (2013) argue that emerging markets will show the strongest figures of growth during the next twenty years.

Cavusgil *et al.* (2013) claim that the ongoing globalization has too many possibilities and opportunities to ignore. However, these opportunities are not that easy to recognize nor to exploit even though these opportunities often are located in the emerging markets. Emerging markets are countries that are in the process of leaving the developing stage to become a developed market. This process usually involves rapid growth and industrialization of the economic and industrial systems. One major factor that makes the growth possible is generally the liberalization of the market and adaptation of foreign technologies. The emerging markets also have the highest possible economic profitability and GDP growth, yet often have disorganized systems (*ibid*).

As stated by Hollensen (2014), firms may in many cases need to be present abroad in order to be able to compete internationally. Since globalization leads to international markets opening up it creates competition coming from all over the world, thus companies strive to gain competitive advantages. The means of obtaining competitive advantages ranges from lowered labour costs to having local presence and closeness to customers. Thus, many factors are contributing to making a firm explore the possibilities of international markets (Root, 1994). Ahead of an international venture however, a firm needs to consider the different alternatives of markets to enter. Gesteland and Seyk (2002) argue that the selection of a market to enter for a firm is a process that needs to be thought through and analysed due to the fact that the choice has a major effect on the potential success of the company's products. The fact that a company's products may be suitable for a specific market does not on its own necessarily make the venture successful. Gesteland and Seyk (2002) further claim that several factors, such as the economic status of a country or the level of infrastructure, all play a part in determining which market that is most suitable for a firm to enter.

1.2 International Market Selection

After a company have decided to go international it will stand before the choice of selecting a target market (European Commission, 2014). According to Marchi *et al.* (2014) the international market selection (IMS) is an important determinant for a small firm's success on international markets. As competition increases in the globalizing world it is important to consider the international market selection. Moreover, Brouthers and Nakos (2005) state that the more systematic a company is with the IMS the more successful the company will be on the selected target market. Thus companies need to

carefully consider their choice of market in order to be successful. For small and medium sized enterprises (SME), which usually employs a maximum of 250 people and has a turnover of 50 million euro (Europa, 2014), resources are limited and a successful venture into the target market can be crucial. Buerki *et al.* (2014) argue that only few companies have the resources to enter several markets at the same time which implies that most companies will have to rely on success in a single target market. Hence, the company needs to find the target market where resources are best allocated to decrease the possibility of failure which can be achieved by a systematic approach on the IMS.

One of the most crucial parts in the IMS process is gathering information and gaining knowledge about the selected market. Rahman (2003) states that by locating information about essential factors within the chosen countries, such as information about political and economic situation, the uncertainties will decrease. By decreasing the uncertainties the possibilities will emerge, making the selection of a target market easier. It is usually at this stage the segmentation process fails or comes to an abrupt stop, it is therefore essential to study the selected markets thoroughly. According to Root (1994) one major obstacle is the importance of large amount of information when segmenting the chosen markets. This is usually an expensive process, which can be a big constraint, especially for SMEs which do not have as many resources as larger enterprises. However, the advantages compensate for these imperfections, by locating the right target market the potential rewards are usually high. By using the IMS process and it's containing characteristics the company can exploit the market effectively and use the opportunity to become the market leader (*ibid.*).

1.3 Foreign Direct Investment

Root (1994) argues that using foreign direct investment (FDI) when entering a new market imposes a higher level of risk for the company than other export modes. Companies investing into a foreign market will have a higher commitment of resources which naturally leads to an increase of risk. Hollensen (2014) further states that a company choosing to conduct FDI in a country will face greater risks as the costs of a failed project can be very high due to committed resources. Poplat (2014) claims that the risk tends to increase even further when investing into an emerging market. While a companys investments increase the risks increase as well, yet higher risk is often connected to more opportunities. Root (1994) argues that some of the advantages with investing into foreign markets are for example the increase of control, access to cheaper

labour and cheaper raw material. Thus, the incentive to direct invest into a foreign market is there for the company since the above mentioned advantages can lead to higher profitability as well as better protection of products with the increased control.

There is also a difference between large companies and SMEs that direct invest into a foreign market. Root (1994) states that companies with limited resources are more likely to choose entry modes that demands less resource commitment. Hollensen (2014) further argues that SMEs are more likely to export instead of direct invest due to the reason that their resources are limited. While large companies generally are said to have an advantage when direct investing an SME is often still prepared to take the risk of investing if the costs are too high in the home market and they are in the need for market expansion (Kuo and Li, 2003).

According to Shiau *et al.* (2013) companies need to be effective with their cost control in emerging markets in order to be successful with FDI. Even though risk contra opportunities often are difficult to compare when it comes to cost evaluation it is necessary to be aware of them. Before conducting an international venture, especially for an SME that have limited resources, one has to carefully strive towards the possibilities and exploit the market opportunities and try to avoid the risks that arise with these opportunities.

1.4 Problem Discussion

Root (1994) states that there are several reasons for a company to go abroad such as stagnant home markets, following the competitors or simply because the foreign market is growing faster than the home market meaning that there are opportunities to be found. The companies need to be on the international market to stay competitive. Brouters and Nakos (2005) argue that due to developing technologies, political changes and trade liberalizations, SMEs are nowadays internationalizing more than before.

Previous researchers have stated that the internationalization process of companies is an incremental process in which they learn step by step as they gather experience (Johanson and Vahlne, 1997; Barkema and Droegendijk, 2007). This is supported by Root (1994) who argues in the same line and states that companies firstly after obtaining experience from export do they move on to focus on long-term profit

strategies into foreign markets. As SMEs are becoming more international and for example born globals is an increasing phenomena the experience from international ventures will keep increasing for SMEs. If the level of experience among SMEs keep increasing their commitment into foreign markets should increase as well according to the previously mentioned research. However, Hollensen (2014) states that while large companies have larger amounts of resources and hence can focus on long-term opportunities, SMEs on the other hand are characterized by having limited resources and in general a focus on short term opportunities. Thus, SMEs may want to have more control in the foreign markets but usually uses entry modes which require less commitment such as an export entry mode (ibid).

Root (1994) claims that the entry strategy into foreign markets is a comprehensive plan for companies. The time for companies to enter a foreign market usually ranges between 3-5 years before they have achieved a market performance that is enduring. This implies that the challenges with both selecting a market and choosing the entry mode for the market composes extensive decision-making and preparations, which further implies that there will be risks for the company to consider. Furthermore, Root (1994) argues that it takes more company resources in order to invest directly into a foreign market and thus the risk increases with it for a company. As a characteristic of an SME is limited resources, this implies that for an SME, which will invest into a foreign market, the risk increases further.

As of now the greatest market opportunities can be found in emerging markets which are the fastest growing markets. Buerki *et al.* (2014) argue that emerging markets around the world have shown improvements in their political and economic situation during the last decades and that this development has led to that their attractiveness among foreign investors is increasing. Furthermore, Buerki *et al.* (2014) claim that managers at companies with the ambition to internationalize are nowadays aware of the potential of emerging markets and that presence there can turn out to be profitable for them. However, not all emerging markets offer the same possibilities, and not all companies looking to internationalize have the resources to enter several markets. Thus, it is of high importance to select the appropriate market for a company to enter.

Poplat (2014) states that emerging markets increase the risks further for a company and thus when a selection process of emerging markets is conducted even more levels of risk and changes in the environment arises, compared to a market selection for developed markets. Sakarya *et al.* (2007) claim that the nature of an emerging market regarding the future market potential, deriving from the level of rapid changes and market receptiveness, forces a firm to take more factors into consideration when conducting a selection process of emerging markets. However, emerging markets are still relatively unexplored for companies and there are still research to be made in the area regarding market selection and entry mode into emerging markets. Previous research in this area has been conducted, such as Burkei *et al.* (2014) in which the authors evaluates important selection criteria for market selection to emerging markets, or Sakaraya *et al.* (2007) where they assessed the opportunities as well as future opportunities to be found in emerging markets.

In an emerging market with even more risks, the managers involved need to be careful in the decision making (Poplat, 2014). SMEs just as well as a multinational corporation will have to select a target market in which they will operate in. Musso and Francioni (2012) argue that previous research has focused too much on the viewpoint of large enterprises for the IMS process and instead the authors focused on looking at the characteristics of an SME during the IMS process. The authors have found research about multinational companies placing production abroad, however, the authors find that a research gap is evident regarding market selection to emerging markets for SMEs. Thus, the importance of research on SMEs entering emerging markets via offshore production is clear. In order to make a contribution in filling this gap, this thesis aims to extend the research on market selection choice when an SME intends to place production in an emerging market.

1.5 Research Questions

The previous discussion about international market selection, offshore production and how to manage risk have led to that the authors have formulated two research questions. As these questions are interrelated they will lead to an enhanced understanding of the presented subject.

How can an SME use the IMS-framework to select an emerging market for offshore production?

How can an SME manage potential risks when placing offshore production in an emerging market?

1.6 Purpose

The purpose of this thesis is to explore how an SME can use the IMS-framework when selecting an emerging market for offshore production. This thesis will explore the topic with a focus on potential risks that SMEs might face when placing offshore production in emerging markets. This will be done by a qualitative case study research on one SME which is planning to place production in an emerging market.

1.7 Delimitations

The case company, Norden Machinery will select either of the following emerging markets: India, China, Indonesia or Malaysia. Hence other potential markets will not be looked into. The empirical data will only be collected from one case company. Consequently the result will not be of a general nature but instead a deeper insight into one company's market selection process.

2 Theoretical Framework

This chapter will present the theoretical framework used for this thesis. The authors will begin by presenting theory on the international market selection, followed by a review on the different entry modes a company can use when entering a foreign market and finally the authors look into theory on risk management.

2.1 International Market Selection

The importance of scanning and finding a promising market to enter is crucial in international business (Gaston-Breton and Martin, 2011). Rahman (2003) argues that the main reason of failing an international venture is a poor market selection. It is therefore crucial to evaluate the potential markets thoroughly and make a clear resource calculation in order to succeed.

The IMS process is preceded by the choice of internationalizing. According to Hollensen (2014) there are environmental and firm characteristics that can decide an organization's choice of internationalization into a foreign market. Firm characteristics consists of five internal factors that are of importance when considering internationalization, namely; degree of internationalization and overseas experience, size and amount of resources, type of industry and nature of the business, internationalization goals and existing networks of relationships. On the other hand the environmental characteristics focus more on the external factors in a business's surroundings that can affect the organization, i.e. international industry structure, degree of internationalization of the market and how the market potential, competition, psychic and geographic distance and market similarity are in the host market (ibid).

When initially entering a market firms typically approach a sequential market selection process (Douglas and Craig, 2011). Kumar *et al.* (1993) developed a three stage model where the markets are firstly screened with macro environment criteria, secondly the countries are identified to look deeper into and finally the selection of country where firm specific matters is looked upon. Rahman (2003) modelled the IMS process through a two stage model in which firstly the macro and micro environment were screened and the second stage involved looking at the market's attractiveness. Hollensen (2014) further states that there are four different steps within the IMS process that needs to be considered before choosing which market to enter. The first and the second step regards

defining criteria and developing segments. In the third step the markets are screened and in the fourth step the country is divided into subsegments which are further screened.

As mentioned the first step regards developing criteria which are later used to screen the segments with. Hollensen (2014) states that the criteria can be divided into general and specific characteristics. General characteristics includes geography, political factors, economy, demography, education, social organization and religion. The specific characteristics will create an understanding about the culture, attitudes, lifestyle and personality of the chosen markets. These characteristics will generate information that is crucial for an international venture. The differences around the world need to be considered if one is going to be successful.

While Hollensen (2014) takes a starting point for the criteria selection in the macroenvironment, Sakaraya *et al.* (2007) bases the criteria selection for emerging markets on the characteristics of the micro environment. Sakaraya *et al.* (2007) further argue that the IMS process only takes the macroeconomic factors into account and ignores the emerging markets' dynamic market potential, resulting from rapid changes in the business environment and the market receptiveness. Further the factors regarding an IMS process in an emerging market focuses more on the internal market and organizational features than the external characteristics of both the company and the selected market. Buerki *et al.* (2014) state that companies find the criteria for emerging markets to be different from developed market. Criteria such as political stability, cultural distance and social capital were more important than for example market potential or competitive strength of the industry. Yet, criteria normally used for developed markets are found to be more important to evaluate in emerging markets as well. Once criteria are developed a company can progress further and develop segments.

According to Hollensen (2014) the segmentation step of the IMS process regards the development of segments. In order to conduct a successful segmentation there are some criteria that need to be accounted for. The measurability, accessibility, substantiality, profitability and actionability of a market are critical to analyse for an international venture to be successful. If the degree of these mentioned criteria of a market is high it usually indicates that the organization should focus more on the general characteristics. If these factors are low, the firm should instead concentrate on the specific

characteristics (ibid). Hollensen (2014) explains that the third stage of the international market selection process involves screening the different segments. This screening process is divided into two types of sub-stages: preliminary screening and fine-grained screening which is also supported by Gaston-Breton and Martin (2011). The preliminary screening is based on analysis of the macro environment such as the general characteristics. The markets are studied by presenting factors that determine the state of each market; GNP per capita, export and import restrictions, political stability and free trade zones are some examples that are analysed in the preliminary screening (Hollensen, 2014). The fine-grained screening focus more on the internal characteristics of an organization by evaluating its competitive advantages and power in the chosen segments. By analysing factors such as country attractiveness and comparing it to the internal strength the organization can more easily understand the position it might take in that particular segment (ibid).

The fourth stage involves the process of sub segmentation of the chosen country. By doing this, organizations can divide the country into various markets by studying its lifestyle, demography and buying behaviour within the regions (Hollensen, 2014).

Papadopoulos and Martin (2011) highlight the importance of integrating both the social values of the customer and the market attractiveness as a base for the segmentation process. This argument is also supported by Sakaraya *et al.* (2007), who explains the significance of including micro analysis into the broader, macro analysis, both on the industrial and the customer level, especially when studying emerging markets.

2.2 Entry modes

The selection of an international market also requires the selection of an entry mode to the chosen market. Andersson and Gatignon (1986) argue that the selection of an entry mode is one of the main issues for an international marketer. Furthermore, an emerging market is often connected to more risk thus making the choice of entry mode even more of an important consideration (Poplat, 2014). As Cavusgil *et al.* (2013) explain western companies can experience barriers to the entry into emerging markets due to differences in infrastructure, level of technology, the political environment as well as legal and cultural differences. Choosing an entry mode into a new market is characterized by the

challenge of finding what entry mode strategy that will bring the highest profit and efficiency for a company (Gollnhofer and Turkina, 2015).

An entry mode choice is affected by certain aspects surrounding the firm. Johanson and Vahlne (1977) state that a company with more specialized products wants to have a higher degree of commitment to the market. The commitment to a foreign market is also affected by the perceived opportunities in the market. Furthermore, market knowledge and international experience are regarded as firm resources which can have effect on the choice entry mode as well. Driscoll and Paliwoda (1997) argue that resource commitment followed by the level of control a company has in the foreign market were the most important factors for a company when choosing an entry mode. They further found that the socio-cultural distance between the home country and the foreign market was an important factor influencing the choice of entry mode. Mayrhofer (2004) also supports that the home-country have effects on the choice of entry mode and states that for example the nationality of the company highly affects the choice of entry mode. One example is that US-based firms tend to prefer having the majority of equity or subsidiaries fully owned. Root (1994) claims that a company chooses an entry mode according to three rules: *The naive rule* which means that the company uses the same entry mode for all foreign market, *the pragmatic rule* meaning that a company chooses entry mode from what is workable if an export mode is not profitable and *the strategy rule* which is regarded as choosing the right entry mode as the company systematically compares different entry modes to the foreign target market.

Root (1994) states that there are three main modes of entry which all provide a different level of commitment for the company in the foreign market thus also different levels of risk. These three main entry modes are: *export entry modes*, *contractual entry modes* and *investment entry modes*. Transferring products from the domestic market or a third country to the host market is regarded as export entry modes. The contractual entry modes are mainly movement of knowledge and skills from one partner to another in the foreign market in order to create sales on the market. Finally, the investment entry modes where the company owns and controls the organization transferred to the host market.

2.2.1 Export entry modes

As mentioned previously, exporting is defined as transferring products directly or indirectly to the foreign target market. Companies first international ventures can often be an uneasy situation considering that the companies are still unaware of their competitiveness on the foreign market (Root, 1994). Thus, a company in the early stages of internationalizing often wants to minimize risks rather than increasing the control on the foreign market which makes export a suitable option. Cavusgil *et al.* (2013) further state that export is often preferred by companies as an initial strategy entering foreign markets as it allows the firm to evaluate the products on the market and avoid potential risks which direct investments to a market can involve.

Root (1994) divides the export modes into *indirect export* and *direct export* which Hollensen (2014) develops further by adding *cooperative exports*. Root (1994) further argues that companies entering through indirect export will have a lower cost when starting up as well as few risks but instead profits will potentially be lower. Another issue is that indirect exporting does not allow the company its own international marketing strategy. Hollensen (2014) argues that an advantage with indirect exporting is that a company does not need any export experience as they use the knowledge of already experienced exporters. When a company is exporting through indirect channels it is allowing another domestic company to manage the exports for them e.g. piggybacking which means that the company export its products through another company which also sells the products on the foreign market.

Hollensen (2014) states that direct export takes place when the producer or exporter sells directly to an importer or distributor situated in the foreign market. Root (1994) claims that a company exporting directly will have a certain balance between risk and opportunities as more control increases with direct exporting. Horstmann and Markusen (1996) also states that direct export, specifically using an agent in the foreign markets will allow the company to explore the market while avoiding too costly mistakes. Besides more control, a direct exporting company will also find advantages in such as faster feedback from the market and better protection of patents and trademarks. The downside is that it will be necessary to gather more information, hence leading to higher costs for the company when starting up which leads to more risks due to the increasing investment. When direct exporting a company can work with an agent or distributor in the foreign market which is the main issue as a company will need to find the right

distributor or agent which the company will build its relationship with (Cavusgil *et al.*, 2013).

Cooperative export is explained by Hollensen (2014) to be a common method for SMEs on their first foreign venture due to lack of resources or lack of managerial capabilities. Cooperative exporting allows the companies to share the profits and risks while it has the disadvantage of that the cooperative companies may have different objectives thus leading to friction in the relationship.

2.2.2 Contractual entry modes

Contractual entry modes as defined by Root (1994) are characterized by mainly transferring skills or knowledge to a foreign partner thus differing from export modes. Neither are they direct investment as no equity is being invested by the company internationalizing. Cavusgil *et al.* (2013) argue that contractual agreements allow different levels of control depending on the contract thus they are frequently used as entry modes. There are different forms of contractual entry modes such as licensing, franchising, contract manufacturing or other agreements such as turnkey projects or service contracts in which the services are being transferred directly to the foreign organization (Root, 1994).

According to Root (1994), licensing as a contractual agreement, is a common entry mode by which the company will sell the rights to e.g. a patent or a trademark which the foreign company will be allowed to use for usually a set period of time. Franchising is discussed to be similar to licensing yet also differs due to that franchising also involves help with marketing, organization and management. Advantages of contractual entry modes could be for example that when contract manufacturing the contractor will not have any local investments thus decreasing the risk while a disadvantage could be that the transferring the know-how to produce could be difficult (Hollensen, 2014). Another example is when a company is franchising out, the degree of control increases while it may be difficult to find trustworthy and competent franchisees.

2.2.3 Investment entry modes

Root (1994) states that the final form of entry are investment entry modes where the company have full control in the foreign market as it will be fully owned by the company. Investments require a large amount of commitment in the form of capital and

management along with other parts of a company's resources. The probability of success increases when a company has former experience from other entry modes to foreign markets. Yet, Poplat (2014) argues that managers will face a complex decision-making process when investing into a foreign market since several considerations are needed such as choice of target market or on the cultural distance to the country and its effects.

Root (1994) explains that investment modes are fundamentally the movement of an entire enterprise to the foreign target market and thus involves transfer of technology, management, marketing, finances and other skills. This also leads to that the company has full control and can therefore fully take advantage of their competitive advantages in the target market. Root (1994) disregards for example a sales subsidiary as an investment mode, since this form does not provide control over the logistics in the market and instead focuses on production facilities where the company is in full control. Cavusgil *et al.* (2013) state differently and adds market and sales subsidiaries as investment modes, and divides it into investment modes and wholly-owned entry modes whereas the latter involves moving the whole enterprise to the foreign market.

The different methods of investing into foreign markets, as stated by Root (1994), are either sole ventures, which involves full ownership by the parent company, or joint ventures where the ownership is shared by the parent company and a partner company. Both of these can either be performed through a new establishment which also is defined as Greenfield investment by Hollensen (2014) or by acquisition of a local company in the target market.

According to Root (1994) an acquisition in a foreign market is performed for different reasons such as geographic diversification, the product or to get access to specific resources such as technology, workers or management. The success of an acquisition relies to a large extent on the choice of the local company acquired. Acquisitions hold many advantages since the company will get access to an already existing enterprise as well as access to their products and markets. This allows the acquisition to be faster than a Greenfield investment where a start-up time could take around 3-5 years before the investor reaches the same exploitation. Yet, an acquisition is argued to restrain the investor as well, since the acquired company often needs to be fitted to the investor's

policies and operations. Resources usually come along with an acquisition and especially in the form of technology and human resources i.e. management, which Hollensen (2014) argues to be especially contributing to a company with less knowledge of the local market. One issue with an acquisition lies within the possible resentment of local people due to failed integration or communication by the foreign investors when the specific company is acquired.

Greenfield investment is a much slower and more expensive process for the company as it would mean building up a new establishment from scratch (Hollensen, 2014). While this is true the Greenfield investment may be preferred because of the level of control and that the company will be able to build up its operations and company culture in accordance to preferred standards and needs (Cavusgil *et al.*, 2013). It is further argued that the costs of investments could even be lowered as the company itself can choose how much it wants to invest in the new establishment. As opposed to an acquisition the Greenfield investment will not have any inherited problems as it is fully built up from scratch. Generally local governments are approving of new establishments due to that it can create job opportunities as well as possible infrastructure improvements. Further a company can benefit from offered help provided by the local government as they want the company to increase the investment in the country. Although the new establishments creates opportunities it can be difficult for a company to estimate how high the revenue will be of the investment and how much time it would take before it becomes profitable (*ibid.*).

According to the World Bank (n.d.), foreign direct investments are cross-border investments associated with an entity residing in one economy to an entity in the foreign economy over which the investor has a significant degree of control or influence on. Direct investments are also the transactions that comes with this relationship. Thus the above mentioned investment entry modes are regarded as foreign direct investment as they are considered to fall under this definition.

2.3 Risk management

As a consequence of globalization and market liberalization the risks of internationalization have increased. The result of this has led to that firms nowadays have to have an effective risk management strategy to handle these risks (Lundqvist, 2014). Johanson and Vahlne (1977) argue that the most important factor for a successful

internationalization is knowledge about the target market and the lack of it usually results in failure. It is therefore crucial to be aware of the risks that might appear and to have a clear risk management strategy to avoid the uncertainties.

The internal and external pressure on an organization is constant which affect firms on every level and the outcome depends on how they can handle the risk. Whether or not the organization will be able to exploit the opportunities or fail in avoiding the uncertainties depends on the risk management (Jeynes, 2002). The external pressure is divided into five main categories, namely: social, competitive, political, technological and economic. These elements are linked to the internal factors which affect the situation within an organization, such as ethics, beliefs and culture.

Jeynes (2002) presents a ten element approach (also known as the 10 Ps approach) that represents the main risk areas that can determine the success of firm's risk avoidance. *Premises* are associated with the location of the firm, distributions channels and access to the customers. *Product* is the core of the business, what the product is representing, the products level of quality and service. *Purchasing* is how the access to the supplies, payment, terms and costs are. The *people* that are employed in the organization needs e.g. motivation, incentives, internal education which needs to be evaluated. The *procedures* that the organization represent needs to be accounted for, how does the production look like, is the record keeping following the regulations. The *planning* may be one of the most important factors that an organization has to deal with, this is associated with the short- and long term goals, management skills, investment options, external pressure and levels of control. The *policy* of the firm is crucial as this is what the values of the company is based on and also what supports the strategic plans. The *protection* is important on a micro level, where the security within the firm is represented e.g. does the insurance cover a failure and is the data and information systems well protected. The *processes* involve the main production but also how the company handles technology and new materials. It is also important to monitor the process of the goal that was set by the firm, by using measurement tools and important information the company can understand the *performance* that was set by the company.

Jeynes (2002) argues that despite the above mentioned risks companies tend to work with them rather than against them which is why their impact is sometimes positive

instead of negative for a company. These risks can be avoided but are more difficult to eliminate. However, with good management risks can be reduced and controlled before they spread throughout the organization.

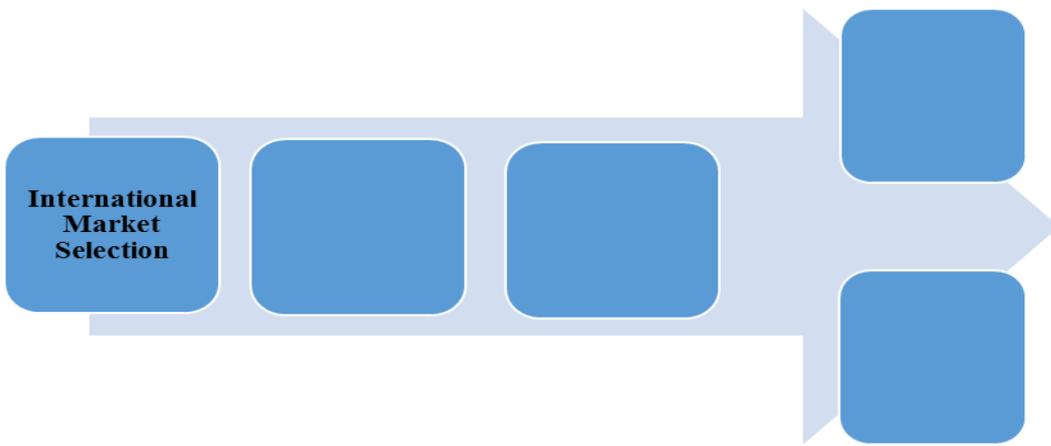
How the risk management is implemented and structured differs depending on the size of the organization. As a company grows so does the surrounding opportunities and uncertainties (Jeynes, 2002). The growth is associated with an increase of information spread throughout the firm, as the information increases the communication and feedback have to do it as well. If the communication is insufficient the information will be too great to handle which in return will affect the risk management. To have a system that manages the risk effectively is essential. If the company does not have a clear risk management strategy or a system that handles the information, the organization might not recognize the increasing competitive and financial risks in the macro environment and the firm might not be able to react to these risks in time (Jeynes, 2002).

Hollensen (2014) also states that one should analyse the potential target market by using risk management strategies. The company should avoid to export to high-risk countries known by its economic and political instability. It is also important to spread the risk to a number of markets to avoid being over dependent on one single market in case there should emerge any restrictions on trade.

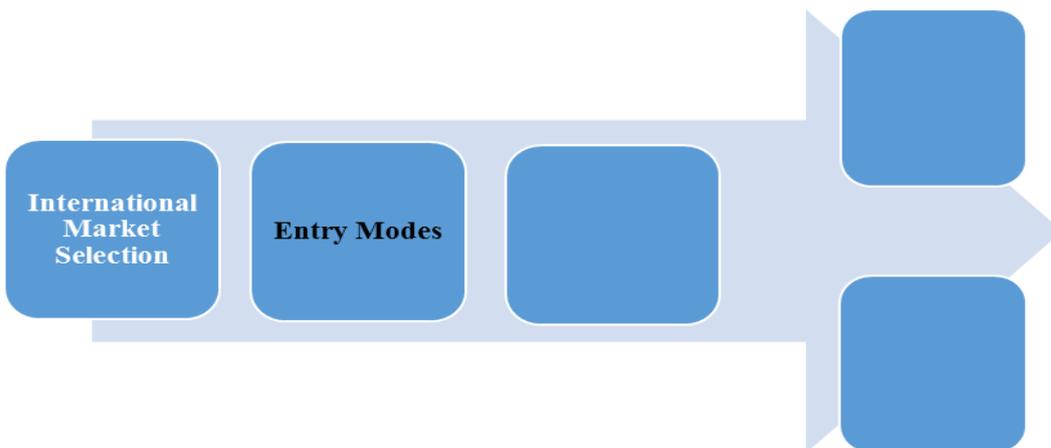
The above mentioned factors need to be taken into account when considering international business. By reducing the risks the uncertainties will decrease and the market opportunities will emerge. If the risks do not decrease, the organization's commitment will decrease as well until the accepted levels of risk are reached (Figueira-de-Lemos *et al.*, 2010).

2.4 Conceptual Framework

The authors of this thesis have developed a conceptual framework with the purpose of concluding the theoretical framework briefly. The conceptual framework will form the underlying basis for the analysis in order to understand and explore how an SME firm makes a market choice when undertaking foreign direct investments into an emerging market and how risk can be managed.



An international venture is more likely to succeed if it is preceded by a thorough and carefully performed market selection process. The market selection process should be modelled as sequential and in order to perform it a company should firstly *define criteria*. Secondly *segments* needs to be developed and in the third step the *markets are screened* with a preliminary screening and fine grained screening. Finally the markets are *sub-segmentated*. These steps concludes a full IMS process which thoroughly evaluates the potential markets in order to be able to select a market.



The entry mode can either be an export entry mode, a contractual entry mode or an investment entry mode. Each entry mode provides with different levels of commitment for a company. An export mode is connected to less commitment for a company and can be done either directly, indirectly or through cooperative export. The contractual entry modes usually only involves transfer of knowledge for example licensing or franchising and thus the commitmen decreases as no equity is invested. The investment modes are the entry modes which require the most commitment, since they require a lot of a companys resources. Due to the fact that investment is connected to invested equity in the country, it is considered the entry mode connected with the highest risk.



Risks increase according to the level of commitment a company undertakes when entering a new market. If the level of risks is not manageable the company's commitment to the foreign market will decrease. Thus an approach to plan for occurring risks is important in the planning stage of an international venture. If a company is aware of potential risks and able to avoid and manage them the probability of success increases.



Figure 1: Model of the conceptual framework

This conceptual framework will be used by the authors to analyse the collected empirical data so that the research questions of this thesis can be answered.

3 Methodology

In this chapter the methodology used throughout the thesis will be presented. Initially the research method, approach and design that we have used in order to answer our research questions will be accounted for. Finally the data collection process and the research quality will be presented.

3.1 Disposition of methodology



Figure 2: Disposition of methodological chapter

Throughout this thesis we have conducted our research by using an abductive approach, since we will look into a market selection process for a Swedish SME which we then follow up with theories in order to further gather empirical data to answer our research question. As stated in the purpose section the ambition of this thesis is to provide the reader with a deeper insight into one Swedish SMEs venture into Asia, rather than presenting a general scenario that several SMEs may experience when undertaking a similar venture. Thus, we decided to use a qualitative research method during this process. In order to obtain the information and knowledge needed to provide a deeper insight and to answer the research questions we have conducted a case study. As a result of this, we were able to undertake interviews with appropriate staff members at our case firm Norden Machinery.

3.2 Abductive research approach

According to Alvesson and Sköldböck (2008) it is possible to follow one of three different research approaches when conducting a business research. The three alternatives are *inductive*, *deductive* and *abductive* which clarifies different views on the interaction between theory and empirical data. Dubois and Gadde (2002) state the ambition in all business research is to gather empirical data and confront it with existing theories. Moreover, Bryman and Bell (2011) argue that the underlying reason for why data is collected is to either support or test a theory or to try to build a theory.

Alvesson and Sköldbberg (2008) claim that the inductive approach has its basis from several individual cases where connections and correlations between these are assumed to be generally valid. One characteristic of the inductive approach is that the researcher's aim is to, based on the collected empirical data, create theories or concepts (Merriam, 2009). According to Alvesson and Sköldbberg (2008) however, the inductive research approach has its shortcomings, as the underlying structure of what the researcher claims to be generally valid might be disregarded.

The deductive approach can be seen as an opposite from the inductive approach. When conducting research based on a deductive approach the researcher starts off with a general rule or theory and uses this in order to explain an individual case of a certain subject (Alvesson and Sköldbberg, 2008). Bryman and Bell (2011) supports this by arguing that the researcher begins with known facts about a specific domain and from that deduce a theory that, by confronting it with empirical data, is tested. Patel and Davidson (2011) claim that by following the deductive approach, with basis in an already existing theory, the level of objectivity is potentially high.

The third approach is the abductive research approach. According to Alvesson and Sköldbberg (2008) this approach can be seen as a mixture of the inductive and the deductive approach, but they emphasize however that the abductive approach has bases and foundations on its own. Dubois and Gadde (2002) argue that by using the abductive approach the researcher goes back and forth between existing theories and the empirical data that is collected. The authors further claim that an abductive approach is more concerned with "theory development" rather than "theory generation", meaning that the researcher needs to have an open and objective mind towards the findings he or she encounters (ibid). Patel and Davidson (2011) state that during an abductive process the researcher starts with a hypothetical framework or pattern that can explain a specific subject. This hypothesis or theory is then confronted with additional empirical findings, which subsequently leads to the possibility that the theory can be further developed or adjusted. In this thesis the authors follow the structure of an abductive approach as our purpose is to explore an existing problem for the case company. We will further look into theories on the subject of market selection, gather empirical data and link it to the theories and our research question.

3.3 Qualitative research method

Merriam (2009) argues that when research is conducted, a researcher can use one of two different research methods: qualitative or quantitative. In order to understand the two concepts better and see why we decided to use a qualitative research method these will be presented further.

Merriam (2009) claims that by implementing a quantitative research method, the researcher is aiming towards determining cause of events and how these can be used in order to try to predict how a future, similar scenario may look. Merriam (2009) further argues that results coming from a quantitative research method are concerned with questions that are usually answered in a numerical form, i.e. “how many” and “how much”. Bryman and Bell (2011) support this claim as they argue that quantitative research has its main focus on collecting data and, through analysing that data, reach a result that is possible to quantify.

The other research method that is commonly used in business research is the qualitative method. Bryman and Bell (2011) claim that by using a qualitative research method, the researcher is more interested in words instead of numbers, which is the case in quantitative studies. According to Merriam (2009) the use of a qualitative research method can give the researcher a chance to understand people’s experiences of a subject. Furthermore, the distinction between qualitative and quantitative research method can be described as that qualitative researchers are focusing more on interpreting people’s experiences concerning a specific topic, rather than finding out numerical results on that subject which quantitative studies are concerned with. Alvesson and Sköldböck (2008) further claims that a qualitative research method has its basis from the study subjects’ perspective, while a quantitative method is generally based from the researchers perspective, i.e. that the researchers own ideas on what categories that should be highlighted throughout the study is emphasized. Due to that this thesis is interrelated with one case company the authors find that a qualitative approach is the most suitable. Qualitative research is both the most referable and applicable to our thesis due to that the authors are able to interpret and create an understanding of the interviewees experiences.

3.4 Data collection

As stated by Eriksson and Wiedershem-Paul (1997) secondary and primary data are the two types of empirical data which can be gathered. Throughout this thesis the authors have used information originating from both primary and secondary sources. The primary data has been collected through interviews with employees at Norden Machinery. The secondary data that the authors have used comes from various documentations.

3.4.1 Secondary data

Zikmund *et al.* (2010) state that secondary data is information that has been collected or gathered for another purpose than that of your own research. The authors further argue that an advantage with secondary information is the availability of the information. It is generally less expensive to obtain than primary information, but a potential downside with secondary information is the quality of the data due to the fact that the researcher may be partial in the selection of data (Zikmund *et al.* 2010). Secondary data can include webpages on the internet, literature and scientific journals (Merriam, 2009). The authors will use secondary data in this study as it will be necessary information in order to perform the market selection process. The authors are aware of the criticism towards secondary sources and will have that in consideration when presenting the results from the data collection.

3.4.2 Primary data

According to Merriam (2009) the primary data is more reliable than secondary data due to that the data comes directly from the source. Interviews and observations are two types of primary data. Yin (2014) argues that for a case study the interview is one of the most important sources of information. The primary data is the main source of information for this study which will be gathered through semi-structured interviews.

3.5 Research Strategy

Yin (2014) states that the research design is the way a researcher sets up a plan for how the gathered empirical data can be connected to the research questions of the study. The author further claims that the research design can be seen as the “blueprint”, which can help the researcher during the study. By developing and following the structures of a research design, the risk that the evidence coming from the study does not match the research questions decreases (*ibid.*).

Yin (2014) argues that there are different alternatives of research designs when it comes to case studies. The researcher can choose between conducting a single case study research or a multiple-case study research, and subsequently decide if research should be conducted in a holistic or embedded way. Based on the research questions of this thesis and the fact that the empirical findings during this thesis originate from one case company, a single case study research has been conducted. The authors have followed the framework of an embedded single case study which means that the authors study one company but have multiple units of analysis, i.e. several interviews with different people at the case company.

3.5.1 Case Study

According to Merriam (2009) a case study is a detailed analysis and description of a limited system. Patel and Davidson (2011) argue that a case study implies a research of a smaller and limited subject-group. There are various definitions of what a “case” can be. Patel and Davidson (2011) claim that a case can be an individual, an organization or a specific situation. Merriam (2009) state that a case is a single entity that is possible to “fence in”, i.e. it is a object of study that is possible to delimit.

3.5.2 Sample selection

Merriam (2009) claims that the researcher needs to carefully select what is to be studied, i.e. determine the unit of analysis. In other words, the researcher needs to settle upon what, where, when and whom to interview. The author further argues that there are two possible alternatives regarding the sampling process: the probability and nonprobability sampling. The first includes an ambition for the researcher to generalize the results, hence it is more suitable for quantitative studies. The non-probability sampling is the most common method for qualitative business studies as the researcher strives towards locating a sample where he or she can discover, understand and gain the most insight (ibid).

Merriam (2009) argue that a researcher during the sampling process needs to initially select the case that is to be studied and subsequently plan the interviews and other data gathering process that is required. The empirical gatherings in this thesis originate from a case study on a single Swedish SME, Norden Machinery. Lars Hammarstedt and Jörgen Lindgren was chosen as they are responsible for the planned project. The other

interviewees in Norden Machinery, Jörgen Johansson, Christer Bäck and Kjell Säveborn were chosen based on their area knowledge from the different countries of interest for this study. Finally the interviewee from Business Sweden, Carl Malmqvist, the only one outside of Norden Machinery, was selected for an interview as he could bring deeper insights and information on the countries Malaysia and Indonesia.

3.5.3 Case company

Our case company is Norden Machinery, founded in 1980, is the world market leading manufacturer of tube filling machines. Norden Machinery can offer a production output of 130-150 machines per year in five main business segments; pharmaceuticals, toothpaste, food, cosmetic and industrial. Nowadays, Norden Machinery have around 5000 machines operating around the world. Norden Machinery exports 97% of their products to the international markets and have 1400 active customers in 60 countries. Their headquarter is in Kalmar, Sweden where they employ 225 people and this is also where all the machines are made.

Based on their number of employees Norden Machinery is classified as an SME, which is a criteria for our research. Their experience as an exporting company guarantees that they have a lot of previous knowledge about international business which the authors believe will help in the process of selecting a market. This research is based on SMEs placing offshore production in an emerging market and this is exactly what Norden Machinery is hoping to achieve. The following persons have been interviewed for this thesis;

Lars Hammarstedt - Sales Director for Norden Machinery. Hammarstedt has been working with various positions in sales and marketing in Norden Machinery since 2002.

Jörgen Lindgren – Production Leader at Norden Machinery. During this process of offshore production in Asia, Lindgren is also working as project leader.

Jörgen Johansson - Area Sales Manager for Australia, South Asia, the Arabian Peninsula and Africa. In the list of markets that Johansson is responsible for, India is the one of interest for this thesis. Johansson has been working at Norden Machinery for 8 years.

Christer Bäck - Area Sales Manager for South East Asia, Japan, Korea and the Middle East. Included in the South East Asian region are Indonesia and Malaysia, which are of interest for this thesis. Bäck has been working at Norden Machinery for 5 years.

Kjell Sävborn – Working with assembly of machines at Norden Machinery. Sävborn was the quality-controller for Norden Machinery's production in China in the year 2006. Sävborn has been working at Norden Machinery for 52 years.

Carl Malmqvist - Country Manager for Malaysia, the Philippines and Indonesia at Business Sweden. Malmqvist has been working with all types of questions regarding the above stated countries as well as Singapore for 6 years.

3.5.4 Semi-structured interviews

Conducting a qualitative interview can be done in different ways. According to Yin (2014) the interview is among the most important sources of information for a researcher when conducting a case study. Merriam (2009) presents three different types of interviews, that are structurally different from each other: highly structured/standardized, semi-structured and the unstructured/informal. Interviews that are highly structured include predetermined questions to ask and when during the interview they are supposed to be asked (Merriam, 2009). One negative aspect of these kind of interviews in qualitative studies is that the respondent does not get the chance to freely express his or her full experiences or understandings regarding the subject at hand. Thus, Merriam (2009) argues that the semi-structured is more suitable for qualitative studies as they are less structured and more open to the respondent's unique answers. Bryman and Bell (2011) state that the researcher prepares, in advance, general questions that are to be asked, but the researcher is open to change the order in which they are asked. Furthermore, Bryman and Bell (2011) claim that during the interview the researcher can go further into certain topics discussed during the interview, depending on the interviewee's answers. Merriam (2009) state that the third alternative, the unstructured interview, is an informal kind of interview which may be suitable when the researchers has limited or insufficient knowledge about the topic discussed, thus is unable to ask relevant questions to the respondents.

During this thesis the authors have used semi-structured interviews in order to obtain the information the authors need to answer the research question. When conducting the

interviews following a semi-structured format, the authors prepared an interview guide in advance that served as the basis during the interview. With this interview guide as our foundation during the interview the authors were able to follow a predetermined direction of the interview, but were open to go further into different topics discussed with additional questions, depending on the respondent's answers.

3.5.5 Operationalization

Patel and Davidsson (2011) describes operationalization as developing interview questions based on the theoretical framework. The authors performed the first interview with Lars Hammarstedt and Jörgen Lindgren differently. In the first interview the authors performed an exploratory semi-structured interview which allowed the respondents to present their existing problem in order to get a deeper understanding. From the information in that interview the authors developed the theoretical framework. The theoretical framework was then used to develop an interview guide for the upcoming interviews. The authors allowed the questions to be open questions in order to allow the respondent to elaborate freely. The questions was developed over the topics of *international market selection, entry modes and risks*. These three topics were based on the problem seen in the first interview and thus were needed to elaborate on in order to study the problem.

3.6 Methodological approach to the IMS framework

In this study we explore an SMEs emerging market selection for offshore production. The IMS process was performed sequentially as this is typically used for an IMS process (Douglas and Craig, 2011). The IMS process was performed in a three stage model in which the authors firstly developed criteria, secondly selection of potential markets to screen and finally the authors screened the markets according to the developed criteria in order to select a final market.

Thus in the first step according to Hollensen, (2014) we developed criteria to scan the markets with. The criteria were developed and ranked in accordance with the gathered primary data which showed that stability of the business climate was the most important. Therefore the criteria used for the IMS process are as ranked: 1. *Ease of doing business*. 2. *Infrastructure*. 3. *Political stability* 4. *Demography* 5. *Economy* 6. *Policies towards foreign investment* 7. *Wages*.

In the second step the authors did not choose which countries to screen, but instead Norden Machinery were limited to the four markets which Coesia are already set up in: India, China, Indonesia and Malaysia. Finally in the third step the screening process was performed in which the authors used the combined experience of respondents along with gathered secondary data.

3.7 Research Quality

Merriam (2009) claims that in any kind of research the validity and reliability of the research are challenging concerns for the researcher to deal with. Yin (2014) also argues that it is important to look into and review the quality of a business research. The author further states that in order to judge and review the quality of an empirical social research four tests are commonly used. The four tests or criteria are: construct validity, internal validity, external validity and reliability.

3.7.1 Construct Validity

Yin (2014) argues that in case study research, the task to test the construct validity is especially challenging. It concerns the operational set of measures used throughout the research and the level of objectivity from the researcher. This scenario is present during the data collection phase of the research and the researcher ought to strive towards using multiple sources of evidence and establishing a chain of evidence (ibid). With this in mind notice have been given throughout this thesis to use several sources of evidence, i.e. interviews and documentations. The authors have collected data from different respondents from the case company in order to make the data as closely related to reality as possible in this thesis and thus increase the validity. Furthermore by thoroughly referring to reliable sources the authors have been critical in their choice of literature. By excluding sources that did not have the level of trust needed we have been selective in our choice, by doing this process we believe that the construct validity will be higher than by ignoring to be critical to our sources.

3.7.2 Internal Validity

According to Merriam (2009) internal validity is concerned with whether or not the findings from a research are possible to match against reality. In a case study research the internal validity deals with the problem of the potential inferences the researcher makes (Yin, 2014). Merriam (2009) claims that internal validity is dependent upon the meaning of reality, as the question whether or not the researcher is investigating what he

or she think they are investigating is present. By having an open mindset hence considering the potential different explanations and possibilities, the researcher is working towards increasing the level of internal validity (Yin, 2014). In this study the authors have looked at several scientific journals and literature with different authors points of views regarding international market selection, risk management and entry modes in order to increase the internal validity of the study. The interviewees have been working at the case company for a minimum of five years, thus the authors argue that their knowledge and experience increases the validity of this thesis.

3.7.3 External Validity

The external validity of a business research is concerned with the extent to which the finding of the research can be viewed upon as general (Merriam, 2009). Yin (2014) state that the research question itself can indicate if the findings from the thesis can be applied to other situations than that of the case study. Yin (2014) further argues that by formulating a research question into a “how” or “why” question, the researcher shows that he or she strives towards increasing the level of external validity. The purpose of this study is not to generalize. The authors purpose was to explore and create an understanding of a single case study. Thus although the level of generalization may be lower, the authors does not find this as problematic for the findings of the thesis.

3.7.4 Reliability

The reliability of a research deals with whether or not the research can be replicated (Merriam, 2009). Yin (2014) argues that if the reliability of a research is high, the results of the research would be the same if a later researcher would carry out the same case study again. Yin (2014) further argues that by trying to make various steps of the research operational and by keeping in mind that a potential “auditor” of ones research would be able to replicate the research and arrive at the same result, can increase the reliability of the research. Besides a separate interview guide on the final interview with Carl Malmqvist, the authors have used the same interview guide for all interviewees in order to achieve a higher reliability on the study. The first interview with Lars Hammarstedt and Jörgen Lindgren the authors was performed as an exploratory interview to create a deeper understanding of the problem which the authors aimed to study in this thesis. The authors have also carefully presented their research process in the methodology chapter allowing the process of the study to be followed and replicated. Thus the authors of this study argue that the results of this thesis are reliable.

4 Empirical Findings

In this chapter the empirical data that has been collected for this thesis will be presented. The primary data gathered through interviews with employees at our case study company – Norden Machinery, will be presented. Furthermore, data from secondary sources will be used to provide insight to factors related to the topics in the theory chapter. By following the structure of the theoretical framework, the ambition is to make the text easier to follow for the reader.

4.1 Primary Data

4.1.1 Sales Director and Project Leader

The Case

This thesis has its foundation in a process that Norden Machinery is about to undertake.

In the initial stages of our contact with Norden Machinery Jörgen Lindgren and Lars Hammarstedt explained the cornerstones of the process. This process involves the launching of a new product to a new market in Asia. Since Norden Machinery is part of a larger business group called “The Coesia Group”, the market selection is aimed towards markets where Coesia have resources, which are needed for Norden in order to manage this process. Hammarstedt explains that one of four countries; China, India, Indonesia or Malaysia, are the potential markets for them to enter.

International market selection

Hammarstedt and Lindgren claim that the previous market selections that Norden Machinery as a company have conducted were made back in the 1950-60s, hence their experience in this kind of situation is limited in some ways. Hammarstedt claims, however, that since they have developed a product that is especially suitable for the Asian region, and that they are choosing between four potential markets, they have a solid foundation to begin the selection process from.

Hammarstedt highlights the fact that when looking at which factors are of greatest importance when conducting a market selection process like this, is to keep manufacturing aspects and sales aspects separated. He continues by explaining that the demand on a market is important regarding the potential sales of a certain product, and since they have already found these four countries have a satisfying demand for the product they have developed, the basis of the selection process is already done.

Hammarstedt further argues that the manufacturing aspects are of greatest importance for them at this stage. The placement of the manufacturing facilities is what needs to be investigated further. By looking at factors like costs of producing in these countries, both today but also an outlook of how the costs may change in the years to come is important to keep in mind. Additional factors of importance are labour costs; experience, knowledge and competence in these countries for this kind of process; suppliers of material; the potential of support if Norden decides to develop a local controlling system; and taxes and customs.

Entry modes

Lindgren explains that the ambition is to set up a similar organization in the chosen country as the one that Norden has in Sweden today. It will be of smaller proportions, but they will need manufacturing, purchasing and sales personnel at the sight in order to create a sustainable economic situation. In order to set up this organization Lindgren argues that Norden will need to transfer personnel from the Swedish office during the first year in order to get the new facility up and running.

According to Hammarstedt Norden has found a segment in these four markets that they currently, with the products that are manufactured in Sweden, cannot reach. He further argues that by developing an affordable product, produced in one of these countries, their ambition is to reach this segment of customers. Hammarstedt claims that the one can look at this project and compare to the correlation between Lexus and Toyota.

“We produce Lexus here, now we are going to produce a Toyota locally and reach a customer segment that cannot afford to buy a Lexus” –Hammarstedt

Risk management

Hammarstedt and Lindgren argue that they are aware that there are risks involved when placing production in a new country like they are about to. According to Hammarstedt one risk that is present is the risk of counterfeiting. If a local project leader in the decided country starts his own business selling the same machine as Norden, that becomes a major challenge for Norden to cope with. Lindgren further claims that it is important that the potential restrictions on importing goods and material to the country will not act as a problem for Norden. Some of the components for the machine will continue to be manufactured in Sweden and then shipped to the facility in the chosen

market, hence there cannot be problems with importing from Sweden to this country. Hammarstedt also highlight the fact that it needs to be easy to travel to the chosen country, as personnel from Norden in Sweden or potential customers will need to go there. Thus, for example an application for a visa cannot be a lengthy process.

According to Hammarstedt the quality of the products that will come from the new facilities will also be a challenge for Norden. The ambition is to keep a high level of quality, with almost the same standard that their current products have, and instead decrease the level of flexibility in the products, i.e. they will not be able to be as versatile as the regular product portfolio.

4.1.2 Area Sales Manager – India

Current situation

Johansson explains that he in his role as Area Sales Manager is responsible for the sales of new machines to the markets dedicated to his supervision. He states that the way Norden conducts their sales operations today is to set up agencies locally, which acts as the first point of contact for the customers. Another way of establishing contacts with potential buyers and maintain these, is through the regional sales offices that Norden has access to through their membership in the Coesia group. According to Johansson Norden does not currently has the need to market themselves, since Norden's brand name is already strong and actors on the tube filling market know who they are.

International market selection

According to Johansson there are several, often major, differences between factors concerning the business climate in India and Sweden. Johansson states that traditions, cultures, level of education, development and structure of the society are all different, and that these differences can be difficult to understand and adapt to. Additional factors such as the fact that India has 36 different languages and that the gap between rich and poor is very large, further contributes to the already mentioned differences.

Entry modes

Johansson argues that when it comes to manufacturing in India one idea is to start off with an already existing product, instead of placing the production of a brand new one there from the beginning. He further claims that it could be wise to start off with a product that is possible to produce in a large scale. Based on his experience Johansson

claims that one should be prepared to deal with long process of making the transition successful and profitable, as well as having in mind that the amount of service that could be required might be long. Johansson states that it is important to, during the initial stages of a foreign venture like this, have personnel from Norden on sight to overview the process.

According to Johansson India is a country that is considered difficult to do business in. he further claims that one need to set up a long term plan regarding how the establishment on the Indian market is going to be conducted. Johansson argues that risk of encountering people and organizations that are corrupt in India is quite high, hence it is important to try to plan for various scenarios before entering India. He claims that it is important to have people from the Swedish organization on sight in the beginning and together create a mutual sense of trust, in order to be successful in a long-term perspective. Having personnel from Sweden in India is costly, but Johansson states that it is important to allocate resources in the beginning to get the new facility to work according to Norden's standards, in order to increase the chances of reaching a successful outcome.

Johansson states, however, that he does not believe that India would be a suitable choice to place the production for Norden. Due to the fact that, in his experience, Norden has encountered people and organizations that have been unreliable, the quality of the products is not guaranteed to keep the standards that Norden wants and the fact the level of corruption is considered high, makes India a difficult country to place their production in.

Risk management

Johansson states that something that he frequently encounters when dealing and negotiating with customers in India is that the decision and negotiation processes are often lengthy and unreliable. He continues by arguing that in e.g. Europe is more common that a higher level of trust is shown and perceived during negotiations, something that is not that common in India. Johansson claims that even though Norden has "shook hands" with a counterpart in India, it is not a guarantee that the deal will go through. He further states that these lengthy and unreliable processes are resource demanding for Norden as they are problems that are frequently recurring. Another

factor that demands resources from Norden is that the level of knowledge concerning the machines is generally very low. Johansson states that the amount of training and education needed from Norden is quite high in India, hence more resources need to be allocated there.

Johansson explains that Norden previously has allocated their production in India, back in the 1970s-1980s. He claims that the tax on importing to India was around 400%, and that Norden's owner at the time decided to cooperate with an engineering company located in India in order to evade the high taxes. Eventually a joint venture was created but after being dissatisfied with the quality of the products coming from India, Norden decided to end the cooperation and stop producing in India. However, during the process of leaving the manufacturing facilities and the cooperation, the blueprints of the design of the products were presumably copied. A similar machine to Norden's was soon being sold in India. Even though this happened over 30 years ago, Johansson claims that this product still acts as a competitor to Norden. According to Johansson Norden has become, due to incidents like the one mentioned above, cautious when it comes to allocating the production of their products to other countries.

4.1.3 Area Sales Manager – Indonesia and Malaysia

Current situation

According to Bäck Norden today have legal entities in both Malaysia and Indonesia, hence making it possible for them to employ personnel and start businesses in those countries. Bäck further states that they have sister companies in both Malaysia and Indonesia that currently are manufacturing their products locally.

International market selection

According to Bäck Indonesia is the market of the two from which Norden has the most customers' today. Bäck states that Indonesia has had a growth of their middle class during the last years, and that combined with the fact that the country has put resources into becoming a country in which multinational cooperation's place their manufacturing, has made it a large market. Bäck further states that during the last decades many large multinational companies have decided to leave Malaysia, and instead there are today a lot of smaller local companies in Malaysia that are interested in low cost production. According to Bäck the cooperation with Coesia in this region is very good, and the South East Asian region is one of Norden's best. Bäck states that

reasons for this include the fact that there is a mutual understanding of how business activities are conducted and understood.

Entry modes

Bäck explains that Norden have sister companies in both Malaysia and Indonesia, which are a part of the Coesia group and currently conducts business operations where they have offices, service personnel and some production. Bäck argues that there are possibilities to further develop operations at these facilities and he further believes that it could be a good idea for Norden to place their operations in connection to the existing facilities if Norden chooses to allocate their production to one of these countries. According to Bäck a sister company of Norden claims that manufacturing in Malaysia has worked well for them, and that combined with the fact that Norden could use some of their already existing channels in the country, such as suppliers, would be an advantage for Norden. Bäck states that he finds Indonesia, despite the rise wage levels, as a potentially suitable choice to enter for Norden. Bäck had personally worked in, and followed the development in, Indonesia for many years and believes that it is a developing into a modern country.

Risk management

Bäck states that negotiations and decision processes in Malaysia and Indonesia are quite similar to each other, as he finds the business climate in both countries to be pragmatic and that they understand business processes in the same way as we do in Sweden. Regarding the level of trust that he has experienced from working in both of these markets, Bäck claims that it is relatively high. Bäck continues by arguing that it differs between individual situations but his general opinion is that the trustworthiness when doing business in Indonesia and Malaysia is high.

Bäck states that the risk of counterfeiting in Indonesia and Malaysia is present, but not to any greater extent that he believes is present in other countries. He further argues that machines coming from Norden are difficult to counterfeit as they are very complex, but Norden is instead often faced with customers who have used counterfeited spare parts and are disappointed with the quality.

Regarding personnel in Indonesia and Malaysia Bäck claims that managers at mid-level in companies often are well educated, but that people working with e.g. assembly are uneducated which often leads to a high turnover in personnel and low wages. Bäck further states that it is important to have a quite high level of supervision as” *freedom is good, but control is better*” – (Bäck, 2015-05-08).

Bäck states that one factor that, from his experience, is important to keep in mind when doing business in these regions is that decision process are often longer than in Sweden. Bäck further states that this is due to cultural differences and that Norden has had to adapt to this during many years.

According to Bäck Indonesia has had an high level of growth of their wages, which he states might be a risk in a long term perspective as that yields higher costs to Norden if they choose to place their production there.

4.1.4 Quality controller – China

International market selection

Säveborn states that during the time he was present in China, he did not experience any problems concerning the business climate or moral among the employed personnel. Further, Säveborn believes that the workers employed felt proud to be working for them, as their machines are modern and highly advanced, which in turn lead to a high level of trust between the employees and Norden Machinery. Ahead of Norden Machinery’s entry into China other companies from the Coesia group were present at the location of Norden Machinery’s new manufacturing facilities. This made, according to Säveborn, the initial stages of the venture easier for Norden, as a couple of the new employees had worked with assembly at other companies from the Coesia group previously.

Säveborn argues that there were differences between the employees in China and the ones coming from Sweden to monitor the initial stages of the venture. However, Säveborn claims that despite differences regarding culture and wages, this was not perceived as major problems for Norden. Säveborn states that there are still possibilities to exploit the channels from the previous venture if Norden decides to enter China again. Säveborn further believes that facilities and potentially some suppliers should be possible to locate due to their contacts from the previous venture.

Entry modes

During Norden's previous attempt to allocate production in China, all personnel were employed locally. Säveborn explains that before the production started in China, Norden invited a few of the new employees to Norden Machinery's headquarters in Kalmar, Sweden, in order to educate them and prepare them to be able to manage the operations in China. Säveborn states that if Norden decides to place production in China, they ought to have personnel from Norden Machinery stationed locally for at least two years in order to make sure that operations are carried out in the right way, and that Norden Machinery is able to have control over the process.

Risk management

According to Säveborn the reason Norden Machinery's venture to China ended was due to that the local personnel quit and moved on to other jobs. Säveborn believes that the reason for this was partially due to the local manager in China. Trust issues between him and the employees lead to that several workers left and looked for other jobs. Säveborn further states that this meant that Norden Machinery was forced to employ new personnel again and provide them with internal education and training in order for them to perform according to Norden Machinery's ambitions. Säveborn claims that if Norden Machinery would have kept personnel from Sweden in China for a longer period of time, the situation might have been different.

Säveborn argues that the level of quality of the products coming from the production facilities in China was not always up to sufficient standards. The quality control was not as thorough as Norden Machinery's regular quality control is. Säveborn further claims that it at times was difficult to find the right parts for the machines which lead to that they had to use parts of insufficient quality, thus affecting the overall quality of the completed products. Further, Säveborn states that one of the most prominent risks connected to placing production in China is industrial espionage. This, combined with the corruption that Säveborn claims to be present can lead to business operations taking more time than normally.

4.1.5 Country Manager – Malaysia and Indonesia

International market selection

Malmqvist claims that, regarding the business climate for companies in Indonesia and the general level of hospitality towards foreign investors, Indonesia has become more

restrictive when it comes to investments from foreign actors. It can be in the form of new laws and regulations e.g. concerning payment methods or money transfers. Malmqvist states that, generally speaking, Malaysia has a high level of hospitality towards foreign investors and that they are keen on attracting international actors to come to their country. According to Malmqvist, foreign investors can have 100% ownership of their entities in Malaysia, with the exception of companies working in some key industries such as oil and gas that have to have Malaysian ownership. When comparing the two Malmqvist states that Malaysia, as of now, is more open and easy to enter for foreign investors than Indonesia.

According to Malmqvist a recently passed law states that when sending a bill or invoice in Indonesia, it has to be in the Indonesian currency. This can make things complicated for many companies who usually use US dollars as their currency in order to avoid fluctuations in the currency. Malmqvist further claims that Indonesia has “tightened up” several aspects regarding foreign investments, which he believes may be negative for international companies looking at which market in Asia to enter.

Due to the fact that Malaysia since 1957-1958 have had time to build up their system and government they have come further concerning political stability. Malmqvist further states that the modern Indonesia evolved after the Asian-crisis in 1997, hence they have a shorter journey behind them making today’s situation more complex. Malmqvist believes that one needs more help and assist in Indonesia to manage the political system affecting a business, than in Malaysia.

According to Malmqvist, Sweden is the country in the world that needs the fewest amount of visas to foreign countries. This is apparent for many Swedish businessmen when traveling to various countries, and when going to Indonesia a visa can be applied for and obtained at the airport. Malmqvist states that it costs around 35 US dollars and that it is not a difficult process to get it. The situation in Malaysia is similar and the process of traveling to and from the country is easy for people from Sweden. Malmqvist explains that there are almost never problems occurring regarding this, and when a special visa is needed it is a usually a simple process of talking to the embassy in order to receive a visa.

Regarding infrastructures, Malmqvist argues that Malaysia is well developed with modern airports, harbors and highways, hence simplifying many business activities. Malmqvist continues by stating that one reason many Swedish businesses place their offshore production in Malaysia is due to the well developed infrastructure, which he considers to be among the best in South East Asia.

Malmqvist claims that in Indonesia, the situation concerning the infrastructure is different from them one in Malaysia. Most companies operating in Indonesia are placed in or around either Java or Jakarta. A frequently present problem is lengthy traffic delays that can act as a big obstacle for companies conducting business operations in the area. Thus, companies looking to place their production in Indonesia need to consider the placement of their facilities in order to avoid the problems originating from the local traffic situation. Malmqvist further states that Indonesia is currently developing their infrastructure in many ways, with new and improved harbors and airports, but these investments will not be ready in the next couple of years.

In a future outlook Malmqvist explains that Malaysia will keep investing in their infrastructure, in various ways, in order to remain competitive. All countries in this region know that a solid infrastructural system is important to be attractive to foreign investors and capital, hence the investments in this sector. Similar to Malaysia, Indonesia is investing a lot in improving their infrastructure. By improving their infrastructural system Malmqvist states that the ambition is to become more attractive for foreign investors.

According to Malmqvist Indonesia is particularly interesting for foreign investors due to their domestic market potential. It is a huge market filled with potential for foreign investors, however, as Malmqvist argues, it is a country that may be complicated to conduct business operations in. One needs to have a lot of capital and patience to succeed in Indonesia as the local system here differs a lot from western European standards. In addition, local presence is very important, as Malmqvist believes that it is very difficult to manage the potential implications that may occur without it. Malaysia as a market for foreign investors is attractive according to Malmqvist, as it is a country with experience from working with international actors as well as being well situated geographically for shipping products to other countries.

Entry modes

When setting up a business in Indonesia it can take up to a full year to get it “up and running”, with all permissions and approvals that are needed from the government. Malmqvist explains that when comparing the two countries Indonesia is, due to its size and more complex system, more difficult and demands more time concerning decision processes. Malmqvist argues that the Malaysian system is often quicker and easier than Indonesia’s. In Malaysia it takes around 5 months to start up a new business.

Malmqvist states that for companies that have not been in Malaysia before it might act as a challenge, and take time, to understand and manage the local system. However, by for example taking advice and counseling from Business Sweden, with experience regarding these situations, the process becomes manageable.

Risk management

Malmqvist states that decision processes in all countries located in this part of the world take considerably longer time than what we are used to in Sweden. Malmqvist further states that this is important to keep in mind when conducting business operations in Indonesia and Malaysia, since one will need to adapt to the local system.

Malmqvist argues that when comparing Indonesia and Malaysia, the level of corruption is higher in Indonesia and things are generally more complex and difficult to handle than in Malaysia. Further, Malmqvist believes that there is corruption present in the government and authorities in Malaysia, but when it comes to obtaining permits to buy e.g. land or to start up an entity it is often a relatively simple process without implications.

Another risk that that is important to consider is counterfeiting. Malmqvist explains that the risk of counterfeiting is generally lower in these countries than it is in for example China. Nevertheless, Malmqvist argues that one should never disregard the potential that it might happen, but in general the risk is lower compared to other Asian countries. Malmqvist believes that the wages in Indonesia will not change drastically in the years to come, instead he believes that it will remain close to the current levels in the near future. Regarding the wages in Malaysia Malmqvist states that they have introduced minimum wages which has had affect for example manufacturing firms. Malaysia has

had a high level of workers on minimum wages coming to the country from Indonesia, Vietnam, Bangladesh and Myanmar that have worked mainly in various production positions. However, many of these workers come from an uneducated background and according to Malmqvist Malaysia is facing the challenge of raising their level productivity in order to be competitive compared to other countries in the region. Malmqvist believes that the wages in Malaysia will increase in the years to come, and with that increase the productivity and also the output will become better. Nevertheless, Malmqvist argues that the wages will not reach the current levels that can be found in western Europe for long time.

Recommendation of which country to place offshore production

Malmqvist argues that a suitable market choice for a global company operating in the machine-producing business would be Malaysia. Based on factors previously mentioned, such as the fact that it is a market that is relatively easy to manage with a good structure, as well as being well situated geographically for international trade, makes Malaysia Malmqvist's choice to place offshore production. Malmqvist further states that between the two Malaysia is a small country when looking at number of inhabitants, hence making the domestic market potential and the potential talent pool smaller than in Indonesia, but it is a country with good economic structures and the possibilities to produce there and sell internationally are good.

4.2 Secondary data

In this part we will present the collected secondary data for the international market selection process which will be used along with the primary data to select a target market out of the countries Indonesia, India, China and Malaysia.

4.2.1 Free Trade Areas

The ASEAN Free Trade Area (AFTA) is a trade bloc between Indonesia, Brunei, Malaysia, Philippines, Thailand, Singapore, Laos, Cambodia, Vietnam and Myanmar (ASEAN, 2014). The main task of AFTA is to eliminate almost all tariffs between the member states and facilitate the trade and movement of goods. China is not a member of AFTA but has implemented a treaty in accordance with ASEAN which has reduced the tariffs dramatically (ASEAN Briefing, 2014). The ASEAN China – Free Trade Area improves the trade and economic relationship between AFTA and China FTA and is also contributing to the development in Asia in general (China FTA Network, n.d.). The member states of the ASEAN have a free trade agreement with India which also have the same tariff commitments as the other countries. However, there is no existing FTA between China and India, even though there have been some negotiation about this topic.

Imports from the European Union to ASEAN-countries

Even though the European Union stands for the third largest import source into the ASEAN-countries there are no FTA-agreement between EU and ASEAN except for with Singapore. There have been a various amount of negotiations between EU and the member states of ASEAN to initiate a FTA-agreement but both parties agreed to take a pause to reconsider the future trading plans (European Commission, n.d.)

4.2.2 Ease of doing business

The *Doing Business* project is a an initiative from the World Bank Group which offers measures of the regulations in the business environment across 189 economies and in some cases on the regional and subnational level. The index consists of ten indicators which all have equal weight when determining the final position and number. The indicators are; dealing with construction permits, starting a business, registering property, getting electricity, getting credit, paying taxes, protecting minority investors, enforcing contracts, trading across borders and resolving insolvency. India, China and

Indonesia are ranked as subnational due to their large population, in their case there are two cities that are accounted for (Doing Business, 2014).

Ease of doing business index	
Malaysia	18 th
China	90 th
Indonesia	114 th
India	142 th

Figure 3: Ease of doing business index. Source: Doing Business (2014)

4.2.3 Infrastructure

One key component to economic growth and market attractiveness is the accessibility to ports, airports and the availability to good roads. The infrastructure does not only cover the vital necessities that are mentioned above, it also includes reliable power supply and transportation as well as soft infrastructure such as welfare and living standards.

Indonesia

The landscape of Indonesia has made it difficult to provide good infrastructure throughout the country (Daleke, 2014). As the foreign investment pressure increased after the recovery from the financial crisis in Asia in the late 1990s, the expansion of the Indonesian infrastructure could not keep up with the increasing demand of reliable infrastructure (Indonesia-investment, n.d.) However, today the economic boom in the region has made it possible to invest a lot of capital into the development of the infrastructure. This is also something that will attract foreign investors due to the arising market opportunities. By offering the private sector the opportunity to invest in the development of the infrastructure the government of Indonesia won't have to rely on public funds but instead facilitate the investment opportunities (IFC, n.d.). The Indonesian government is also planning to invest in "economic corridors" which includes constructing new power plants in order to supply a reliable source of electricity. These economic corridors will focus in the growth in Sumatra, Kalimantan, Java, Sulawesi, Tenggara, Bali-Nusa and Papua-Maluku (IFC).

The main port in Indonesia is Tanjung Priok (Port of Jakarta) and handles two-thirds of the international trade and container traffic. Indonesia struggles with the same problem here as they do with the other types of infrastructure, Tanjung Priok cannot handle the increasing trade and the bottleneck effect in the port is almost a catastrophe (World Bank, 2014). This struggle is causing long dwell time which in return is making the freight and logistics costs increase. However, there are three other large ports that handle the international export and import trade; Belawan, Makassar and Surabaya (ibid).

Indonesia offers good distribution and sales channels throughout the country. However, the lack of good infrastructure may increase the costs of transportation which also is the case with local suppliers that usually have high costs in warehousing (Cavusgil *et al.* 2013)

Malaysia

The infrastructure in Malaysia is one of the most developed in South-East Asia and ports, airports and roads are continuing to develop (Daleke, 2014). The transportation by sea has for long been crucial for the international trade due to the large archipelago. The main and largest port, Port Klang, is located close to Kuala Lumpur and is one of the largest container terminals in the. Port Klang plays a major role the economic growth in the country due to the accessibility to the global market (Port Klang, 2012).

The annual GDP growth rate has declined a bit recently, Wong (2014) believes that the government should increase investments in infrastructure in order to raise the annual growth rate and to become a developed country. Even though the government is investing a lot of resources into the national infrastructure and will continue to do so, the spending is expected to grow with around 9 % annually between 2013 and 2025. One large obstacle with this ongoing development is how the government will finance it due to the ongoing lack of collaboration between the private and the public sector. This problem needs to be sorted out in order to raise the annual growth rate and improve the national infrastructure (ibid).

China

China is in the same situation as many other emerging markets, the infrastructure cannot keep up with the economic growth. In China however, the government is investing a lot of money to expand the road network and connect it to every major city. This is a reaction to the increasing urbanization, almost half of the population in China lives in cities. Even though this is almost 700 million people the government wants a faster urbanization. This is also why the government are investing in a project that will expand the whole infrastructure system by 2020, and by that time the Chinese government's goal is that two third of the population lives in the major cities. The main reason for this is to boost the economic growth, people in cities are spending more money than people on the countryside (Johannesson, 2014)

The ports of China play a crucial role for the success in foreign trade, some of them are considered as the largest in the world. Port of Shanghai is the world's busiest port and had a major impact when they became the largest trading nation in the world (Daily Mail, 2013). Other large ports are Shenzhen, Shenzhen, Ningbo – Zhoushan, Qingdao and Guangzhou (World Shipping, n.d.)

India

Before the economic boost in India there was almost no investment in infrastructure which is affecting the GDP growth at the moment (CFR, n.d.). The underinvestment in infrastructure has resulted in underdeveloped power grids and transit systems. The increasing foreign interest and investment in India is putting pressure on the underdeveloped ports, the increasing urbanization is making the power supply and the water networks unreliable. Only one quarter of the highways meet the required standards and only half of all roads are paved. This is affecting the international trade due to that two thirds of the freight is transported on roads after being controlled in the harbour. India has received some international funding to upgrade some 54 000 kilometres of highway which will hopefully ease the situation and will also connect the Golden Quadrilateral (Mumbai, Delhi, Kolkata and Chennai) (ibid). There are so called Dedicated Freight Corridors in India which purpose is to only transport freight on railways and is connected via the Golden Quadrilateral (World Bank, 2014).

In order to expand and upgrade the infrastructure, India will have to invest 1\$ trillion and which half will have to come from the private sector. In 2014 China offered to finance 30% of the required capital which would have made it the largest foreign investment in infrastructure of all times. However, India did not accept the offer due to historical disputes (CFR, n.d.).

Logistics performance index

This index is a result of measures regarding a country's logistics based on quality of trade- and transport-related infrastructure, quality of logistics services, efficiency of customs clearance process, ease of arranging competitively priced shipments, ability to track and trace consignments and the frequency with which shipments reach the consignee within the scheduled time. The index shows a number from 1 to 5, a higher score indicate a better performance (World Bank, n.d.)

Logistics performance index, 2010-2014	
China	3.67
Malaysia	3.56
Indonesia	2.92
India	2.88

Figure 4: Logistics performance index. Source: World Bank

Indonesia

The government in Indonesia is investing a lot to create over 10 million jobs which will reduce the poverty rate (Cavusgil et.al. 2013). As a result of this the consumption will increase rapidly which will attract foreign investors to Indonesia who wants to facilitate the opportunities (Headifen, 2011). As the country grows the production of goods needs to grow with it. Hence, Indonesian companies usually are small and domestic, they cannot compete with multinationals in terms of resources (Cavusgil et.al. 2013). However, some restrictions in employments laws has increased the labour costs which have resulted in a reduction of foreign investment and increasing unemployment (OECD, 2009).

Malaysia

Due to the openness of the market, increasing investment into infrastructure and the annual growth rate, foreign investor see great potential in Malaysia. They are also attracted to the market due to the increased liberalization of the service sector, the growing middle class and the reforms of the banking system, making it easier for foreigners to do business (UKTI, 2011). Almost half of the foreign investment in Malaysia is in the manufacturing sector. The Malaysian legal system has improved alongside with the economic growth; they have accepted the Paris Convention as well as the Berne Convention and they are also a member of the World Intellectual Property Organization (Cavusgil et.al. 2013).

India

The current economic situation in India lags behind a lot of emerging markets when it comes to foreign direct investment, GDP per capita and population below the extreme poverty line. Even though they lag behind on many levels, India has a high business development and innovation rate comparing with other emerging markets (Bose, 2009).

The service sector has for long been the main driver for the domestic economy but at this time the manufacturing sector is growing faster. Due to the importance of the service sector, the education has become equally important, resulting in a large, English-speaking and skill-full workforce (Franco et. al, 2011).

The main obstacle for foreign investors in India is the poor infrastructure and high tariffs. The tariffs are higher than the other BRICs countries making foreign investor question the possibilities of starting a business there (OECD, 2009).

China

China is today the global manufacturing base for low-cost production where many well-known multinational enterprises have facilities. Li (2014) states that the area which shows the highest economic growth is the inland regions, indicating a shift from coastal to inland production opportunities. Improved transportation connection and lower wages are making the inland regions more attractive for manufacturers. In 2008 the Chinese government launched a 586 billion USD package to cope with the global economic crisis, within this package there were funding for improving the infrastructure such as, transportation and power systems.

4.2.4 Political situation

In this section the authors will present the secondary data concerning the political situation. This will be done by looking at the two indexes of economic freedom and democracy.

Index of Economic Freedom

This index includes ten different factors that both address economic and political issues and is published annually by The Heritage Foundation and The Wall Street Journal. The factors concern; fiscal freedom, government spending, property rights, freedom from corruption, business freedom, monetary freedom, labour freedom, trade freedom, financial freedom and investment freedom (Heritage, 2015). The final score that the country gets is averaged from the ten factors where a country scores between 0 and 100. A final number between 100 and 80 is considered free, 79.9 to 70 is mostly free, 69.9 to 60 moderately free, 59.9 to 50 is mostly unfree, 49.9 to 40 is repressed and under 40 is not ranked (ibid).

Index of Economic Freedom	
Malaysia	31 st place
Indonesia	105 th place
India	128 th place
China	139 th place

Figure 5: Index of economic freedom. Source: Heritage (2015)

Democracy index

The democracy index is presented by The Economist Intelligence Unit and provides a picture of the state of democracy in almost every country in the world. This index is based on five factors; political culture, political participation, the functioning of government, civil liberties and electoral process and pluralism (EIU, 2014).

Democracy index	
India	27 th place
Indonesia	49 th place
Malaysia	65 th place
China	144 th place

Figure 6: Democracy index. Source: The Economist Intelligence Unit (2014)

4.2.5 Demography

By presenting factors concerning the demographic situation in the chosen countries the authors will be more likely to make a suitable market selection that fits Norden Machinery.

Population		
China	1.357 billion (2013)	1.448 billion (2035)
India	1.252 billion (2013)	1.525 billion (2035)
Indonesia	255 million (2015)	305 million (2035)
Malaysia	30.458 million (2015)	38.6 million (2040)

Figure 7: Population. Sources: World Bank, Department of Statistics Malaysia, Worldometer and Statistics Indonesia

Urban population	
Malaysia	73.3%
China	53.2%
Indonesia	52.3%
India	32%

Figure 8: Urban population. Source: World Bank (2013)

Human development index

The human development index (HDI) was created to show the prosperity in a country, not only the material wealth such as GDP but a more comprehensive picture. The HDI include three indicators; life expectancy, gross national income per capita and education. Each participating country gets a number between 0 and 1 where 0 is worst and 1 is the best (UNDP, 2014).

Human development index	
Malaysia	0.773 – 62 nd place
China	0.719 – 91 st place
Indonesia	0.684 – 108 th place
India	0.684 – 108 th place

Figure 9: Human development index. Source: United Nations Development Programme (2014).

4.2.6 Economic situation

In order to get a more comprehensive understanding of the current economic situation in each country the authors will present the inflation rate, the annual GDP growth and the total GDP of India, China, Indonesia and Malaysia. Even though these figures might appear basic they will be part of a greater determining process in the market selection when contemplated with other factors.

Annual GDP growth		
China	7.7% (2013)	forecasted 6.9 % (2017)
Indonesia	5.8% (2013)	forecasted 5.5 % (2017)
India	5% (2013)	forecasted 7.0 % (2017)
Malaysia	4.7% (2013)	forecasted 5.2 % (2017)

Figure 10: Annual GDP growth

Inflation		Total GDP (nominal)	
China	2.0 % (2014)	China	9.240 trillion USD (2013)
Malaysia	3.1 % (2014)	India	1.875 trillion USD (2013)
Indonesia	6.4 % (2014)	Indonesia	868.3 billion USD (2013)
India	6.4 % (2014)	Malaysia	313.2 billion USD (2013)

Figure 11: Inflation

Figure 12: Total GDP. Source: World Bank

4.2.7 Policies towards investment

China

According to China (n.d.) the Chinese government encourages companies with high-technology products investing in the country. They have special industrial zones for high-technology products where the income tax rate is at 15% which otherwise would have been 33%. If the company has an operation period extending over 10 years the company does not need to pay any income tax the first year it starts to make profit and will have 50% tax reduction the following 3 years. For companies transferring technology or developing technology in China will be free from value-added tax.

Central and western China is further encouraged to invest in, here the income tax is reduced to 15% over the first three years. China is also a part of the WTO and is adapting laws and regulations according to WTOs standards. Furthermore, if a company imports spare parts, parts and supporting technologies which cannot be produced within China the company will be free from import tariffs and import stage value added tax. The average tariff rate for imported commodities to China is 12% (ibid).

India

The allowed percentage of FDI in India is up to 100% in most sectors. Excluded sectors are for example aviation and information & broadcasting. Companies in India choosing to invest in special areas and districts will have tax reductions in the first three to five years with 30% tax reduction of the profits the company makes (Make in India, n.d.). The special economic zones in India are duty free while the average duty rate in India is at 11.9%.

Malaysia

For new manufacturing companies in Malaysia there will be a 70% statutory income tax reduction for the first five years of operations and 100% income tax reduction for high technology products for the first five years (MIDA, 2015). The company tax rate is 25%. Malaysia has no restrictions on foreign equity ownership and they have policies for protection of intellectual rights. The average duty rate on imported goods to Malaysia is 5.75%.

Indonesia

According to the Indonesian Embassy (2009) the Indonesian government encourages foreign investment in certain sectors and/or into certain areas of the country. There is no restriction on the size of the investment nor if it is meant to be exported from Indonesia or to the domestic market. They provide with an extended loss compensation for maximum 10 years and have a 10% tax rate for dividend paid to the foreign investor. The duty rate for imports range from 0% to 40% and the average is at 10.89%.

4.2.8 Wages

The overall wages for Asia has been increasing for the past years at a rate around 5-7% (International Labour Organization, 2015). The ASEAN countries are working towards lifting their minimum wages in order to cope with inflation and prevent outbreaks of

labour unrest. Many of the countries also see the potential increase of productivity when increasing the minimum wages. Although minimum wages does not give all the information about a country the minimum wages can work as an indicator to show how expensive a country's workforce will be when producing there.

China

In 2013 the average minimum wage in China was approximately 215 USD / month and the average monthly wage was 391 USD / month. In 2015 China are expected to increase the minimum wages by 5.2% (China Briefing, 2015).

India

In 2013 the average minimum wage in India was 57 USD / month and the average monthly wage was 116 USD / month. In 2015 India the average minimum wage is expected to increase with 3.5% in (China Briefing, 2015).

Malaysia

In 2013 the average minimum wage in Malaysia was approximately 253 USD / month and the average wage was 696 USD / month (China Briefing, 2015). The Malaysian government have a set up policy that the minimum average wages will increase every two years (ASEAN Briefing, 2013).

Indonesia

In 2013 the minimum wages in Indonesia was 149 USD / month and the average wage was 129 USD / month. The minimum wages are increasing in Indonesia with an average of 3.3% in 2015 (China Briefing, 2015).

5 Analysis

In this chapter the authors will combine the primary and secondary data in accordance with the in order to do the IMS-process and chose one country that we find suitable for Norden Machinery to enter. By presenting our criteria together with the primary data one can get a in-depth understanding of the process that will be presented here.

5.1 The international market selection process

According to Douglas and Craig, (2011) the IMS process for companies usually is sequential and the first step consists of developing the criteria which will be used to screen the markets (Hollensen, 2014). For emerging markets the criteria which are seen as more important, are political stability, social capital and cultural distance, but criteria such as economic development and market potential are seen as important as well (Buerki *et al.*, 2014).

As explained by Hammarstedt, sales director at Norden Machinery, there are some criteria that are more important to look into. Norden Machinery already have their sale channels ready in the South East Asian region, therefore it is of less importance to find the country that can provide the highest sales. Instead, the importance lies within finding the location where production can be most efficient and at the lowest cost. Furthermore, Hammarstedt explained that the level of knowledge and competence within the manufacturing sector in these four countries are important. Other factors that Hammarstedt and Lindgren (Project leader at Norden Machinery) find important are tariffs and taxes, political stability and openness of the market. They also state that it is important to look at the availability of importing goods as it may be needed to send parts from their headquarter in Sweden to the location of the manufacturing site as well as having easy travels to and from the country.

The authors of this thesis have developed a set of criteria to screen the markets with. The developed criteria will follow an approach that will exclude countries one after another. The structure of the analysis and presented criteria will be done in a way where countries that show the highest uncertainties and the lowest domestic stability will be excluded first. The criteria that have been used in the screening process are: (1) *ease of doing business* to understand the difficulty for a foreign company to do business in the countries, (2) *infrastructure* to see how developed the infrastructure is and how

available and reliable transport from and to the countries are, (3) *political stability* to see how unrestricted the country is and the level of democracy, (4) *demography* with the mainly the education of the population, (5) *economic situation* to see the market potential of the countries, (6) *policies towards investment* to see what could potentially lower Norden Machinery's costs initially and finally (7) *wages* in order to get a view on the costs for producing. Based on these criteria, India, China, Indonesia and Malaysia will be screened in order to find a suitable market choice for Norden Machinery.

5.1.1 India

As explained by Hollensen (2014) there are environmental and firm characteristics which can decide a firm's international venture into a foreign market. One of these characteristics explains the importance of the similarity of the home and the host market. As stated by Johansson, area sales manager in India, the business climate between India and Sweden is very different from each other. The structure of the Indian society and the way of doing business in this particular market is something else, and that it is very difficult for a foreign investor to understand and adapt to the Indian market.

How people do business and how the market situation is might be one of the most important criteria in the market selection process. As presented in the secondary data, the ease of doing business index presents the result of ten indicators concerned with the business stability in a country. Even though India is presented as subnational in the index, the indicators are the same as for the other countries. India is ranked 142nd out of 189 in the ease of doing business index. This is a very poor position for a country that shows such growth and potential like India. Even if other factors might compensate for the low rank in the ease of doing business index one cannot ignore the fact that this index represents how the business climate is in a particular market. This high position can be a result of the high corruption in India. The high bureaucracy can be a result of ignoring the way of doing business in India, thus making it hard for outsiders to understand the business climate, resulting in India's high position in the index. This is also supported by Johansson which have experienced the corruption and unreliable market first hand.

Another criteria that is not favouring India to be the selected market for Norden Machinery is the underdeveloped infrastructure throughout the country. As presented in

the secondary data, the lack of reliable infrastructure is affecting the foreign investment interest and the GDP growth rate in India. Even though the ongoing foreign investment is putting pressure on the Indian government to invest in infrastructures, the situation today is making investors think again on the which country to enter. This weak infrastructure can also be seen in the Logistics Performance Index, where India has the combined number of 2.88, which is the lowest of the four chosen countries. Bad infrastructures will affect Norden Machinery negatively since their machines will be shipped and transported both domestically and within the Asian region. The unreliable infrastructure can in return affect their customers in a bad way with long delivery times.

From these two criteria one can easily conclude that India do not fulfil the requirements that are necessary for investing. When combining these criteria together with Johansson's stated experience from previous business ventures in India we do not find India to be the right market for Norden Machinery to enter. Hence, we will exclude India from the IMS-process in accordance with the sequential approach (Douglas and Craig, 2011). Furthermore, the remaining three countries will be kept as eligible as they show greater potential and stability in the ease of doing business and infrastructure criteria. By keeping China, Malaysia and Indonesia we will continue to evaluate those markets by using the remaining criteria.

5.1.2 China

As found by Buerki *et al.* (2014) the political stability in an emerging market was one of the most important criteria for a company when selecting a market to enter. Thus we have looked further into the political stability of the remaining countries. The secondary data shows that out of the four countries screened, China is ranked the lowest regarding democracy and economic freedom. The index of economic freedom looked into factors such as property rights, investment freedom and freedom from corruption. This is also supported by Sävborn, quality controller at Norden Machinery, who states that he observed widespread corruption in China when working there and claimed it could be problematic.

To develop further on China, Hammarstedt states that he saw the potential risk of having the product copied which was an important factor for Norden Machinery's choice of market. Sävborn argues that the industrial espionage is one of the most common risks in China. This was supported by Malmqvist, country manager at

Business Sweden, who also named China as the most common market with a risk of copied products. Another aspect of China is that Norden Machinery has been producing there before. Säveborn claims that during that venture the production did not work out for Norden Machinery, since the staff which was hired moved on to other companies once they realised that they had experience enough.

The economic and political freedom is of great importance when doing business abroad. Even if firms usually are aware of that the political situation is different from the home market, the adjustment to the new market needs to be manageable. Moreover, differences between Sweden and China, from the political perspective are too great. Buerki *et al.* (2014) ranks political stability as one of the most important criteria for market selection in emerging markets. Furthermore, Hollensen (2014) also states that the company should avoid to export to high-risk countries known by its economic and political instability. Due to the importance of stability and that Norden Machinery wants to minimize the risk of counterfeiting, China will be excluded at this stage of the IMS process.

5.1.3 Indonesia and Malaysia

To be able to continue the systematic approach of the IMS-process that is presented by Brouthers and Nakos (2005), the authors of this thesis have to evaluate the remaining criteria and exclude one country. After removing India and China from the IMS process the remaining two countries are Malaysia and Indonesia. One criteria that is important to analyse is the demography in the remaining countries. By looking at the presented facts in the secondary data and the information from our primary data we can easier understand the situation these countries are in.

The total population and forecasted population may offer some advice in how the populated climate will look like. As shown by the numbers, Malaysia has the lowest population and will continue to have that in 2040. However, we do not find that to be a problem for Norden Machinery since the aim is to sell their new product to the whole South East Asian region, hence making the domestic market somewhat irrelevant. This can even be turned into something positive, because the domestic market can offer more control due to its size. This is also supported by Malmqvist, who states that Indonesia, due to its size, both geographically and demographically is more complex, more time demanding and more difficult. Furthermore, Malmqvist also considers it can take up to

one year to get your business running in Indonesia due to all permissions needed from the government. Malaysia on the other hand, is more effective in the start-up process, taking around five months.

As the Human Development Index shows, Malaysia is ranked as number 62 and Indonesia 108. This large gap in the gross national income per capita, education and life expectancy shows that Malaysia has developed more as both a society and a country overall. Malmqvist states that it is generally more difficult to conduct business in Indonesia than Malaysia; it might be an effect of the lower education and the larger population. The higher urban population in Malaysia might have an impact on this due to the higher understanding of the business climate. This can also be seen in the ease of doing business index, in which Malaysia is ranked 18 and Indonesia 114.

One of the most important criteria in the IMS-process is how the economic situation is reflected into the present business climate. By comparing GDP growth between Malaysia and Indonesia, one can easily see that Indonesia has higher growth rate both today and in 2017. This is however somewhat misleading when you add the inflation to the equation, even if the growth rate is higher, the inflation is over double as high as in Malaysia. This will affect the market attractiveness in Indonesia for foreign investors due to the decreasing value of the currency, especially when a new implemented law states that the invoice for domestic sales has to be in the Indonesian currency.

Furthermore, the authors have looked at what policies towards foreign investment and incentives the countries give to companies investing in that particular market. Tariffs on imports and income taxes have also been looked into. The Indonesian incentives towards foreign investment were not as rewarding as in Malaysia. While Indonesia provided with a 10% tax rate on dividend paid to the foreign investor, Malaysia had a 70% statutory income tax reduction for the first five years and 100% for high technology products.

As Lindgren states, Norden Machinery may need to import certain parts to the selected country. Thus, the authors looked into import tariffs as well. Figures show that Malaysia has an average duty rate of 5.75% on imported goods while Indonesia has an average

duty rate of 10.89%. This demonstrates that in the event of importing from Sweden to either of the countries Malaysia would be less expensive.

The wages in Indonesia and Malaysia clearly differs, the Malaysian wages compared to the other countries is clearly the highest. The minimum wages in Malaysia is 256 USD / month while the minimum wages in Indonesia is 129 USD / month. This gives an indicator of that the cost for wages in Indonesia are less than in Malaysia. Malmqvist explained that Malaysia has workers coming from surrounding countries such as Indonesia and Vietnam. This workforce is usually factory workers and craftsmen which wages are cheaper. These people usually has a lower educated which according to Malmqvist can make it harder to use the cheap labour when building more advanced machinery. Bäck, area sales manager at Norden Machinery, further stated that Indonesian wages has had a high level of growth which in a long perspective could increase the cost in Indonesia as well. This is a fact for Malaysia as well, since the government decided to raise minimum wages every two years. Nevertheless, as Hammarstedt explained, costs for higher wages may not always be bad if it would increase the morale of worker.

After evaluating the criteria: *demography, economy, policies towards foreign investment and wages*, the selection of market lays on Malaysia. It should be stressed that Malaysia is the country that has the best level of education along with good incentives for investment. The authors of this thesis believe that, although the wages are higher, it could be considered as a means to increase the moral of workers, thus minimizing the risk of high turnover of employees for Norden Machinery.

5.2 Entry modes

A company can enter a market using one of three main entry modes: export entry modes, contractual entry modes or investment entry modes. The different entry modes all provide with a different level of commitment (Root, 1994). Currently Norden Machinery exports 97% of their products which is mainly done through export entry modes, i.e. they either use a distributor or an agent in the foreign markets. Cavusgil *et al.* (2013) state that companies usually prefer export entry modes initially in order to minimize the risks. Thus it can be seen that Norden Machinery currently are risk minimizing through their export modes.

As explained by Hammarstedt, Norden Machinery will now enter the selected emerging market through an investment entry mode. They are planning on producing a product in either China, India, Malaysia or Indonesia and Lindstedt states that the organization set up in the emerging market will be equal to that of their headquarter in Sweden but in a smaller scale. The reason for this is, according to Hammarstedt, that they want to be able to build an affordable product so that they can reach the customer segment in Asia which currently cannot afford the machines produced in Sweden. Root (1994) argues that the probability of success further increases when companies have experience from other export modes. Therefore it can be argued that, while Norden Machinery increases their risk by entering with an investment mode they also have the experience from exporting.

In the case of Norden Machinery, the production facility in either of the selected markets will be wholly-owned by Norden Machinery considering that they will have full operations there. A wholly-owned investment can be done through an acquisition, which according to Root (1994), is when a company in the foreign market is bought by the investor. Another way is a Greenfield investment which according to Cavusgil *et al.* (2013), is a completely new establishment. As Hammarstedt explains, due to their limited resources, Norden Machinery will establish their operations in a production facility already established by the Coesia Group. Thus, it can be seen that Norden Machinery is neither conducting an acquisition nor are they undertaking a greenfield investment, but instead they are using Coesia's existing facilities in order to build up their full operations in the selected country.

An investment requires a large amount of commitment from a company's resources but also gives increased control (Root, 1994). Johansson argued that in order to be successful with an investment, resources needs to be allocated in the initial stages of a venture, especially human capital. Bäck stated that control and supervision is needed when placing offshore production. Cavusgil *et al.* (2013) argue that a new establishment in the foreign market allows a company to build up the company culture according to wanted standards and needs. Hence, it can be argued that allocating more resources to the establishment increases the probability of success in international markets, although this will increase costs for Norden Machinery.

5.3 Risk Management

The motivation for this thesis comes from a venture that Norden Machinery is about to undertake in Asia. During our initial meeting with the company, it was explained that one of the four potential markets previously mentioned were of interest for the placement of their offshore production. Johanson and Vahlne (1977) state that it is important for companies facing internationalization to have knowledge about the market to decrease the risk of failure. Norden Machinery are choosing markets based on where they have connections to the Coesia Group. Thus they gain access to Coesias resources and knowledge in these markets. By doing so, Norden Machinery decreases the level of risk compared to if they would have started the selection process with other markets. Norden Machinery is aware of the fact that they need to work together with and exploit the advantages originating from their connection to the Coesia group.

The empirical findings show that Norden Machinery is aware of the risk of counterfeiting and that it is something that needs to be considered when placing their production abroad. Lindgren (2008) argues that technological developments in recent years have made counterfeiting an increasing problem. The fact that counterfeiting is increasing is supported by our empirical gatherings, where the interviewees state that they are aware of or have experienced this problem. Hammarstedt states one potential risk is that personnel that Norden Machinery employs locally may start up their own businesses, producing and selling products similar to Norden's. As stated by Johansson, India would not be a suitable choice to place production, since Norden has experienced problems with counterfeiting there before. In a previous venture to India, blueprints were stolen or copied resulting in similar products to Norden's eventually came out on the market. Further, Säveborn believes that one of the major risks that could appear in China is industrial espionage, which can be connected to counterfeiting. Bäck states that counterfeiting is present in both Indonesia and Malaysia, but not in the same extent as in India or China. Hence, the empirical findings show that counterfeiting acts as a major challenge for companies when allocating their business operations in a foreign market. In order to decrease this risk, companies in general and Norden Machinery in particular, need to consider the risk of counterfeiting and make adjustments to avoid it.

Jeynes (2002) argues that risk can be controlled with good management before it spreads throughout the organization. Säveborn states that he finds it important to

maintain control in the initial stages of an international venture. When Norden Machinery enters a country and sets up their production there, it is key to make sure that personnel from Norden is present at the local production facility in order to make sure that everything is conducted according to Norden's ambition. Bäck states that "*freedom is good, but control is better*" which shows that there is an understanding at Norden Machinery that they will have to be present during the initial stages in order to increase the chances of a positive outcome from this venture. In addition, Lindgren states that he believes that a relatively long start-up-phase will be required. Hence it can be seen that allocating personnel and keeping them there for a longer period of time can reduce risks for the company.

Another challenge when placing production abroad is to make sure that the local personnel that is to be employed is suitable for Norden Machinery. Initially, the workers need to be educated in order to deliver an outcome that is aligned with Norden's intentions. Furthermore, it is important to build a level of trust and loyalty between the local workers and the company. Bäck states that personnel working with e.g. assembly are often uneducated, hence working for lower wages, which can lead to a high turnover in personnel. This is supported by Johansson who claims that uneducated workers often quit and change jobs after only a short time at the first company if they are offered a slightly better salary somewhere else supports this. Further, Hammarstedt believes that the labor costs in Malaysia are higher, but that this can lead to an increased level of loyalty between the company and the worker. This goes in line with Jeynes (2002) who states that if the people employed receive incentives, motivation and internal education the firms risk avoidance increases.

Hammarstedt argues that during this venture, when Norden is planning on producing in Asia, that remaining the regular quality of Norden's products can be a challenge. Sävborn further states that the quality coming from the products manufactured in China was not always up to the sufficient standards. The risk is that the perception of Norden can be damaged if the machine they produce does not meet the expectations of their customers. As Norden Machinery is a company that during many years has built up their brand to be synonymous with a high level of quality, this is something that is important for them to remain in their production abroad.

6 Conclusions

In this final chapter the conclusions of this thesis will be presented. The authors will begin by answering the two research questions. Furthermore, the authors will present theoretical contributions and managerial implications. This will be followed by the limitations of the thesis and finally the authors will present their suggestions for further research.

6.1 Answering the research questions

This thesis has its foundation in Norden Machinery's venture of placing production in a country in Asia. Firstly, a market selection has been conducted where the authors give their suggestion on which country would be suitable for Norden to place their production in. Furthermore, the authors look into what is significant for Norden Machinery in the IMS process when selecting an emerging market for offshore production. Secondly, focus has been directed towards how a company manages various potential risks when placing production abroad.

The first research question concerns how an SME can use the IMS framework to select an emerging market for offshore production. The literature shows that an IMS process should be systematic and sequential. Furthermore, in emerging markets, the criteria used to screen the markets with are different from developed markets. Stability in a country and social capital are examples of criteria that were found to be more important for companies when selecting an emerging market.

The authors conclude that for SMEs, in this case Norden Machinery, it is important to initially clarify the purpose of the venture and what they aim to achieve. For instance, from the interviews with employees at Norden Machinery it was evident that stability of the target market was of high importance. After establishing the purpose of the venture, the SME needs to develop a set of criteria in connection to this. The authors conclude that it is important to be risk averse in the selection process of a market for an SME, hence criteria relating to stability were used in the initial parts of the screening process. Further, the potential markets that are to be included in the IMS process need to be selected. For Norden Machinery the potential market choices that their IMS process starts off with were determined from where they have pre-existing resources and connections, originating from their involvement in the Coesia group. With the relevant

criteria developed, a screening process consisting of an overall assessment of the gathered information concerning the markets is conducted which results in a target market being chosen.

This thesis shows how an SME, Norden Machinery, can use the IMS process in order to locate a suitable target market for offshore production. The authors conclude that the key point in the IMS process for SMEs is to be risk averse.

In order to clarify further, the following illustration shows the sequential approach that an SME can follow when choosing an emerging market for offshore production.

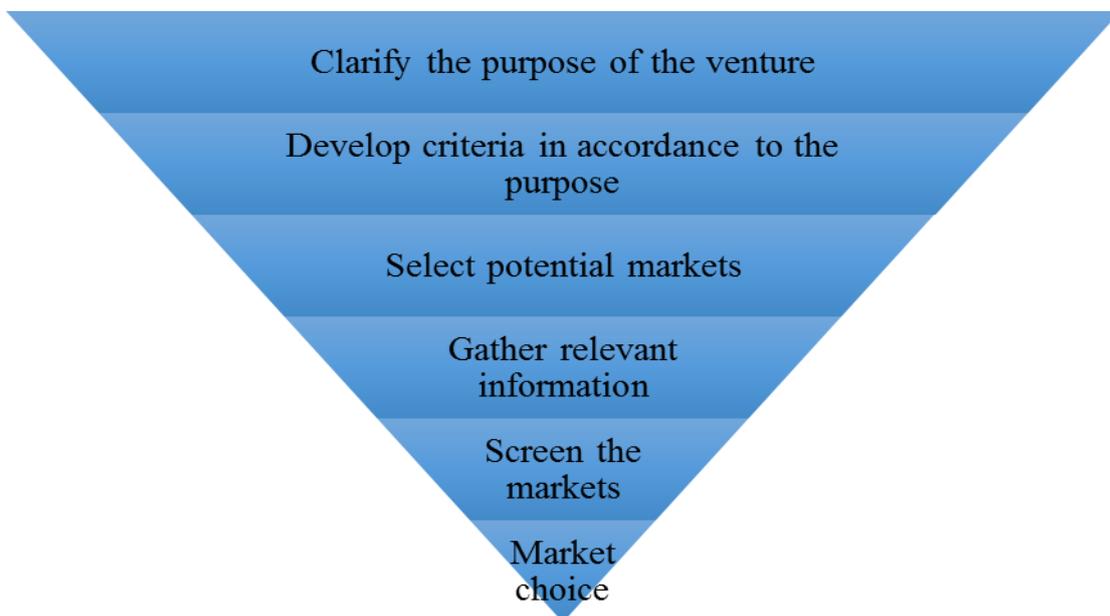


Figure 13: Model of a sequential approach of the IMS process

The second research question is concerned with how an SME manage potential risks when placing offshore production in an emerging market. Research show that SMEs should try to avoid high-risk countries when selecting a target market for offshore production. Further, the literature shows that knowledge about the target market decreases the risk of failure during an international venture.

When placing production in an emerging market there are several aspects to take into consideration before the venture. The authors conclude that for SMEs, which generally have limited resources, it is crucial to be risk averse. This can take the form of selecting markets with lower levels of risk instead of only looking at the potential and

possibilities in a specific market. Determining which risks are of highest importance for a firm is difficult, but the authors have found that one way of doing so is to look at potential previous ventures of a firm and see if experiences from this can be useful for future ventures. The empirical findings show that problems related to counterfeiting and control over the foreign operations were apparent in Norden Machinery's previous venture, hence making them important to consider now.

The authors found that the initial start-up phase of an international venture is crucial for SMEs. If an SME employs local personnel who receive education concerning the work tasks ahead of them, the company needs to make sure that they have regular personnel present at the new location long enough. Our empirical findings show that due to the high costs of having personnel stationed in a foreign country, a tendency seems to be to bring the Swedish personnel back home, as soon as Norden Machinery believes that the new employees are educated enough to manage the operations themselves. However, knowing when to relocate the regular personnel is found to be difficult. The empirical findings show that Norden Machinery's previous attempt of placing production in China was cancelled after only a couple of years, due to the lack of control. Thus, the authors conclude that a company needs to remain in control over the operations abroad in order to make sure that things are conducted in a suitable way. The authors further found that in order to increase the chances of being successful, SMEs that are placing production in a foreign country should consider if the high costs of retaining control in the initial parts of a venture might be worth it in the long run. One can say "you get what you pay for", i.e. if the company allocates sufficient resources to get the new venture off to a solid start, it might yield success in the long run.

6.2 Theoretical contributions

As presented in the problem discussion the authors found a research gap in the IMS-process concerning SMEs. Most traditional theories regarding the IMS process is focusing on multinational enterprises doing foreign investment. However, our thesis focuses on the more unusual event, namely SMEs undertaking foreign direct investment. By conducting this thesis in a way that contributes to further research of SMEs placing offshore production in an emerging market, we argue that we have contributed to the theoretical framework by fulfilling the above mentioned gap.

6.3 Managerial implications

This study has shown that a company selecting an emerging market for offshore production should consider the following aspects:

- Take advantage of resources found within the network in order to reduce risk when investing into an emerging market. Thus, when performing the IMS process across international markets, SMEs benefit from focusing on the countries in which the network can be used in.
- When SMEs conduct the IMS process, criteria should be developed in accordance to what can reduce risk the most. The authors suggest that criteria regarding business stability should be prioritized.
- To decrease risk, SMEs should allocate personnel in order to maintain control in the emerging market. This also demands more resources initially but in order to make the venture successful on a long-term basis this may be necessary.

6.4 Limitations

The empirical findings in this thesis originate from one Swedish SME. Due to a limited time frame and resources, this was believed by the authors to be the most suitable choice. Hence, the results of this thesis cannot be generalized. Further, the interviewee from Norden Machinery that contributed with information regarding China does not have the same position at Norden Machinery as the ones interviewed regarding India, Malaysia and Indonesia. This means that the collected answers differ from the other interviews. However, the information coming from all of our interviewees was by the authors perceived as relevant, hence appropriate to include in this thesis.

6.5 Suggestions on further research

Foreign direct investment, in this case offshore production, for SMEs entering into an emerging market is an area of research that has less or no previous research. The authors of this thesis focused on one case company for this study and thus suggest that further research is done on SMEs foreign direct investment including several SMEs in order to further being able to generalize results. The authors also suggest that a quantitative study is performed on what risks SMEs find the most important when investing into an emerging market.

7 References

Scientific Journals

Anderson, E. Gatignon, H. (1986), "Modes of Foreign Entry: A Transaction Cost Analysis and Propositions" - *Journal of International Business Studies*, 10/1/1986, Vol. 17, Issue 3, p. 1-26

Baird, I. Lyles, M. Orris, J.B. (1994), "The choice of international strategies by small businesses" – *Journal of Small Business Management* Jan94, Vol. 32 Issue 1, p48-59. 12p. 1 Diagram, 3 Charts.

Barkema, Harry G. and Drogendijk, R, (2007) – "Internationalising in Small, Incremental or Larger Steps?" - *Journal of International Business Studies*, 12/1/2007, Vol. 38, Issue 7, p. 1132-1148

Brouthers, L. Nakos, G. (2005), "The role of systematic international market selection on small firms' export performance" - *Journal of Small Business Management* Oct2005, Vol. 43 Issue 4, p363-381. 19p. 3 Charts.

Buerki, T. Nandialath, A. Mohan, R. Lizardi, S. (2014), "International Market Selection Criteria for Emerging Markets" - *IUP Journal of Business Strategy* Dec2014, Vol. 11 Issue 4, p7-41. 35p.

Driscoll, A. Paliwoda, S. (1997), "Dimensionalizing international market entry mode choice" - *Journal of Marketing Management* Jan-Apr1997, Vol. 13 Issue 1-3, p57-87. 31p.

Dubois, A. Gadde, L-E. (2002) "Systematic combining: An abductive approach to case research". *Journal of Business Research* (55), p.553–560.

Figueira-de-Lemos, F. Johansson, J. Vahlne, J-E, (2011) "Risk management in the internationalization process of the firm: A note on the Uppsala model" - *Managerial Decision Making in International Business*, *Journal of World Business* 46(2):143-153

Gaston-Breton, C. Martín, O. (2011), "International market selection and segmentation: A two stage model" - *International Marketing Review* 2011, Vol. 28 Issue 3, p267-290. 24p.

Gollnhofer, J. Turkina, E. (2015) "Cultural distance and entry modes: implications for global expansion strategy", *Cross Cultural Management*, Vol. 22 Iss: 1, pp.21 - 41

Horstmann, I. Markusen, J. (1996), "Exploring new markets: Direct investment, contractual relations and the multinational enterprise" - *International Economic Review*, 2/1/1996, Vol. 37, Issue 1, p. 1-19

Johanson, J. Vahlne, J-E. (1997), "The internationalization process of the firm-A model of knowledge development and increasing foreign market commitments" - *Journal of International Business Studies*, 4/1/1977, Vol. 8, Issue 1, p. 23-32

Kraus, S. Ambos, T. Eggers, F. Cesinger, B. (2015), "Distance and perceptions of risk in internationalisation decisions" - *Special issue on The Spirit of Strategy*, Journal of Business Research July 2015 68(7):1501-1505

Kumar, V. Stam, A. Joachimsthaler, E. (1994), "An Interactive Multicriteria Approach to Identifying Potential Foreign Markets" - Journal of International Marketing Vol. 2, No. 1, pp. 29-52

Kuo, H-G. Li, Y. (2003), "A Dynamic Decision Model of SMEs' FDI" - Small Business Economics, 5/1/2003, Vol. 20, Issue 3, p. 219-231

Lee, C. Lee. C, Chang, P. (2015), "Globalization, Economic Growth and Institutional Development in China" – Global Economic Review. Mar2015, Vol. 44 Issue 1, p31-63. 33p. 14 Charts.

Levitt, T. (1983), "The Globalization of Markets" - Harvard Business Review. May/Jun83, Vol. 61 Issue 3, p92-102. 10p

Lundqvist, S. (2014), "An Exploratory Study of Enterprise Risk Management: Pillars of ERM" - Journal of Accounting, Auditing & Finance. Jul2014, Vol. 29 Issue 3, p393-429. 37p

Marchi, G. Vignola, M. Facchinetti, G. Mastroleo, G. (2014) - "International market selection for small firms: a fuzzy-based decision process", European Journal of Marketing, Vol. 48 Iss: 11/12, pp.2198 – 2212

Mayrhofer, U. (2004), "International Market Entry: Does the Home Country Affect Entry-Mode Decisions?" - *Journal of International Marketing* Vol. 12, No. 4 (2004), pp. 71-96

Musso, F. Francioni, B. (2012), "How Do Smaller Firms Select Foreign Markets?" - International Journal of Marketing Studies; Vol. 4, No. 6; 2012

Papadopoulos, N. Martín, O (2011), "International market selection and segmentation: perspectives and challenges" - International Marketing Review, Vol. 28 Iss 2 pp. 132 – 149

Rahman, S. (2003), "Modelling of international market selection process: a qualitative study of successful Australian international businesses" - Qualitative Market Research: An International Journal, Vol. 6 Iss 2 pp. 119 - 132

Sakaraya, S. Eckman, M. Hyllegard, K. (2007), "Market selection for international expansion" - International Marketing Review, Vol. 24 Iss 2 pp. 208 – 238

Shiau, H-L. Huang, C-J. Chen, F-C. (2013), "International involvement, target market selection and consolidated performance: A firm-level analysis of Taiwan's FDI in China" - Emerging Markets Finance & Trade Sep2013 Supplement, Vol. 49, p184-196. 13p.

Susan P. Douglas C. Samuel Craig, (2011), "The role of context in assessing international marketing opportunities" - *International Marketing Review*, Vol. 28 Iss 2 pp. 150 - 162

Literature

Alvesson, Mats & Sköldbberg, Kaj (2008). *Tolkning och reflektion: vetenskapsfilosofi och kvalitativ metod*. 2., [uppdaterade] uppl. Lund: Studentlitteratur

Bryman, Alan & Bell, Emma (2011). *Business research methods*. 3. ed. Oxford: Oxford University Press

Cavusgil, S. Tamer, Ghauri, Pervez N. & Akcal, Ayse A. (2013). *Doing business in emerging markets*. 2. ed. Los Angeles, Calif.: SAGE Publications

Eriksson, L. T., Wiedershem-Paul, F. (1997). *Att utreda, forska och rapportera*. Malmö: Liber-Hermods.

Gesteland, Richard R. & Seyk, George F. (2002). *Marketing across cultures in Asia*. 1. ed. København: Copenhagen Business School Press

Hollensen, S. (2014) *Global Marketing*, Edinburgh Gate: Pearson Education Limited

Jansson, H. (2007). *International business marketing in emerging country markets: the third wave of internationalization of firms*. Cheltenham: Edward Elgar

Jeynes, J. (2002) *Risk Management, 10 Principles*, Oxford: Butterworth-Heinemann

Lindgren, Anders (red.) (2008). *Skydda dina idéer: patent, varumärken, design, upphovsrätt och piratkopiering*. 1. uppl. Uppsala: Konsultförlaget/Uppsala Publishing House

Merriam, Sharan B. (2009). *Qualitative research: a guide to design and implementation*. 2. ed. San Francisco: Jossey-Bass

Patel, Runa & Davidson, Bo (2011). *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. 4., [uppdaterade] uppl. Lund: Studentlitteratur

Root, Franklin R. (1994). *Entry strategies for international markets*. Rev. and expanded ed. New York: Lexington Books

Yin, Robert K. (2014). *Case study research: design and methods*. 5. ed. London: SAGE

Zikmund, William G. (2010). *Business research methods*. 8. ed. [Mason, Ohio]: South-Western Cengage Learning

Electronic Sources

ASEAN, (n.d), *ASEAN Free Trade Area (AFTA) Overview*
<http://www.asean.org/communities/asean-economic-community/category/overview-10>
(viewed 2015-05-10)

ASEAN Briefing, (2014), *Understanding ASEAN's Free Trade Agreements*
<http://www.aseanbriefing.com/news/2014/02/13/understanding-aseans-free-trade-agreements.html> (viewed 2015-05-10)

Chi M., (2014), *Population to hit 30 million this week, Statistics Department says*
<http://www.themalaymailonline.com/malaysia/article/population-to-hit-30-million-today-statistics-department-says> (viewed 2015-05-18)

China FTA Network, (n.d) *Overview*
<http://fta.mofcom.gov.cn/topic/chinaasean.shtml> (viewed 2015-05-10)

Daleke P., (2014), *Kommunikationer*
<http://www.landguiden.se/Lander/Asien/Indonesien/Kommunikationer> (viewed 2015-05-11)

Daily Mail, (2013), *Ever wondered how everything you buy from China gets here? Welcome to the port of Shanghai - the size of 470 football pitches*
<http://www.dailymail.co.uk/news/article-2478975/Shanghai-port-worlds-busiest-handles-736m-tonnes-year.html> (viewed 2015-05-12)

European Commission (2014), *International Market Selection*
http://ec.europa.eu/enterprise/sectors/tourism/tourism-business-portal/business/internationalization/selection/index_en.htm (2015-05-08)

European Commission (2014), *What is an SME?*
ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm
(2015-05-11)

European Commission, (2015), *Association of South East Asian Nations (ASEAN)*
<http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/> (viewed 2015-05-08)

Europa, 2010, *Partnership and Cooperation Agreements (PCAs): Russia, Eastern Europe, the Southern Caucasus and Central Asia*
http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/eastern_europe_and_central_asia/r17002_en.htm (viewed 2015-05-08)

Franco E., Ray S. and Kanta Ray P.(2011), *Patterns of Innovation Practices of Multinational-affiliates in Emerging Economies: Evidences from Brazil and India*
http://ac.els-cdn.com.proxy.lnu.se/S0305750X11000684/1-s2.0-S0305750X11000684-main.pdf?_tid=bab3075a-fd5b-11e4-a8d4-00000aacb360&acdnt=1431953294_db2e4bc036b40e6d9d2d2ff1fd53f465 (viewed 2015-05-10)

Headifen R., Stovsky R., Mendonca C., Choi H., Krishna R. and Macotela A., (2011), *Building a presence in today's growth markets, The experience of privately held companies*

<http://www.economistinsights.com/sites/default/files/downloads/Building%20a%20Presence%20in%20Today%27s%20Growth%20Markets.pdf> (viewed 2015-05-10)

Heritage, (2015), *Country rankings*

http://www.heritage.org/index/ranking_(viewed 2015-05-19)

Heritage, (n.d.), *About the index*

<http://www.heritage.org/index/about> (viewed 2015-05-19)

Indonesia Investment, (n.d.), *Infrastructure in Indonesia* <http://www.indonesia-investments.com/business/risks/infrastructure/item381> (viewed 2015-05-11)

International Finance Corporation, (n.d.), *Indonesia's Infrastructure Investments: Finally Taking Off*

http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+ pacific/news/indonesia+infrastructure+investments (viewed 2015-05-11)

Johannesson M., (2014),

http://www.landguiden.se/Lander/Asien/Kina/~/link.aspx?_id=C2298454B4C1448EB89DAC57BDD8E5A6&_z=z (viewed 2015-05-12)

Li J., (2014), *China's growth spreads inland*

<https://globalconnections.hsbc.com/global/en/articles/chinas-growth-spreads-inland> (viewed 2015-05-18)

OECD, (2009), *Globalisation and emerging economies*

<http://www.oecd.org/regional/searf2009/42576801.pdf> (viewed 2015-05-10)

Poplat, T. (2014), "Foreign direct investment in BRIC countries: Empirical evidence from multinational corporations" – Frankfurt Am Main: PL Academic Research, eBook academic collection (EBSCOhost), EBSCOhost, viewed 11 may 2015)

Port Klang, (2012), *Background*

<http://www.pka.gov.my/index.php/en/about-us-/port-klang-authority-/background-.html> (viewed 2015-05-12)

Rupa K. Bose, (2009), *India business checklists an essential guide to doing business*

<https://books.google.se/books?id=zxUQIGqnhRcC&pg=PR1&lpg=PR1&dq=india+business+checklists+an+essential+guide+to+doing+business&source=bl&ots=K7quIr5RxW&sig=IwgOLgUaekRg0y9uJCwPkbvk6Gc&hl=sv&sa=X&ei=C2RUVc2OHommsgHL4oCoBA&ved=0CDcQ6AEwAw#v=onepage&q=india%20business%20checklists%20an%20essential%20guide%20to%20doing%20business&f=false> (viewed 2015-05-10)

Statistics Indonesia, (n.d.), *Population Projection by Province, 2010-2035*

<http://www.bps.go.id/linkTabelStatis/view/id/1274> (viewed 2015-05-18)

The Economist Intelligence Unit, (2014), *Democracy Index 2014, Democracy and its discontents, A report from The Economist Intelligence Unit*
<http://www.sudestada.com.uy/Content/Articles/421a313a-d58f-462e-9b24-2504a37f6b56/Democracy-index-2014.pdf> (viewed 2015-05-19)

The Economic Times, (2014), *India should have free trade agreement with China: FIEO* http://articles.economictimes.indiatimes.com/2014-08-21/news/53072801_1_ftas-china-fieo-president-rafeeq-ahmed (viewed 2015-05-08)

The World Bank, (n.d.), *Urban population (% of total)*
<http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS/countries/CN-IN-ID-MY?display=graph> (viewed 2015-05-19)

The World Bank, (n.d.), *Transport in Indonesia*
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFIC/XT/EXTEAPREGTOPTRANSPORT/0,,contentMDK:20458729~menuPK:2066318~pagePK:34004173~piPK:34003707~theSitePK:574066,00.html> (viewed 2015-05-11)

The World Bank, (2014), *Economy rankings*
<http://www.doingbusiness.org/rankings> (viewed 2015-05-12)

Worldometer, (n.d.), *Indonesia population*
<http://www.worldometers.info/world-population/indonesia-population/> (viewed 2015-05-18)

UK Trade & Invest, (2011), *Malaysia business guide*, <http://ukabc.org.uk/wp-content/uploads/2013/03/Doing-Business-in-Malaysia1.pdf> (viewed 2015-05-10)

United Nations Development Programme, (2014), *International Human Development Indicators*
<http://hdr.undp.org/en/countries> (viewed 2015-05-19)

World Shipping Council, (n.d.), *About the industry*
<http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports> (viewed 2015-05-11)

Wong C. M, (2014), *Malaysia on the road to infrastructure boom*
<http://www.financeasia.com/News/393011,malaysia-on-the-road-to-infrastructure-boom.aspx> (viewed 2015-05-12)

Xu B. & Albert E., (2014), *Governance in India: Infrastructure*
<http://www.cfr.org/india/governance-india-infrastructure/p32638> (viewed 2015-05-12)

Interviews

Hammarstedt, Lars – Sales Director, Norden Machinery and Lindgren, Jörgen - Project Leader and Project Manager (2015-04-29)

Johansson, Jörgen – Area Sales Manager, Norden Machinery (2015-05-07)

Bäck, Christer – Area Sales Manager, Norden Machinery (2015-05-08)

Säveborn, Kjell – Quality controller, Norden Machinery (2015-05-12)

Malmqvist, Carl - Country Manager, Business Sweden (2015-05-13)

Appendices

Attachment 1 – Interview guide Norden Machinery

Interview guide

Initial questions

Name:

Title:

Number of years at current position?

How does your work tasks look?

What countries are you operating in?

Can you describe how a sales process at Norden looks?

Experience from the countries

A. How is the business climate for companies in these countries? How is the hospitality towards foreign businesses?

B. How is the decision process with contacts in these countries? Fast/slow? Are there any recurring problems?

C. How does potential governments contacts work in these countries?

D. Have you experienced any difficulties regarding traveling to and from these countries?

Experiences risks in the country

A. We are going to do a market selection, where the focus lies on potential risks such as piracy or a different and changing business climate - have you experienced any of this?

B. have you previously been involved in moving production to another country?

C. How has it worked out?

D. Do you believe that you have any experiences that you can use during this new project? If so, what might those be?

E. In your experience, what do you feel can make the work more difficult for companies in the countries?

Resources in the countries

A. For how long have Norden been operating in the countries?

B. What connections in the countries does Norden have now?

C. How does Norden currently cooperate with Coesia in the countries?

D. Is there anything you would like to add?

Attachment 2 – Interview guide Business Sweden

Initial questions

Name:

Title:

What countries are you operating in?

Experience from the countries

A. How is the business climate for companies in these countries? How is the hospitality towards foreign businesses?

B. How is the decision process with contacts in these countries? Fast/slow? Are there any recurring problems?

C. How does potential governments contacts work in these countries?

D. Have you experienced any difficulties regarding traveling to and from these countries?

Experience of risks in the countries

A. We are going to do a market selection, where focus is on potential risks e.g. counterfeiting, a different or changing business climate – have you experienced this?

B. What do you feel can complicate work for companies in these countries?

C. The case company are going to start producing machines in one these countries, how are the potential distribution channels?

D. How can the poor infrastructure impact companies, long delivery time for spare parts and components?

E. Do you see any future development in the above mentioned question?

(infrastructure/wages/market attractiveness for foreign investors)