Internationalisation in Theory and Reality

- a Study of Five Companies

Kristianstad University

The Department of Business Studies
FEC 685 Bachelor Dissertation
International Business Program
December 2004

Tutors:  Mr. Christer Ekelund
          Mrs. Viveca Fjelkner

Authors:  Charlotte Sandén
          Catrin Westdahl
Abstract

A great deal of research has been made within the field of companies’ internationalisation processes by many famous researchers in the last four centuries. This dissertation will mainly focus on three modern theories of internationalisation; transaction cost theory, the network approach and the Uppsala Internationalisation model. The purpose of the dissertation is to examine whether these models are applicable to the process of internationalisation. Further, our purpose is to investigate if there are other factors influencing a company’s internationalisation decision process. In order to answer the research questions we developed eight hypotheses and conducted a study on five international manufacturing companies in Skåne; Alfa Laval, Backer AB, Furninova, Kron International and Perstorp AB.

After conducting interviews and answering our hypotheses we came to these conclusions. The need for control of transactions was more of an obstacle in small companies’ internationalisation process than in large companies. The main reasons to engage in networks were to reduce costs and to gain market shares. Further influencing factors for networking were R&D and protection of environment. The companies in our study followed the Uppsala internationalisation model to some extent. Large companies had a higher propensity than small companies to deviate from the traditional establishment pattern of the Uppsala internationalisation model. Other influencing factors in the internationalisation process were coincidence and political changes. The conclusion to be drawn from our study was that the chosen internationalisation theories were applicable to some extent for the studied companies and that a couple of new factors outside the studied theories were to be found.
Preface

Our Bachelor Degree Dissertation of 10 points was written during the Autumn 2004 at the international business programme at Kristianstad Business School.

We would like to dedicate our thanks to our tutor Mr. Christer Ekelund for his comments and support. Our thanks also to Mrs. Viveca Fjelkner, who has been our supporting guide through the English language.

Finally, we would like to thank Ms. Cecilia Håkansson and Mr. Lars Eric Johansson at Perstorp AB, Mr. Martin Hermansson at Alfa Laval, Mr. Robert Nilsson at Backer AB, Mr. Peter Ahlberg at Kron International and Mr. Benny Nilsson at Furninova.

Charlotte Sandén   Catrin Westdahl
CHAPTER 1 ........................................................................................................................................................ 7
  INTRODUCTION .................................................................................................................................................. 7
    1.1 Background .................................................................................................................................................. 7
    1.2 Research Problem ...................................................................................................................................... 8
    1.3 Purpose ..................................................................................................................................................... 8
    1.4 Limitations ................................................................................................................................................ 8
    1.5 Outline ..................................................................................................................................................... 9

CHAPTER 2 ........................................................................................................................................................ 10
  METHOD .............................................................................................................................................................. 10
    2.1 Choice of Methodology ............................................................................................................................... 10
    2.2 Data Collection ........................................................................................................................................ 10
      2.2.1 Secondary Data ................................................................................................................................... 10
      2.2.2 Primary Data ....................................................................................................................................... 11
    2.3 Scientific Approach .................................................................................................................................. 11

CHAPTER 3 ........................................................................................................................................................ 13
  THEORETICAL FRAMEWORK ............................................................................................................................ 13
    3.1 THEORIES OF INTERNATIONAL TRADE ................................................................................................. 13
      3.1.1 Introduction ......................................................................................................................................... 13
      3.1.2 Mercantilism ....................................................................................................................................... 14
        3.1.2.1 Criticism of Mercantilism ............................................................................................................. 14
      3.1.3 Absolute Advantage .......................................................................................................................... 14
        3.1.3.1 Criticism of Absolute Advantage ................................................................................................ 15
      3.1.4 Comparative Advantage ................................................................................................................... 15
        3.1.4.1 Criticism of Comparative Advantage .......................................................................................... 15
      3.1.5 Heckscher-Ohlin Theory ...................................................................................................................... 15
        3.1.5.1 The Leontief Paradox ...................................................................................................................... 16
      3.1.6 Product Life Cycle Theory .................................................................................................................. 16
        3.1.6.1 Criticism of the Product Life Cycle Theory .................................................................................. 16
      3.1.7 Summary ............................................................................................................................................ 16
    3.2 WHY COMPANIES ENGAGE IN INTERNATIONALISATION PROCESS .................................................... 17
      3.2.1 Introduction ......................................................................................................................................... 17
      3.2.2 Operating Objectives Influencing Internationalisation .................................................................... 17
      3.2.3 Why Internationalise? Competitive Strategies .................................................................................... 19
      3.2.4 Types of International Production .................................................................................................... 19
        3.2.4.1 Market-oriented Investments ......................................................................................................... 19
        3.2.4.2 Supply- or Cost-oriented Investments ............................................................................................ 20
      3.2.5 Summary ............................................................................................................................................ 20
      3.2.6 Multinational Companies - Three Archetypes .................................................................................... 20
        3.2.6.1 Introduction .................................................................................................................................... 20
        3.2.6.2 The Multidomestic Company .......................................................................................................... 20
        3.2.6.3 The Global Company ...................................................................................................................... 21
        3.2.6.4 The Network Company .................................................................................................................. 21
      3.2.7 Summary ............................................................................................................................................ 22
    3.3 FOREIGN DIRECT INVESTMENT ................................................................................................................ 22
      3.3.1 Introduction ......................................................................................................................................... 22
      3.3.2 Five Different Types of Foreign Direct Investment (FDI) .................................................................. 23
      3.3.3 The Multinational Corporation and Foreign Direct Investment (FDI) .............................................. 24
      3.3.4 Summary ............................................................................................................................................ 24
    3.4 TRANSACTION COST THEORY .................................................................................................................. 26
      3.4.1 Introduction ......................................................................................................................................... 26
      3.4.2 Transaction Cost Theory ..................................................................................................................... 26
      3.4.3 Dunning’s ‘Eclectic’ Paradigm .............................................................................................................. 28
        3.4.3.1 Ownership-Specific Advantages .................................................................................................... 28
        3.4.3.2 Internatisation – Bypassing the Market .......................................................................................... 29
        3.4.3.3 Location-Specific Factors .............................................................................................................. 30
      3.4.4 Summary ............................................................................................................................................ 31
    3.5 THE NETWORK APPROACH ..................................................................................................................... 31
      3.5.1 Introduction ......................................................................................................................................... 31
CHAPTER 6 ........................................................................................................................................................ 69

6.1 ANALYSIS OF INTERVIEWS .......................................................................................................................................................................................... 69

6.2 ANALYSIS OF HYPOTHESES .......................................................................................................................................................................................... 72

6.3 Coincidence, an Important Factor in Companies’ Internationalisation .......................................................................................................................................................................................... 80

6.4 Political Considerations and Changes Influencing the Internationalisation.......................................................................................................................................................................................... 81

6.5 Companies Tend to Follow Customers.......................................................................................................................................................................................... 82

CHAPTER 7 ........................................................................................................................................................ 83

7.1 Introduction .......................................................................................................................................................................................... 83

7.2 Hypotheses .......................................................................................................................................................................................... 83

7.3 Conclusions related to our research problem and purpose.......................................................................................................................................................................................... 85

7.4 Further Research .......................................................................................................................................................................................... 86

BIBLIOGRAPHY ........................................................................................................................................................ 87

BOOKS .......................................................................................................................................................................................... 87

ARTICLES.......................................................................................................................................................................................... 88

NEWSPAPERS .......................................................................................................................................................................................... 88

INTERNET .......................................................................................................................................................................................... 88

INTERVIEW PERSONS .......................................................................................................................................................................................... 89

QUESTIONS ...................................................................................................................................................................................................... 90
CHAPTER 1

Introduction

This chapter gives a brief background of the dissertation. The research problem and the purpose of the dissertation are explained. Further, the limitations, the research questions and the outline of the dissertation are presented.

1.1 Background

This dissertation will focus on different internationalisation theories. Global competition is increasing and many companies become international today. Lately, over the past decades, Swedish companies have become increasingly internationalised. We got the idea for the dissertation when we studied different internationalisation patterns in a course called “International Business and Multinational Enterprises” at Kristianstad Business School. It would be interesting to investigate if the theories are applicable to companies in the reality. The economic market is constantly developing and new theories have to be developed to explain companies’ internationalisation processes. We define an international company as a company that engages directly in any form of international business activity, such as export, agents and foreign direct investment (Wild, 2000).

Of particular interest is the Swedish internationalisation model developed by Swedish researchers at the University of Uppsala. Johanson, Wiedersheim-Paul and Vahlne developed this model in the 1970s when they studied Swedish manufacturing companies. Lately, this theory has been criticised by different researchers. Another interesting theory is the network approach that is a mode of handling activity interdependences between several business actors. Business network will emerge in fields where co-ordination between specific actors can give strong gain. The third main theory we will study is the transaction cost theory, which states that transaction costs can be reduced if transactions are carried out within the same company, rather than between independent companies.
Our main purpose is to investigate if there are other factors than in our theoretical framework influencing a company’s internationalisation decision process.

1.2 Research Problem
The dissertation is based on the following research problem:

- How do manufacturing companies decide to internationalise and can it be explained by the already existing internationalisation theories; transaction cost theory, the network approach and the Uppsala internationalisation model?
- Which considerations are important when companies decide to enter a new market?

1.3 Purpose
The purpose with our dissertation is to investigate if the existing theories of internationalisation can be applied on international manufacturing companies’ internationalisation processes, within the region of Skåne. We want to examine whether our three chosen theories are applicable to the processes of internationalisation through an exploratory study on five international manufacturing companies in Skåne. Through these interviews we will try to explore similarities and differences between the companies’ choice of internationalisation. Further, our purpose is to investigate if there are other factors influencing companies’ internationalisation decision processes.

1.4 Limitations
The research is limited to concern Swedish international manufacturing companies from the region of Skåne, in different industries, since it was difficult to find Swedish international service companies in the region of Skåne available for interview. Another limitation was time, which resulted in laying focus on three different internationalisation theories and interviewing five companies. It would also have been possible to study more research and publications so this constitutes one limitation.
1.5 Outline

The outline of the dissertation is the following:

*Chapter two:* We present the choice of methodology, data collection and scientific approach.

*Chapter three:* The theoretical framework is presented, where reasons for engagement in international processes and foreign direct investment are explained. Three internationalisation theories will be in focus; the transaction cost analysis, the network approach and the Uppsala model. Finally, hypotheses are developed from the theory.

*Chapter four:* The empirical method is explained which includes research strategy and sample. Limitations regarding the interviews are described. Then we calculate the response rate and problems with validity, reliability and generalisability are presented.

*Chapter five:* Here we present the outcome of the interviews and describe the five studied companies.

*Chapter six:* The analysis of the hypotheses is presented.

*Chapter seven:* The conclusion of the dissertation is presented.
CHAPTER 2

Method

This chapter presents the choice of methodology. Then data collection is described, which includes both secondary and primary data. Finally, the scientific approach is described.

2.1 Choice of Methodology

We wanted to explain how Swedish companies internationalise and what factors were most considered when choosing a new market to enter, and if we could find new factors influencing companies’ internationalisation decision processes. The first step was to study existing internationalisation theories and we started on a wide basis and we narrowed it down to further study of three main theories.

The second step was to develop hypotheses connected to the theoretical framework. We wanted to find the answers to our hypothesis through face-to-face interviews. The approach of our dissertation is deductive since we studied theory and then developed hypotheses, which we tested on five different companies. The result of the interviews is the base for the analysis.

2.2 Data Collection

2.2.1 Secondary Data

In the field of internationalisation there are many researchers and a great deal of research to be found. We choose some of the most common theories that explain internationalisation and those we have studied in the course International Business and Multinational Enterprises. It was also of importance to study old theories since these theories often lay as a ground to the more modern theories.

The most important sources in our theoretical framework were Dicken, 1992, Havila, Forsgren & Håkansson, 2002, Buckley & Ghauri, 1999 and Nordström, 1991. Further important researchers have been Johanson & Vahlne, 1990, Johanson & Wiedersheim-Paul, 1975 and Hollensen 1998.
Further, we have used written documents as secondary data. These are brochures we got when we visited companies for our interviews and we have also gathered some information about the companies on their websites.

2.2.2 Primary Data
We decided to interview international manufacturing companies in the region of Skåne due to the near distance. Our hope was to get eight participants for our interview. On the Internet we searched at www.foretagsfakta.se in order to find potential companies to send e-mails addressed to the market managers to ask if they were interested in participating in our dissertation. The selection of companies was 30 international companies with different size and in different industries. A condition was that the company should be situated within 100 kilometres of Hässleholm.

Seventeen companies answered our e-mail. Five out of seventeen companies were interested in letting us interview them. These companies were Perstorp AB, Backer, Kron International, Alfa Laval and Furninova. These five companies represent different industries.

After developing our hypothesis we decided to do face-to-face interviews. We conducted the interviews with both semi-structured and unstructured questions. At the interview we had twenty semi-structured questions leading to further questions and discussions. The market managers also gave us a short introduction of the company and its history.

2.3 Scientific Approach
A research may have two approaches, deductive and inductive, and the approach we chose to base our dissertation on was the deductive with a touch of inductive elements. A deductive framework is used when a theoretical framework is developed and tested using data, while an inductive approach is used when theories is developed from explored data and may be related to the literature. The principle of positivism has been used as research philosophy. Observers with the principles of positivism try to be objective in a value-free manner and do not affect or become affected of the research. This is a stand we have tried to taken
when writing our dissertation. A research may have quantitative or qualitative data. This dissertation is based on a qualitative analysis and the purpose is exploratory, which means that we seek new insights of internationalisation through an exploring study.
CHAPTER 3

Theoretical Framework

In this chapter the theoretical framework is presented. It begins with a presentation of older, classical theories of international trade, which modern internationalisation theories often derive from. Then reasons for engaging in international processes and foreign direct investment are explained. Further, the main theories, the transaction cost theory, the network approach and the Uppsala model are explained. Finally, hypotheses are developed from these international theories. The hypotheses are the base for the interviews in Chapter 4.

3.1 Theories of International Trade

3.1.1 Introduction

In the 1600 and 1700 centuries, mercantilism stressed that countries should simultaneously encourage exports and discourage imports. Although mercantilism is an old theory it echoes in modern politics and trade policies of many countries.

The neoclassical economist Adam Smith, who developed the theory of absolute advantage, was the first to explain why unrestricted free trade is beneficial to a country. Smith argued that ‘the invisible hand’ of the market mechanism, rather than government policy, should determine what a country imports and what it exports. Two theories have been developed from Adam Smith’s absolute advantage theory. The first is the English neoclassical economist David Ricardo’s comparative advantage. Two Swedish economists, Eli Hecksher and Bertil Ohlin, develop the second theory. (Hill, 2003)

The Hecksher-Ohlin theory is preferred on theoretical grounds, but in real-world international trade pattern it turned out not to be easily transferred, referred to as the Leontief paradox. Another theory trying to explain the failure of the Hecksher-Ohlin theory of international trade was the product life cycle theory developed by Raymond Vernon.
3.1.2 Mercantilism
According to Wild, 2000, the trade theory that states that nations should accumulate financial wealth, usually in the form of gold, by encouraging exports and discouraging imports is called mercantilism. According to this theory other measures of countries’ well being, such as living standards or human development, are irrelevant. Mainly Great Britain, France, the Netherlands, Portugal and Spain used mercantilism during the 1500s to the late 1700s. (Hill, 2003)

3.1.2.1 Criticism of Mercantilism
Mercantilistic countries practised the so-called zero-sum game, which meant that world wealth was limited and that countries only could increase their share at expense of their neighbours. The economic development was prevented when the mercantilistic countries paid the colonies little for export and charged them high price for import. The main problem with mercantilism is that all countries engaged in export but was restricted from import, another prevention from development of international trade (Wild, 2000).

3.1.3 Absolute Advantage
The Scottish economist Adam Smith developed the trade theory of absolute advantage in 1776. A country that has an absolute advantage produces greater output of a good or service than other countries using the same amount of resources. Smith stated that tariffs and quotas should not restrict international trade; it should be allowed to flow according to market forces. Contrary to mercantilism Smith argued that a country should concentrate on production of goods in which it holds an absolute advantage (Wild, 2000). No country would then need to produce all the goods it consumed. The theory of absolute advantage destroys the mercantilistic idea that international trade is a zero-sum game. According to the absolute advantage theory, international trade is a positive-sum game, because there are gains for both countries to an exchange. Unlike mercantilism this theory measures the nation’s wealth by the living standards of its people and not by gold and silver (Hill, 2003).
3.1.3.1 Criticism of Absolute Advantage
There is a potential problem with absolute advantage. If there is one country that
does not have an absolute advantage in the production of any product, will there
still be benefit to trade, and will trade even occur? The answer may be found in
the extension of absolute advantage, the theory of comparative advantage (Hill,
2003).

3.1.4 Comparative Advantage
The most basic concept in the whole of international trade theory is the principle
of comparative advantage, first introduced by David Ricardo in 1817. It remains a
major influence on much international trade policy and is therefore important in
understanding the modern global economy. The principle of comparative
advantage states that a country should specialise in producing and exporting those
products in which it has a comparative, or relative cost, advantage compared with
other countries and should import those goods in which it has a comparative
disadvantage. Out of such specialisation, it is argued, will accrue greater benefit
for all. (Dicken, 1992)

3.1.4.1 Criticism of Comparative Advantage
In this theory there are several assumptions that limit the real-world application.
The assumption that countries are driven only by the maximisation of production
and consumption, and not by issues out of concern for workers or consumers is a
mistake. (Wild, 2000)

3.1.5 Heckscher-Ohlin Theory
In the early 1900s an international trade theory called factor proportions theory
emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory
is also called the Heckscher-Ohlin theory. The Heckscher-Ohlin theory stresses
that countries should produce and export goods that require resources (factors)
that are abundant and import goods that require resources in short supply. This
theory differs from the theories of comparative advantage and absolute advantage
since these theory focuses on the productivity of the production process for a
particular good. On the contrary, the Heckscher-Ohlin theory states that a country
should specialise production and export using the factors that are most abundant,
and thus the cheapest. Not produce, as earlier theories stated, the goods it produces most efficiently. (Hill, 2003)

3.1.5.1 The Leontief Paradox
The Heckscher-Ohlin theory is preferred to the Ricardo theory by many economists, because it makes fewer simplifying assumptions. In 1953, Wassily Leontief published a study, where he tested the validity of the Heckscher-Ohlin theory. The study showed that the U.S was more abundant in capital compared to other countries, therefore the U.S would export capital-intensive goods and import labour-intensive goods. Leontief found out that the U.S’s export was less capital intensive than import (Wild, 2000).

3.1.6 Product Life Cycle Theory
Raymond Vernon developed the international product life cycle theory in the 1960s. The international product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually a country’s export becomes its import. Although the model is developed around the U.S, it can be generalised and applied to any of the developed and innovative markets of the world.

3.1.6.1 Criticism of the Product Life Cycle Theory
The product life cycle theory was developed during the 1960s and focused on the U.S since most innovations came from that market. This was an applicable theory at that time since the U.S dominated the world trade. Today, the U.S is no longer the only innovator of products in the world. Today companies design new products and modify them much quicker than before. Companies are forced to introduce the products in many different markets at the same time to gain cost benefits before its sales declines. The theory does not explain trade patterns of today (Hill, 2003).

3.1.7 Summary
Mercantilism proposed that a country should try to export more than it imports, in order to receive gold. The main criticism of mercantilism is that countries are restricted from import, a prevention of international trade. Adam Smith developed the theory of absolute advantage that stressed that a country should produce goods
or services if it uses a lesser amount of resources than other countries. David Ricardo stated in his theory of comparative advantage that a country should specialise in producing and exporting products in which it has a comparative advantage and it should import goods in which it has a comparative disadvantage. Hecksher-Ohlin’s theory of factor endowments stressed that a country should produce and export goods that require resources (factors) that are abundant in the home country. Leontief tested the Hecksher-Ohlin theory in the U.S. and found that it was not applicable in the U.S. Raymond Vernon’s product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually a country’s export becomes its import.

3.2 Why Companies Engage in Internationalisation Process

3.2.1 Introduction

When companies decide to internationalise their operations there are many different reasons, both general and specific. They may change over time, but the fundamental reason to strengthen the companies’ competitive positions remains quite unchanged. There are four major objectives why companies decide to become international. The decision to internationalise is a major strategic decision. According to Porter there are three different strategies. According to Dicken, 1992 there are two types of international production when companies are going to invest in production and distribution abroad.

3.2.2 Operating Objectives Influencing Internationalisation

According to Daniels and Radebaugh, 1998 there are four major operating objectives that may influence companies to engage in international business:

- *To expand sales* - sales depend on customers’ interest, willingness and ability to buy companies’ products. However, the amount of purchasing power in one country is limited. Therefore expanding sales across borders helps to increase revenues and consequently profits. Many of the largest companies derive over half of their sales from outside their home country.
- **To acquire resources**- to secure resources companies may engage in the worldwide exploration, possessing, transportation and marketing of raw materials. The potential benefits of this practice are clear: either the profit margin may be increased or the cost saving may be passed on to consumers, who will internally by more products. Sometimes a company buys abroad in order to acquire a service or raw material not available in its home country. Other resources a company tries to gain may be intangible such as technology, knowledge, expertise, etc.

- **To diversify sources of sales and suppliers**- to help avoid wild swings in sales and profits companies seek for alternative resources of supply. Many companies take advantage of the different timing of business cycles in various countries. Recessions and expansions differ among regions and countries and skilful managing helps to avoid sales decrease. Additionally, obtaining supplies of the same product or component from different countries diminishes the impact of price swings or shortages in any given country or region.

- **To minimise competitive risk**- many companies move internationally for defensive reasons. They seek to counter advantages that competitors might gain from foreign operations because such advantages could be used against them domestically. By spreading sales over more than one foreign market, a producer might be able to minimise the fluctuations in demand. Another factor in spreading risk is that through dealing with many foreign markets a company develops more customers, thereby reduces its vulnerability to the loss of a single customer.

Bartlett & Ghoshal, 1989 support this way of thinking and state that the search for resources, markets and cheap labour had motivated the overseas expansion of most worldwide companies and shaped their attitudes of their managers.
3.2.3 Why Internationalise? Competitive Strategies

Companies internationalise their operations for many different reasons, both general and specific. The detail reasons may change over time but the fundamental reason – to strengthen the company’s overall competitive position - remains largely unchanged. The decision to internationalise is a major strategic decision. According to Porter, 1985 cited in Dicken, 1992 companies try to achieve a competitive advantage in their particular industry through one of three strategies.

*Cost leadership:* to be the lowest-cost producer of a good or service

*Differentiation:* to be different from competitors in some way or other

*Focus:* to apply either of these two strategies on a broad or a narrow front. A narrow front is known as a niche strategy and may apply to a specific geographic market, a particular segment of a production process or a particular type of customer.

Each of these generic competitive strategies applies to all companies regardless of the geographical extent of their operations (Dicken, 1992).

3.2.4 Types of International Production

International investment in production and distribution has to be seen within the context of the company’s attempts to increase or maintain profits in an increasingly competitive global environment. According to Dicken, 1992 there are two types of international production, market-oriented investments and supply- or cost-oriented investments.

3.2.4.1 Market-oriented Investments

Most foreign direct investment in both manufacturing and service industries has been, and remains, of this type. Companies locate a facility in a particular overseas market to serve that market directly. Often, the good or service produced overseas is quite identical to the product produced in the home country, but there may be modifications to suit the specific tastes or requirements of the local market. Such specifically market-oriented investments are a form of horizontal expansion across national borders.
3.2.4.2 Supply- or Cost-oriented Investments
Supply considerations are the dominant motivation for companies in the natural resource industries. Such companies must locate at the sources of supply, which tend to be highly localised geographically. Often, such investments are the first stage of vertically integrated operations and the later stages may be located quite separately from the source of supply. In many cases final processing occurs close to the market (Dicken, 1992).

3.2.5 Summary
When companies engage in international business there are four main reasons influencing: to expand sales, to acquire resources, to diversify sources of sales and suppliers and to minimise competitive risk. Companies internationalise their operations for many different reasons, both general and specific. According to Porter, 1985 cited in Dicken, 1992 there are three competitive strategies: cost leadership, differentiation and focus. According to Dicken, 1992 there are two types of international production, market-oriented investments and supply- or cost-oriented investments.

3.2.6 Multinational Companies - Three Archetypes

3.2.6.1 Introduction
Today there are great differences between multinational companies in terms of operational structure, internationalisation modes, technology and history. According to Dicken, 1992 there are three well-known forms of multinationality.

3.2.6.2 The Multidomestic Company
In the multi-domestic company the subsidiaries in different countries operate the entire value chain including purchasing, production, marketing, sales activities and R&D. The integration between activities across subsidiaries and country borders are limited. Export to neighbour countries may occur, but typically the multi-domestic company concentrates on the local business. Subsidiaries’ interactions across borders mainly concern administration and finances, rather than production and services. Multi-domestic companies often exploit a firm-specific advantage abroad, which focuses on local responsiveness. The reasons for that are differences in markets, cost of transportation and importance of a close link to specific customers etc. The multi-domestic company becomes international
because of the companies it owns in several countries, rather than due to cross-border operations. The dominant form of internationalisation for the multi-domestic company is foreign acquisitions. In the multi-domestic company the operations of the different subsidiaries are adapted to the different host-markets, and their operations are relatively independent of the parent company. The strategic role of the subsidiary is the role of a local innovator.

3.2.6.3 The Global Company
The global company is the opposite of the Multi-domestic company. The global company strives to concentrate the activities in the value chains as much as possible to one country, instead of several countries like the multi-domestic company. The main reasons for such a strategy is economies of scale in production and other activities, the location advantage of certain countries and the advantage of co-located linked activities. The strategy of the global company is economies of scale and scope through rationalisation of production, concentration of R&D and standardisation of marketing activities. Mergers and acquisitions of local competitors are common in this strategy in order to reach a scale large enough to serve the global market. The integration between activities is high in the global company and cross-border integration is low since operations are concentrated to one or a few countries. The global company differs from the multi-domestic company since the global company does export to other countries.

3.2.6.4 The Network Company
The network company symbolises the true advantages of multinationality. This strategy also uses the comparative advantage of countries. It does so to a much higher degree as it links the different subsidiaries in a common value-chain that cross borders. The network company transfers goods, services and knowledge between different subsidiaries. Every subsidiary plays an important role and its actions will affect the whole network. The strategic role of a subsidiary depends on the type of activity it is involved in. The network company also aims for economies of scale. The specialisation and concentration to certain countries are carried out at the chain activity level, rather than the product level as in the global company. The strength for the network company is to use the unique resources in every country and place the different activities in the most suitable country. There
are no ‘home markets’ or ‘host country markets’ of the same type as in the former strategies, the only market is the global market (Havila, Forsgren & Håkansson, 2002).

To divide industries in these opposite types is a severe simplification of reality, but it suggests two mutually strategic orientations: global integration on the one hand and national responsiveness on the other. In fact, each must contain element of the other. Companies in so-called multidomestic industries must take account of global forces, and companies in global industries must be responsive to national and local differences. (Dicken, 1992)

3.2.7 Summary
Multi-domestic companies often exploit a firm-specific advantage abroad, which focuses on local responsiveness. In this situation the subsidiaries in different countries operate the entire value chain including purchasing, production, marketing, sales activities and R&D. The opposite of the Multi-domestic company is the global company that concentrates the activities in the value chains as much as possible to one country. The strategy is economies of scale and scope through rationalisation of production, R&D and marketing. The network company transfers goods, services and knowledge between different subsidiaries. The strength for the network company is to use the unique resources in every country and place the different activities in the most suitable country.

3.3 Foreign Direct Investment
3.3.1 Introduction
A decision to undertake foreign direct investment (FDI) in a particular country is the outcome of a decision process where projected revenues and costs are evaluated. Increased knowledge of a foreign country reduces the cost and the uncertainty of operating in a foreign market (Buckley & Casson, 1981 cited in Buckley & Ghauri, 1999) and should increase the probability of an investment made in that country. Experience creates increased market knowledge and uncertainty reduction, and experience is therefore considered an owner-specific advantage in the so-called eclectic theory of international production (Dunning, 1981, 1988 cited in Buckley & Ghauri 1999).
3.3.2 Five Different Types of Foreign Direct Investment (FDI)

According to Chryssochoidis, Millar & Clegg, 1997 there are five different types of foreign direct investment (FDI).

The first type of FDI is taken to gain access to specific factors of production, e.g. resources, technical knowledge, material know-how, patent or brand names, owned by a company in the host country. If such factors of production are not available in the home economy of the foreign company, and are not easy to transfer, then the foreign firm must invest locally in order to secure access.

The second type of FDI is developed by Raymond Vernon in his product cycle hypothesis (Vernon 1966). According to this model the company shall invest in order to gain access to cheaper factors of production, e.g. low-cost labour. The government of the host country may encourage this type of FDI if it is pursuing an export-oriented development strategy. Since it may provide some form of investment incentive to the foreign company, in form of subsidies, grants and tax concessions. If the government is using an import-substitution policy instead, foreign companies may only be allowed to participate in the host economy if they possess technical or managerial know-how that is not available to domestic industry. Such know-how may be transferred through licensing. It can also result in a joint venture with a local partner.

The third type of FDI involves international competitors undertaking mutual investment in one another, e.g. through cross-shareholdings or through establishment of joint venture, in order to gain access to each other’s product ranges. As a result of increased competition among similar products and R&D-induced specialisation this type of FDI emerged. Both companies often find it difficult to compete in each other’s home market or in third-country markets for each other’s products. If none of the products gain the dominant advantage, the two companies can invest in each other’s area of knowledge and promote sub-product specialisation in production.

The fourth type of FDI concerns the access to customers in the host country market. In this type of FDI there are not observed any underlying shift in comparative advantage either to or from the host country. Export from the companies’ home base may be impossible, e.g. certain services, or the capability
to request immediate design modifications. The limited tradability of many services has been an important factor explaining the growth of FDI in these sectors.

The fifth type of FDI relates to the trade diversionary aspect of regional integration. This type occurs when there are location advantages for foreign companies in their home country but the existence of tariffs or other barriers of trade prevent the companies from exporting to the host country. The foreign companies therefore jump the barriers by establishing a local presence within the host economy in order to gain access to the local market. The local manufacturing presence need only be sufficient to circumvent the trade barriers, since the foreign company wants to maintain as much of the value-added in its home economy.

3.3.3 The Multinational Corporation and Foreign Direct Investment (FDI)

Neoclassical trade theory failed to explain the existence of MNCs, Multi National Corporations (Lundgren, 1975 cited in Nordström, 1991). Explanations solely in terms of differences in rates of return between countries could explain portfolio investments, but not the movement of capital across borders along with ownership control, i.e. foreign direct investments (FDI). It was not until Hymer presented his work, in 1960, of foreign direct investments and multinational enterprises that a satisfying explanation was at hand. Markets were no longer assumed to be perfect and information was no longer assumed to flow freely and at no cost. Hymer stated that local companies had better information about the economic environment in their country than the foreign competitors did. Kindleberger suggested that four different types of imperfections could explain the existence of FDI: imperfections in goods markets, imperfections in factor markets, scale economies and government-imposed disruptions.

However, the possession of ownership-specific advantages or firm-specific advantages could not alone explain why firms engage in foreign production. They could exploit such advantages by, for example, licensing to a foreign producer or through exports. Why did companies locate sales or manufacturing subsidiaries abroad? Firm-specific advantages are a necessary but not sufficient condition for FDI.
Several theories has emerged, approached this problem from different angels. One of these was the theory of internalisation, with roots as far back as in the 1937, as in the work of Coase. The basis of this theory was imperfect markets, which made it costly to undertake certain types of transactions. This leads to companies rejecting the market and organise and control transactions within the company itself, the line of thought which Buckley and Casson developed. They claimed that imperfections in markets related to knowledge, such as technology, patents and human capital force the profit-maximising firm to internalise certain activities.

Government regulations like tariff barriers and taxation are often reasons for internalisation. For example through transfer pricing, which is organised and controlled in-house, the company may minimise tax payments. Several theorists, Dunning, 1979, Rugman, 1980 & Teece, 1981 cited in Nordström, 1991, have expanded on those theories. The appropriability theory has many similarities to the internalisation theory, and the essence of the theory is that the advantages of MNCs derive from their ability to appropriate investments in know-how. The theory of internalisation may therefore explain why companies prefer FDI to licensing. But the theory of internalisation does not explain why companies not exploit their advantages through export to foreign countries rather than FDI.

Why do companies take the risk and trouble of organising operations abroad? The diversification theory (Lessard, 1979 cited in Nordström, 1991) explains this problem through imperfections in financial markets that creates incentive for MNCs to internationalise. The essence of this theory is that MNCs may gain advantages through risk reduction through international diversification. This has been difficult to underpin empirically, i.e. to demonstrate that MNCs shares are good substitutes for international portfolio investments. It has never been shown why this advantage of equity-market arbitrage is unique to MNCs. FDI is the result of several factors and no single theory is able to hold all the explanations proposed. Several authors, e.g Baumann, 1975 & Dunning, 1977 cited in Nordström 1991 recognised the need for an eclectic approach, which will be explained later on, holding a number of theories, all of which have something to contribute.
3.3.4 Summary
Above we have explained six different types of foreign direct investment that companies can undertake for different purposes. The first type to invest in FDI is to gain access to specific factors of production such as know-how, technical knowledge, patents or brand names. In the second type companies shall invest to gain access to cheaper factors of production such as low-cost labour. The third type of FDI involves international competitors undertaking mutual investment in one another in order to gain access to each other’s product ranges, for example joint venture. According to the fourth type companies undertake FDI in order to gain access to customers in the host country market. In the fifth type companies jump barriers by establishing a local presence in order to gain access to local markets.

Hymer stated in his work from 1960 that markets were not perfect and information did not flow freely. Hymer also argued that local companies had better information about the economic environment in their country than foreign competitors did. Four different types of imperfections according to Kindleberger could explain the existence of FDI. The diversification theory explains why companies take the risk to invest abroad. According to this theory the MNCs may gain advantages through risk reduction through international diversification.

3.4 Transaction Cost Theory
3.4.1 Introduction
One important reason for explaining the existence of multinational companies is transaction costs and internalisation (Buckley & Casson, 1976, Hennart, 1982 and McManus, 1972 cited in Havila, Forsgren & Håkansson, 2002). According to the internalisation approach multinational companies arise because companies tend to internalise transactions for which the transaction cost in the market is high. One way to reduce the transaction costs is to carry out these transactions within one and the same company rather than between independent companies.

3.4.2 Transaction Cost Theory
The transaction cost theory, developed by Williamson, Buckley & Casson and Hennart focuses on the problem of organising interdependencies between individuals. Transaction cost economics arises when MNCs are more efficient
than markets and contracts in organising interdependencies between agents located in different countries (Havila, Forsgren & Håkansson, 2002).

If a company intends to exploit a firm-specific asset in a foreign market and this exploitation has to be done in that market due to localisation factors (e.g., trade barriers, high transportation costs, or other country-specific factors), the company often tends to do this by investing abroad in their own facilities rather than through, for example, a license. The more intangible the firm-specific asset is, the stronger this tendency will be. The reason is that intangible assets are difficult to do business with (Caves, 1982 cited in Havila, Forsgren & Håkansson, 2002). The internalisation model and cost efficiency thinking have dominated the theoretical debate among economists during the last two decades. However, the internalisation approach has lately been questioned with reference to models dealing with how knowledge is used as a value-creating asset in the company. One critical argument is that multinational companies exist, because knowledge across borders can be transferred more efficiently inside the company than between independent companies, not because of market failure (Kogut & Zander, 1993 cited in Havila, Forsgren & Håkansson, 2002). This means that in general intangible asset can be treated as a sellable asset, but can seldom be detached from the firm itself and cannot be treated as a public good.

The cost of organising a transaction varies with the two basic methods of organisation, the price system and hierarchy. The price system is dependent on agents’ definitions and measurements to make an accurate estimation of the value of goods and services. (Hennart, 2001) Behavioural assumptions like bounded rationality and self-interest seeking are reasons that make some market participants take advantage of measurement difficulties to overprice and/or underperform. This kind of behaviour makes some agents develop a ‘cheating’ behaviour. Self-seeking attributes are variously described as opportunism, moral hazard, and agency. In order to avoid this ‘cheating’ behaviour companies internalise and integrate the transactions. (Williamsson, 1996)

The benefits of integration and control must, however, be compared with the costs of control. The transaction cost theory states that companies integrate when asset
specificity is high, to retain control over the specific advantages they offer to the market (Withelock, 2002).

3.4.3 Dunning’s ‘Eclectic’ Paradigm

John Dunning has developed a framework that integrates various strands of explanation of international production. A set of three general and interrelated principals is suggested to be fundamental to understand international production. The three principles are derived from a variety of theoretical approaches, therefore Dunning labels his approach ‘eclectic’. According to Dunning, 1980 cited in Dicken, 1992, a company will engage in international production when each of the three following conditions is present.

1. a company possesses certain specific advantages not possessed by competing companies of other nationalities (ownership-specific advantages); and
2. such advantages are most suitably exploited by the company itself rather than by selling or leasing them to other companies. In other words, the company internationalises the use of its ownership-specific advantages; and
3. it must be more profitable for the company to exploit its assets in overseas, rather than in domestic, locations. In other words, location-specific factors play an important part, in combination with internationalisation of ownership-specific advantages, in determining whether or not, and where, overseas production occurs. (Dicken, 1992)

Ownership-specific advantages are assets which are internal to a company, and which the company creates for itself. It could be certain types of knowledge, organisation or human skills and these acquire some proprietary right of use, for example a legally protected right.

3.4.3.1 Ownership-Specific Advantages

Hymer cited in Dicken, 1992 was the first to suggest that foreign direct investment could occur only if the investing company possessed a particular advantage over domestic companies. Domestic companies understand their local
business environment better, and foreign companies lack such knowledge initially. To compete in the overseas market foreign companies must possess some kind of advantage. Such advantage can be of many different types, but the most obvious is size and market power.

Technology of production, marketing and organisation are particularly important sources of advantage, and in the broadest sense of know-how an intangible asset easily transferable from one location to another. Caves cited in Dicken, 1992, for example, emphasises the advantage a particular brand image may give over less known competitors. He states that a characteristic for many companies, especially in consumer goods, is that they strive to differentiate their products from their competitor’s products.

3.4.3.2 Internalisation – Bypassing the Market
It is not necessary for a company to exploit its particular ownership-specific assets by investing directly in production facilities. It can export through the usual trade channels. Technology can also be licensed to companies in foreign countries in return for payment of fees or royalties. National and transnational companies use both of these alternatives. The main reason not to do so is the nature of the markets for materials, for intermediate goods or for finished products. In the world of the neoclassical economics, markets are assumed to operate perfectly. However, markets are imperfect, since the markets do not operate perfectly. The greater the imperfection the greater the incentive will be for a company to internalise market transactions, to perform the function of the market itself. The most obvious example of this is vertical integration where a company decides to control either its own sources of supply or the destination of its outputs. A great reason for a company to internalise markets is uncertainty. The greater the degree of uncertainty the greater the advantage will be for the company to control the transactions itself. Internalisation is especially likely to occur when there is transfer of knowledge. Another reason for internalisation is the price mechanism. In external markets prices are charged between buyers and sellers. In the internal market, on the other hand, prices are charged between related parties within the same organisation. The company itself sets the transfer prices of goods and services within the organizational boundaries. This leads to flexibility to help
achieve the overall goals. There are limits in internalisation, too. There are particularly increased costs of communication and control of the separate organisational units.

3.4.3.3 Location-Specific Factors
Dunning 1980 cited in Dicken, 1992, p 131 defines location-specific factors as “those which are available, on the same terms, to all firms whatever their size and nationality, but which are specific in origin to particular locations and have to be used in those locations”.

Countries with different income levels tend to have a different structure on demand. The type and mix of goods demanded tend to vary according to income. Variations in the size and composition of markets therefore make an important location-specific factor. Another factor is the influence of national governments, in terms of political climate and national attitude towards foreign direct investments. A company’s perception of psychic distance, language and culture, between potential locations for investment and the home country also plays a role in the investment-location decision process.

One important group of location-specific factors is the variations in production costs. Dunning argues that the single most important location-specific factor, at least at the global scale, is labour. The locational significance of labour as a production factor is the geographical variations in wage costs. Differences in wage both between developed countries and, especially, between developed and developing countries are important factors in the investment-location decision process.

The main value of Dunning’s broad explanation of international production is that it incorporates the diversity of transnational investment that is such a major feature of today’s global economy. Dunning’s eclectic theory has, however, been criticised as to be only a list of factors likely to be important for the explanation of the modern international company rather than the explanation itself (Dicken, 1992).
3.4.4 Summary
When companies want to exploit a firm-specific asset abroad they will more likely invest in own facilities rather than through, for example licensing if transaction costs are high. The more intangible the firm-specific asset is, the greater the incentive for internalisation will be. Organising transactions may be carried out through two methods, the price system or hierarchy. The problem with the price system may be that some market participants take advantage of measurement difficulties to overprice and/or underperform. To avoid this ‘cheating’ behaviour companies internalise and integrate transactions.

John Dunning developed an eclectic paradigm derived from a variety of theoretical approaches to explain international production. When companies’ ownership-specific advantages are better exploited by the company itself rather than by selling or leasing them to other companies the company internationalises the use of its ownership-specific advantages. Location-specific factors play an important part, in combination with internationalisation of ownership-specific advantages, in determining whether or not, and where, overseas production occurs.

3.5 The Network Approach
3.5.1 Introduction
The network view assumes that international business takes place in a network setting, where business actors are linked to each other through business relationships. According to this view, business enterprise becomes international through connecting actors in different countries and internationalisation means that a company establishes and develops network positions in foreign markets. In business networks the actors have positions in the sense that they are directly and indirectly related to specific other actors. (Havila, Forsgren & Håkansson, 2002)

3.5.2 The Network Approach
According to Ebers, 2002, networks of relationships exist both within and between companies and can be expressed in global, national and local scales. The motives for engaging in inter-organisational network relationship can be quite varied. One of the reasons is to increase revenue. Co-operating organisations can
work together against common rivals or bind competitors as allies in order to reduce competition. Through networks companies can access complementary resources and capabilities, which can lead to better market access, faster market entry etc in order to increase revenue.

Another reason to engage in networks is to reduce costs. Companies can reduce costs through economies of scale/scope achieved by for example joint research, marketing or production. Inter-organisational networks represent cost-efficient ways to gain access to crucial know-how that can neither be available internally nor be easily transferred by licensing. Networks are seen as a fast, effective and efficient way to learn and acquire skills. Joining a network can also be a way to reduce financial or other risks, e.g. innovations or other risky projects.

According to Oliver, 1995 cited in Ebers, 2002 there could be other reasons for engaging in inter-organisational network relationships.

**Necessity**, when companies are required by law or regulation by authorities to establish relationships.

**Asymmetry**, when one party has control over another party and its resources.

**Reciprocity**, when companies co-operate to benefit from common goals or interests.

**Efficiency**, when companies co-operate to achieve higher input/output.

**Stability**, when companies can better forestall, forecast and absorb uncertainty through co-operation.

**Legitimacy**, when companies can establish their reputation, image and prestige with prevailing norms.

Other researchers have examined which conditions form inter-organisational network relationships and has mostly concentrated at the institutional and relational levels. At the institutional level, researchers have pointed out certain political, legal, cultural, industrial and/or regional environmental conditions that impact the network formation. Some researchers stress that networks among companies are enabled and supported by regionally embedded institutions such as chambers, banks, science parks, universities and training centres. These institutions often act as informational brokers that support the exchange of
information among companies. They encourage and facilitate mutual learning and develop responsiveness, adaptability and innovativeness of the companies in a network. These institutions often provide resources, in form of capital or distribution channels and potential customers.

Another reason for inter-organisational networks is clusters of specialized resources and know-how in regional or industrial districts. Then smaller, co-specialised companies can share and recombine resources and capabilities more flexibly. These companies are therefore able to adapt more quickly to changes in demand both quantitatively and qualitatively.

At the relational level, the analysis stresses how pre-existing social relations among the individuals in a region develop and support more formal business network relationships among organisations. This makes it possible for actors who are members of the same social network to economise on more formal grounds when they conduct business with one another. Members in a social network can have better access to resources as capital and political influence. Social ties make it easier to exchange information that encourages mutual learning and innovation.

Kogut as well as Gulati cited in Ebers, 2002 have shown, for example that over time the number and density of earlier direct and indirect linkages among companies play a more positive and important role for their choice to co-operate than firm-specifics like size and age do. Larger numbers of linkages provide companies with more and better information about one another. They also have a greater understanding of each other’s intentions and capabilities. Teece, among others, cited in Ebers, 2002 has argued that dependence on R&D resources and know-how is important in inter-organisational co-operation. Industries with rapid technological change and advanced technological systems cannot be created in isolation. Innovation organisations must form both horizontal and vertical linkages to be successful. According to Teece, the interdependencies that are crucial for successful innovation can be handled more effectively and efficiently by inter-organisational networks than by the price system of markets or the internal organisation of companies. Teece argues that networks have advantages, compared to the price system, because they allow for close and
concise co-ordination of investments, and may overcome problems associated with technological spillovers. Compared to internal hierarchical organisations networks have stronger incentives and provide fast and efficient feedback (Ebers, 2002).

Foreign market entry is a process which takes place over time and which is not controlled by any single actor. Axelsson & Johanson, 1992 cited in Havila, Forsgren & Håkansson, 2002 provide three issues for entry:

- orientating process (since, in order to understand relationships and dependencies between actors and connections, the company must enter the network)
- positioning (resource commitments and investment processes in order to develop the company’s position in the network)
- timing (the notion that timing is a matter of seeing opportunities and being able to act promptly)

### 3.5.3 Four Situations in the Network Model

According to the network model, a company’s development is dependent on its positions: it can use its market assets in its further development. Both the internationalisation characteristics and the market influence the process. Market assets differ with the degree of internationalisation of the company, and with the degree of internationalisation of the market. According to Johanson & Mattsson cited in Hood & Vahlne, 1998 there are four different situations in three dimensions: extension, penetration and integration. We will make a comparative analysis of the four different situations.
### 3.5.3.1 The Early Starter

At this stage the companies in the production net has rather few and unimportant relationships with companies abroad. The companies, suppliers and competitors in the domestic and foreign market also have few important international relationships. The early starter has little knowledge about foreign markets and it is hard to gain such knowledge from using relationships in the domestic market.

Internationalisation often begins in the nearby market. Agents are often used rather than subsidiaries. If the conditions in the new, foreign market are similar to the home market there is a greater possibility that these markets will be next. To reduce the company’s own investment and risk taking it minimises the need for knowledge development, minimises the demand for adjustments and uses the positions in the market occupied by already established companies. The alternative strategy would be to start with acquisition or green field investment, but this would require greater investments. In the early internationalisation of the company distributors or users in the foreign market often take the initiatives. The foreign counterparts involve the new company in its own network. If the counterpart is a leading distributor in a tight network, the chance is greater for rapid penetration for the new company. There might be a risk that the production capacity of the company is too small if the demand for quantities in the network becomes too high. The risk for overcapacity can be reduced by long-term supply contracts.

---

**Figure nr 1. Internationalisation and the network model**

(Source: Johansson & Mattson, 1998, p.298)
3.5.3.2 The Lonely International
When the company in the early starter becomes more internationalised it moves into the second stage, the lonely international. Companies at this stage have relationships with and in foreign countries. They possess knowledge to understand environments that differ in culture therefore failure are less likely.

An advantage of the international company is that it probably has wider resource adjustments. If the company is highly internationalised it can use its market investments to get a quick diffusion of new products. It may use its positions to control its competitors’ internationalisation. Due to good knowledge in national nets the lonely international will more easily enter tightly structured nets abroad. Therefore, the lonely international is not as dependent on similarities between markets as the early starter. Since the lonely international has more resources and experiences it is easier to make heavy investments often required to enter a tightly structured production net. It also has a better position to take over companies in structured nets or establish relationships with such companies.

Suppliers, customers and competitors do not initiate further internationalisation, as in the early starter, since they are not internationalised. The companies at the lonely international stage use its relationships in other national nets, they may function as bridges to those nets for that companies’ suppliers and customers. Companies may get advantages if they are internationalised before their competitors, particularly in tightly structured nets, because they have developed network positions before their competitors.

3.5.3.3 The Late Starter
A company can indirectly have relationships with foreign networks if its suppliers, customers and competitors are internationalised. Customers, suppliers and complementary suppliers can “force” the company to enter foreign markets. The late starter does not necessarily have to go from the nearby market to the distant market. The step abroad can be quite large in the beginning. The company uses domestic market investments as assets when it goes abroad. Competitors may already have occupied the nearby market.
There is a greater need for co-ordination in a highly internationalised production net, which means that the late starter needs to establish sales subsidiaries earlier than the early starter. Small companies that go abroad in an internationalised world have to be more specialised, more adapted to customers’ demands and adjusted to problem solutions in specific sections of the production nets. If the company requires close contact in planning and technical development it may be necessary to start local production early. It is more difficult for a company that has become large at the domestic market to find a niche in highly internationalised nets. A possibility for large firms, often less specialised, to become international in a net is through acquisition or joint venture. One disadvantage for the late starter against its competitors is the lack of market knowledge. An advantage for the late starter compared to the early starter is the higher level of trust within the network.

3.5.3.4 The International Among Others
In the situation of the international among others both the company and its environment are highly internationalised. If the company chooses further internationalisation it would only lead to marginal changes in extension and penetration. The company has possibility to build bridges between nets, which require that the lateral relations in the companies are strong. The international among others may gain from operations from one market to use production capacity for sales in other markets, which can lead to co-ordination in production by specialisation and increased international trade. When there is a high degree of international knowledge, there will be a strong need to co-ordinate activities in different markets, e.g. establish sales subsidiaries. In this situation national differences are smaller, innovations spread faster and relations via the ‘third country’ become more important. The possibility for ‘externalisation’ for the international among others is great, since companies tend to purchase components, sub-assemblies etc rather than manufacture them itself. The international among others faces opportunities for further internationalisation via ‘third countries’, e.g. a Swedish company may increase its penetration in a South American market because of its relationship with an internationalising Japanese company (Johanson & Mattsson, cited in Hood & Vahlne, 1998).
3.5.6 Summary

Networks exist both within and between companies in global, national and local scales. There are two main reasons for engaging in a network, increase revenue and work together against rivals. Another reason is to reduce costs through for example economies of scale/scope. Further reasons for networks are clusters of specialized resources and know-how in regional or industrial districts. Networks have advantages, compared to the price system, because it allow for close and concise co-ordination of investments and to overcome technological problems.

The four different situations in the network model are the early starter, the lonely international, the late starter and the international among others. The degree of internationalisation of the company and the degree of the internationalisation of the market determines the companies’ situations. A low degree of internationalisation of both the company and the market defines the early starter. The late starter is defined by low degree of internationalisation of the company and high degree of internationalisation of the market. A high degree of internationalisation of the company and low degree of internationalisation of the market characterise the lonely international. The last stage is the international among others where both the degree of the market and the company is high.

3.6 The Uppsala Internationalisation Model

3.6.1 Introduction

A number of Swedish researchers, Johanson, Wiedersheim-Paul and Vahlne, at the University of Uppsala studied the internalisation process during the 1970s. They were influenced by Penrose’s theory on the growth of the firm (Penrose, 1995). The Uppsala model seeks to explain and predict two aspects of internationalisation of the firm: the step-by-step pattern of industrial development within individual national markets and the expansion of companies across national markets, as they move from nations which are proximal to those which are increasingly psychically distant (Buckley & Ghauri, 1999). Johanson, Wiedersheim-Paul and Vahlne studied the internationalisation of Swedish manufacturing companies and developed a model of the companies’ choice of market and form of entry when going abroad. It is a dynamic model that describes
the internationalisation of the company as a process. They were also influenced by Aharoni’s seminal study from 1966.

3.6.2 The Stage Model

The Swedish researchers interpreted the pattern in the internationalisation process they had observed in the Swedish companies. The first thing they noticed was that the companies had begun to operate abroad in a nearby market and then slowly penetrated markets far away. Another conclusion was that it appeared as the Swedish companies chose to enter new markets through export, instead of using sales organisation or manufacturing subsidiaries of their own. After several years of exports the company could establish wholly owned or majority-owned operations (Hollensen, 1998). The process is interplay between the development of knowledge about foreign market and operations on one hand and an increasing commitment of resources to foreign markets on the other (Johanson & Vahlne, 1990).

Johanson and Wiedersheim-Paul distinguished in 1975 four different modes when entering the international market.

Stage 1. No regular export activities (sporadic export).
Stage 2. Export via independent representatives (agent).
Stage 3. Establishment of a foreign sales subsidiary.
Stage 4. Foreign production/manufacturing subsidiaries.
The geographical dimension in this figure shows that companies enter new markets with successively greater psychic distance. Psychic distance can be defined by factors such as differences in language, culture and political systems, which disturb the flow of information between the companies and the market. Companies start internationalisation by going to these markets they can most easily understand, where they will see opportunities, and where the perceived market uncertainty is low (Hollensen, 1998).

The internationalisation process model can explain two patterns in the internationalisation of the company (Johanson & Wiedersheim-Paul, 1975 cited in Johanson & Vahlne, 1990). The first pattern is that the company’s engagement in the specific country market develops according to an establishment chain, e.g. at the start no regular export activities are performed in the market, then export takes place via independent representatives in the market, later through a sales subsidiary and eventually manufacturing may follow. This stage indicates an increasing commitment of resources to the market.

The second stage is when the company has an information channel to the market and receives superficial information about the market conditions. These activities will lead to more differentiated and wide market experience. According to the second pattern the companies enter new markets with successively greater psychic distance. Psychic distance can as earlier mentioned be defined by factors such as differences in language, culture, political systems, which disturb the flow of information between the firm and the market (Vahlne & Wiedersheim-Paul, 1973 cited in Johanson & Vahlne, 1990).

3.6.2.1 Three Exceptions
The study of the Swedish companies shows that market commitment often will be made in small incremental steps, both in the market commitment dimension and in the geographical dimension (Hollensen, 1998). There are three exceptions; the first one is companies that have large resources experience small consequences of
their commitments and can therefore take larger internationalisation steps. The second exception is when the market is stable and homogeneous, relevant market knowledge can be gained in other ways than experience. Thirdly, when a company has considerable experience from markets with similar conditions, it may be able to generalise this experience to any specific market (Johanson & Vahlne, 1990).

3.6.3 State Aspects and Change Aspects

![Figure nr 3. The basic mechanism of internationalisation: state and change aspect](Source: Johanson, Mattsson, Sandén & Vahlne, 1976, p. 36)

The state aspects are the resource commitment to the foreign markets - market commitment – and market knowledge about foreign markets and operations. The change aspects are decisions to commit resources and the performance of the current business activities. Market knowledge and market commitment are assumed to affect both commitment decisions and the way current activities are performed. These in turn change knowledge and commitment (Aharoni, 1966 in Buckley & Ghauri, 1999). The assumptions made in this model are that the companies strive to increase their long-term profit, which is assumed to be equal to growth. Another assumption is that companies strive to keep risk taking at a low level.

3.6.3.1 State Aspects

The state aspects of internationalisation are market commitment and market knowledge. Market commitment and market knowledge are assumed to effect decisions regarding commitment of resources to foreign market and the way current activities are performed.
**Market Commitment**

The concept of market commitment contained two factors, the amount of resources committed and the degree of commitment. The amount of resources could be operationalised to the size of investment in the market, while the degree of commitment refers to difficulty of finding an alternative use for the resources and transferring them to the alternative use (Hollensen, 1998). Resources located in a particular market can often be considered a commitment to that market. In some cases such resources can be sold and the financial resources can easily be used for other purposes (Buckley & Ghauri, 1999).

The degree of commitment is higher the more the resources are integrated with other parts of the firm and their value is derived from these integrated activities. An example of resources with a high degree of commitment is a marketing department with special product knowledge and established integrated consumer relations in a particular market.

**Market Knowledge**

Knowledge is an important factor because commitment decisions are based on several kinds of knowledge. First, knowledge of opportunities or problems is assumed to initiate decisions. Second, evaluation of alternatives is based on some knowledge about relevant parts of the market environment (Buckley & Ghauri, 1999). Internationalisation requires both general knowledge and market-specific knowledge. Market-specific knowledge is generally gained through experience in the market, where it can be transferred from one country to another. The Uppsala model stresses that it is important to have a direct relation between market knowledge and market commitment. Knowledge is considered a human resource and the better knowledge a company has about a market the more valuable are the resources and the stronger the commitment to the market (Hollensen, 1998).

Experiential knowledge is not transferable and is “closely associated with a particular set of circumstances” (Johanson, Mattsson, Sandén & Vahlne, 1976, p. 37). The relation to a consumer differs a lot, since every industrial buyer has unique characteristics. This is way established relations are valuable and it is also
a explanation of way sales subsidiaries often are established by the acquisition of the former agent.

3.6.3.2 Change Aspects
The change aspects that affect the state aspect are current activities and commitment decisions.

*Current Business Activities*
There is “a lag between most current activities and their consequences” (Buckley & Ghauri, 1999, p. 50). The longer the lag, the higher the commitment of the company mounts. It is reasonable to assume that the more complicated and the more differentiated the product is, the larger the total commitment as a consequence of current activities will be.

Current activities are also the prime source of experience. Experience can be gained both through hiring personnel with experience or through advice from persons with experience. It is possible to distinguish between company experience and market experience. “Persons working on the boundary between the firm and its market must be able to interpret information from inside the firm and from the market” (Buckley & Ghauri, 1999, p.50). It is only possible to interpret one kind of information for one who has experience with the other part.

It is to some extent possible to hire personnel with market experience and to use the profitably after some time in the market activities. A delay will occur with the need for the new personnel to gain the necessary experience in the company. The best way to obtain market experience is to hire a sales manager or a salesman of a representative or to buy the whole or a part of the company. This kind of experiences is often not for sale, then it has o be acquired through a long learning process in connection with current activities. This factor is an important reason why the internationalisation process often proceeds slowly (Buckley & Ghauri, 1999).
Commitment Decisions

The second change aspect deals with decisions to commit resources to foreign operations. Here Buckley and Ghauri assumed that decisions are made in response to problems and opportunities on the market. These problems are assumed to be dependent on experience from activities on the specific market. Other factors that play an important role in decision making is existing market risk and existing market uncertainty.

3.6.4 Criticism of the Uppsala Model

Since the Uppsala model was presented in 1977 there have been various criticisms of the theory. One criticism is that the model is too deterministic (Reid, 1983, Turnbull, 1987 in Hollensen, 1998). Other criticism related to the Uppsala model is that the model does not take into account interdependencies between different country markets (Johanson & Mattson, 1986 in Hollensen, 1998).

There have been many empirical tests related to the Uppsala model and the studies have shown that the internationalisation process model is not valid for service industries. Others have claimed that companies have lately seemed prone to leap-frog stages in the establishment chain, entering ‘distant’ markets in terms of psychic distance at an early stage. The internationalisation process generally seems to have speeded up. In 1990 Nordström made a test that confirmed this criticism. Countries like the UK, Germany and the USA have become more comment market for the first establishment of sales subsidiaries by Swedish companies than their Scandinavian neighbours.

“The leap-froging tendency not only involves entering distance markets” (Hollensen, 1998 p. 42). A company can also leap-frog some intermediate entry modes in order to move away from the sequentialist pattern and more directly to some kind of foreign investment.

Other criticism stated is that the Uppsala school is not valid in situations of highly internationalised companies and industries. “In these cases, competitive forces and factors override psychic distance as the principal explanatory factor for the firm’s process of internationalization” (Hollensen, 1998 p. 42). If knowledge of
transactions easy can be transferred from one country to another, companies with international experiences are likely to perceive the psychic distance to a new country shorter than companies with little international experiences.

According to Nordstöm, 1990 the world has become much more homogenous and that has lead to that psychic distance has decreased. As a result of this, resent starters can enter directly into large markets that are close to Sweden in a culture sense.

It has developed a market for knowledge about foreign markets. It is now possible to buy knowledge about legal and financial standards from international accounting companies and investment banks. Which make it easy to gain information about competitors, market potential, distribution system and possible entry modes. Companies have also quicker and easier access to knowledge about doing business abroad. It is no longer necessary to build up knowledge ‘in-house’.

3.6.5 Summary

During the 1970s a couple of Swedish researchers at the University of Uppsala developed the stage model that explains companies’ internationalisation process. The model is trying to explain the internationalisation process step-by-step in four stages. Factors that prevents companies from internationalise are geographical dimensions and psychic distance such as differences in language, culture and political systems. According to the Uppsala model the first stage is sporadic export and the last stage is foreign production/manufacturing units. There are three exceptions when companies do not follow the Uppsala model regarding large resources, stable and homogeneous market and considerable experience from markets with similar conditions.

The state aspects are the resource commitment to the foreign markets- market commitment – and market knowledge about foreign markets and operations. The change aspects are decisions to commit resources and the performance of the current business activities.
The Uppsala model has been criticised for being too deterministic and is not valid for service industries. The model is neither valid in situations of highly internationalised companies and industries. Another critic is the leap-frogging tendency when companies tend to enter distant markets at an early stage.

3.7 Hypotheses
3.7.1 Introduction

Eight hypotheses were developed from the theoretical framework. In order to make the hypotheses more foreseeable we divided them into three categories.

3.7.2 Transaction Cost Theory

H:1 The need for control of transactions is more of an obstacle in small companies’ internationalisation process than in large companies.

We have already established that the greater the degree of uncertainty the greater the advantage will be for the company to control the transactions itself. Since small companies often possess less resources than large, we thought that this would create an obstacle in the internationalisation process. Small companies have also fewer transactions than large and with less business partners.

H:2 The single most important location-specific factor when moving production abroad is labour costs.

Dunning, 1980 cited in Dicken 1992 argues, in his eclectic paradigm, that the single most important location-specific factor is labour. We thought that it would be interesting to see if this was the single most important location-specific factor that companies took in consideration when they were about to move production abroad, or if there were other equally important factors influencing.

3.7.3 Networks

H:3 The main reasons for engaging in networks are to co-operate against common rivals and to reduce costs.
According to Ebers, 2002 the motives for engaging in inter-organisational network relationship can be quite varied. To co-operate against common rivals and to reduce costs are mentioned as two of the most common reasons.

H:4 A company’s development is dependent on networks in its internationalisation process.

This hypothesis was developed solely on our curiosity to study if networks, in fact, have such a great importance as stressed in our studied literature and if the companies considered networks important in their internationalisation process.

3.7.4 The Uppsala Internationalisation Model

H:5 Swedish manufacturing companies begin their internationalisation process by establishing in the Nordic countries.

According to the stage model the Swedish researchers stressed that Swedish manufacturing companies began to operate abroad in a nearby market and then slowly penetrated markets far away. This model was developed in the 1970s and has lately been criticised for no longer being relevant. Our intention was to find out if this assumption was valid for our population.

H:6 Companies establish in the region of Western European industrialised countries when the Nordic region is covered.

As earlier mentioned the Uppsala model was developed in the 1970s when the East of Europe was still under the Communistic regime, and was not an open and available market for the Western companies. The Eastern Europe market has opened up since then, so we wanted to find out if this hypothesis still was valid.

H:7 Small companies have a higher propensity than large companies to follow the traditional establishment pattern when going abroad.
Since small companies have fewer resources than large and have less developed knowledge and experience of psychic distance, they are more likely to follow the traditional establishment pattern when going abroad.

H:8 Companies ‘leap-frog’ stages in the traditional ‘establishment chain’ of the Uppsala internationalisation model. (No regular export, independent representatives, sales subsidiary, manufacturing subsidiary).

One of the strongest arguments against the Uppsala internationalisation model’s validity is the leap-frogging tendency. This do not only concern entering distant markets, a company can also leap-frog some intermediate entry modes in order to move away from the sequentialist pattern and more directly to some kind of foreign investment.
CHAPTER 4

Empirical Method

In this chapter the empirical method of our study is described. Initially the research strategy will be explained. Further, the sample and limitations regarding the interviews are described. Then we shortly explain how the interviews were conducted and our response rate. Further, problems with validity, reliability and generalisability are presented.

4.1 Research Strategy

The purpose of this dissertation was to investigate if the existing theories of internationalisation could be applied on international manufacturing companies’ internationalisation processes, within the region of Skåne. We would try to explore similarities and differences between the companies’ choice of internationalisation. Further, our purpose was to investigate if there were other factors influencing a company’s internationalisation decision process.

There are two research approaches to choose between, inductive and deductive, according to Saunders, Lewis & Thornhill, 2003. The deductive part consists of the theoretical framework and the inductive part is the findings of other influencing factors derived from the interviews.

To answer the research questions we developed eight hypotheses. In order to test them we chose to do in-depth interviews. Since our purpose was not to generalise, but to study the companies in our setting, we chose to do face-to-face interviews in order to get a deeper understanding of the companies. At first, we intended to conduct a survey using questionnaires, but then we realised that we needed to get deeper answers to able to answer our research questions. Through the web-site www.foretagsfakta.se we looked at the population of international manufacturing companies within the region of Skåne, and our sample of 30 companies were collected.

Our samples consisted of companies with various age, size and degree of internationalisation. The aim was to use companies in both high-tech and non
high-tech industries. Another requirement was that it had to be manufacturing companies, mainly since we had difficulties to find service companies with headquarters in the region of Skåne. All of the companies in our sample were originally founded in the region of Skåne, with the only exception of Kron International that was founded in Stockholm and early moved to Vinslöv in Skåne. The main reason why we chose companies in Skåne was the limitations of money and time. Since our intention was to conduct in-depth interviews the companies needed to be located in the nearby market. The final respondents within our sample, that were interested in participating in the interviews, were Alfa Laval, Perstorp AB, Backer AB, Kron International and Furninova. These companies represent different industries. Alfa Laval, Perstorp AB and partly Backer AB are in the high-tech industry. Kron International and Furninova have a low degree of high-tech.

4.2 Sample
Since many companies are international according to our definition we had no problems finding companies suitable for our study. We wanted to have international manufacturing companies situated within the region of Skåne. Other factors in consideration were the size of the company, different industries and age and in different stages of their internationalisation process.

We chose to use a non-probability sampling since with probability sampling the chance, or probability, of each case being selected from the population is known and is usually equal for all cases. This means that we should have access to a complete list of all the cases in the population, from which the sample would be drawn. It is not possible, for us, to have a list of all international manufacturing companies within the region of Skåne. With non-probability sampling the probability of each case being selected from the total population is not known. By using a purposive sampling we were able to select cases that would best help us to answer our research questions.

Our aim was to do in-depth interviews at eight companies, where four companies would have a long international history and four companies would be in a relatively early stage of the internationalisation process. In order to find suitable
companies many companies’ homepages were visited to find out about different factors as age, size and degree of internationalisation. Our aim was to find companies with different internationalisation history and a mixture of small and large companies. Of interest was also to have both old and new founded companies. To find companies willing to participate in our study we sent out e-mails. The e-mail addresses were found at the Internet site www.foretagsfakta.se. We sent e-mails to 30 companies in hope to get five to ten positive respondents. Out of the chosen population 17 companies responded and five of these were interested in letting us interview them. Another four companies were willing to participate but not within our time frame.

4.3 Limitations
The research is limited to concern Swedish international manufacturing companies from the region of Skåne in different industries, since it was difficult to find Swedish international service companies in the region of Skåne available for interview. Other problems were time and finances that constituted limitations for visiting companies outside Skåne. Further limitations were that only five out of thirty companies were interested in participating in our study within the time line we set up.

It was difficult to grasp the underlying factors for internationalisation in the old companies as Alfa Laval and Perstorp AB. The interviewed persons were not present during the early internationalisation processes and their statements may have been subjective reconstructions of reality. Only one representative for each company has retold the internationalisation process during a relatively short interview. It is difficult to estimate the correlation between the actual and the stated versions of the processes. The study also had to be conducted solely on the companies’ terms.

4.4 The Interviews
To test our hypotheses we decided to conduct a case study, since a survey using questionnaires would not have provided us with deep enough information. Instead, we chose to do face-to face in-depth interviews. This gave us the possibility to ask resulting questions and to explain our questions when needed.
The e-mails we sent out were addressed to the market managers at the companies. We asked for one and a half hour interviews and this turned out to be a good estimation. This was a reasonable request of time both to fit the companies’ and our schedules. At Alfa Laval we met with the Market Manager, Martin Hermansson. At Perstorp AB we first met with Cecilia Håkansson, Informer, and then with Lars Eric Johansson, Vice President for Penta. Robert Nilsson, Market and Technical Manager, provided us with answers about Backer AB. Peter Ahlberg, one of the owners, informed us about Kron International and the owner of Furninova, Benny Nilsson, welcomed us at Furninova. All the visits started with a brief presentation of the companies. Then the interviewed persons spoke freely about the companies’ internationalisation process. Then we asked our 20 main questions which led to resulting questions. This was then followed by a discussion. Our interview was a mixture of a semi-structured and an unstructured interview. In semi-structured interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview. Unstructured interview are informal and are used to explore a general area in-depth, also referred to as in-depth interviews (Saunders, Lewis & Thornhill, 2003). We have already spoken about the advantages of interviewing, the disadvantages could be that the interviewer, in this case us, may influence the interviewee to respond in a certain way. A problem could be prestige bias when the interviewee would respond in a way to make him look better. Since we did not ask any ‘sensitive’ questions this is probably not a big problem in our study. (Körner & Wahlgren, 1996)

Over all, we think that we received quite good and relevant answers from the interviewed companies. We had expected the different companies to be more engaged in networks, both national and international, but we were provided with quite thin and short answers regarding this subject although we tried to ask and explain these questions in various ways.
4.5 Response Rate

We contacted 30 companies and 17 answered. Out of these five were interested in assisting us in our dissertation. Further, four companies responded that they could participate in an interview, but not within our time frame. The result was that five out of 30 companies participated.

The total response rate was 17%. The number of responses (5) was divided with the total number in sample (30) minus ineligible (0), which not met our research requirements. This sums up to the total response rate of 17%. The active response rate was 29%. The number of responses (5) was divided with the total number in sample minus (ineligible plus unreachable, which is the companies that did not respond at all). This adds up to the active response rate of 29%. (Saunders, Lewis & Thornhill, 2003)

4.6 Validity

Validity concerns the question if the “findings are really about what they appear to be about” (Saunders, Lewis & Thornhill, 2003). Validity is defined as to what degree the findings really measure what they are suppose to measure. A good research has high validity. We hope to get a higher validity by conducting interviews than sending out questionnaires since this reduces the risk of misunderstanding the questions.

4.7 Reliability

The degree of reliability is high if the result of the study will yield on other occasions and if other observers would reach similar observations. There is a risk of reliability in our study when it comes to the old companies Alfa Laval and Perstorp AB, since our interview persons may not have been fully updated with the companies’ earliest internationalisation stages. Some problems with reliabilities are, according to Saunders, Lewis & Thornhill, 2003:

- participant bias, which means that interviewees may have been saying what they thought their bosses wanted them to say. This is an inevitable factor.
- observer bias, which means that we may have interpreted the answers differently.

4.8 Generalisability

Generalisability concerns the extent to which the research results are generalisable; whether the findings may be equally applicable to other research settings. Since we conducted a case study of five companies our aim was not to generalise. We were not trying to produce a theory that was generalisable to all populations. Our aim was instead to try to explain what was going on in our particular research setting. (Saunders, Lewis & Thornhill, 2003)
CHAPTER 5

Interviews

The findings from the interviews are presented. Interviews were made with five companies, both small and large, in different industries. The companies are: Alfa Laval, Perstorp AB, Backer AB, Kron International and Furninova.

5.1 Presentation of the Companies
5.1.1 Introduction
We visited five companies of different sizes and in different industries. Our aim was to interview both small and large companies. Perstorp AB, with 2,000 employees and a yearly turnover of SEK 6 billion, focuses on specialty chemicals and materials technology. Backer AB in Sösdala within the NIBE industry has 3,000 employees. Backer has a yearly turnover of SEK 2.4 billion and focuses on three different product areas: element, heating and stoves. Alfa Laval with a yearly turnover of SEK 14 billion has 10,000 employees and focuses on food supplies, energy, life science and environment conservation. Kron International has a yearly turnover of SEK 60 million and 40 employees and focuses on the brush industry. Furninova has 620 employees and a yearly turnover of SEK 220 million. The company is operating in the furniture industry.

In the following text the five companies will be further described and we will present the findings of our interviews. This will lead to an analysis of the companies in Chapter six. In appendix 1 the questions we used for the interviews may be found.

5.2 Alfa Laval
5.2.1 Background
Gustav de Laval founded Alfa Laval in 1883 based on his brilliant invention of the continuous separator. Since then Alfa Laval has added heat transferring and fuel handling. The first product sold was a pump used to pump skimmed milk from the centrifugal separator. During his lifetime, Gustav de Laval acquired 92 Swedish patents and founded 37 companies. He was recognised as “The man of high speed”. In 1938 Alfa Laval introduced its first heat exchanger and moved the development and production of heat exchangers to Lund (www.alfalaval.com).
5.2.2 Modern History
In the early 1970s Alfa Laval acquired a Danish company. A few years later Alfa Laval started the construction of new offices and an international centre in Lund. This plant is the international headquarters, the site of the R&D department and the production site. To strengthen Alfa Laval’s core competence a number of acquisitions were made in 1982 in France, Germany, the U.S., Brazil and Great Britain. Tetra Pak, owned by the Rausing family, acquired Alfa Laval and in 1993 Alfa Laval became an independent industrial group. (Alfa Laval Customized heat transfer). Today, Alfa Laval has three product areas, heat transfer, separation and fluid handling (Alfa Laval plate heat exchangers).

5.2.3 Interview at Alfa Laval
We interviewed Mr. Martin Hermansson, market manager, at Alfa Laval.

5.2.3.1 Markets
The degree of internationalisation of Alfa Laval is very high since 92 % of turnover comes from abroad, and the internationalisation of the market is also high. The market consists of three or four main competitors and many small established and establishing companies. Western Europe accounts for a third of export and then comes Asia and North America followed by the Nordic countries. Central and East Europe, Latin America and others follow and constitute a fifth of all export. Alfa Laval has 20 production units in the U.S., France, China, India, Russia and Sweden. It also has service centres in 47 countries where a great deal of revenue is earned. The company has sales representations in 45 countries and sales companies in 50 foreign countries.

5.2.3.2 New Market Entries
According to Mr. Hermansson the main motive for a company to enter a new market is market potential. An important factor is low costs in setting up new facilities. Alfa Laval is investing heavily in new machines in order to be less labour intensive. The main goal for Alfa Laval is to be present at the key markets. Alfa Laval started exporting to Germany and the U.S. The company established production units earlier in Russia and China than their competitors did. Alfa Laval entered the Russian and Chinese market in the early 1990s through joint venture,
due to the Rausings’ sympathies and contacts in these eastern markets. Alfa Laval acquires market information from Frost & Sullivan that works interactively with clients to develop innovative growth strategies. Frost and Sullivan publish world-class market consulting information and intelligence on emerging high technology and industrial markets (www.frost.com/prod/servlet/company/info.pag). Alfa Laval keeps informed about the local market conditions through 45 internal sales representatives. Alfa Laval also tries to launch a customer-relationship programme. The main competitive advantages Alfa Laval posses are a strong international brand, technical know-how, high quality and effective logistics due to many production units and sales offices.

5.2.3.3 Problems and Possibilities Connected to Market Entries
Alfa Lavals’ products need a great deal of adaptation to different local markets. A simple example of this is differences in the electrical power used for the products in different countries. The possibility to use the knowledge from the home market is high. Today Alfa Laval has no major problems with psychic distance since the company has sales offices and production all over the world. To keep transaction costs low Alfa Laval uses netting. The Internet and intranets are other tools to lower transaction costs for information and knowledge. In a joint venture situation Alfa Laval tries to keep the finances in Sweden.

5.2.3.4 Networks
Mr. Hermansson states that Alfa Laval invests 3% of the revenue in R&D. The company is engaged in various networks, such as industry organisations and customers, for instance, Statoil, in order to lower costs and gain access to market shares. Further reason for networking is R&D and Alfa Laval has co-operation with the University of Lund. According to Mr. Hermansson social and informal networks are of great importance. He has many international contacts in Alfa Laval’s matrix organisation.

5.3 Perstorp AB
5.3.1 Background
Perstorp AB was started in 1881 by a young chemical engineer, Wilhelm Wendt, building a small plant for carbonisation of beechwood. Within a few years the company was producing a small variety of products, including charcoal, tar,
pyrolignic acid and acetic acid. In 1905, Perstorp AB built its first formalin plant, and a modern, world-class chemical industry was created. From the start the company was characterised by the strong emphasis on product development and eagerness to branch out, both in areas of activity and geographically. In the early 1900s Perstorp AB produced its first plastic products, making it Scandinavia’s first plastic industry. Perstorp AB also pioneered in the development of laminates, formaldehyde technology, polyalcohols and material technology for an increasing market (www.perstorp.com).

5.3.2 Modern History
In the 1970s Perstorp AB was introduced on the stock exchange. It was also then the high degree of internationalisation started. By its creative development philosophy the company diversified in fields as pharmaceuticals, medical technology, noise abatement, materials handling, Pergo flooring etc. Perstorp’s modern history has been characterised by a niche strategy striving for world leadership.

In 2001 Perstorp AB merged with Neste Oxo. The new company focuses on two main areas, speciality chemicals and materials technology. Half of the work force is located in Perstorp and half is located outside Sweden. They have production facilities in eight countries in Europe, North America and Asia (What’s so special about Perstorp?).

5.3.3 Interview at Perstorp AB
We interviewed Mr. Lars Eric Johansson, Vice President for Penta/Merchant Formaldehyde in Speciality Chemicals at Perstorp AB.

5.3.3.1 Markets
The degree of internationalisation of Perstorp AB is very high since 90 % of the turnover comes from abroad, and the internationalisation of the market is also high. Existing sales offices are located in Russia, Great Britain, France, the U.S., Brazil, Argentine, Japan, China, Korea, Singapore and India. Perstorp AB has production in eight countries: Sweden, Germany, the Netherlands, Belgium, Italy, India, Korea and the U.S. Factors influencing the choice of location of production
are the structure of the market, access to raw materials and gas, and closeness to harbours for easy transportation and low cost of shipping. Export includes as much as 100 countries. Europe accounts for 50% of export, NAFTA for 20% and the rest of the world for the remaining 30%. In the 1950s Perstorp started to export to Great Britain, Germany and Italy. In 1955 as a result of the Second World War and the threat of Russia, Perstorp sent four agents to Morocco, Egypt, Singapore and Brazil to explore new markets. One of them succeeded, and the Brazilian market was entered. Perstorp AB started in 1955 a production facility in Sao Paolo with 450 employees. In 1975 Perstorp made the first acquisitions in Great Britain, Germany and the U.S. in the form of expensive chemical facilities. During the 1980s the investments were concentrated within the walls of the European Union, and this was the decade Perstorp expanded the most. Perstorp started to niche within all business areas that lead to greater internationalisation. The most specific asset of Perstorp AB is technical know-how and the long history of the company. According to Mr. Johansson, Perstorp AB is able to produce anywhere in the world. It is the production costs that determine the location of production.

From now on we concentrate on the product Penta, in the business area Perstorp Formox, within Specialty Chemicals, to be able to reach a deeper focus on the internationalisation process. Penta is produced in Perstorp, Germany, the U.S and India, in Perstorp AB’s own facilities, and serves the whole world market from these locations. Perstorp chose to expand internationally through export from an existing facility. Then, if the market has potential, the company acquires a local facility abroad since it is less expensive than setting up a new facility. A smaller part of international sales consists of licensing of formalin, an ingredient of Penta.

5.3.3.2 New Market Entries
When it comes to acquiring market information Mr. Johansson states that Perstorp AB has agents all over the world. Today they posses knowledge about all markets, but earlier they used studies, agents and sales offices abroad to acquire market information. Sometimes they hired a third part to examine new markets. The main market information Perstorp AB is interested in is the costs of raw materials, energy and transportation costs. Factors of minor importance are low
labour costs, tax and customs duties. Perstorp AB’s main competitive advantage is economies of scale since fixed costs are divided on many products.

5.3.3.3 Problems and Possibilities Connected to Market Entries
Psychic distance, language barriers and culture differences were a problem 50 years ago when new markets were entered, but today this is a very global industry! Many of the customers are global and many business actors operate for example both the on European market and the Asian market. Perstorp AB can exploit the knowledge and experience from its home market when going abroad. One of the reasons is that they use standardised products not adapted to different markets. It is easier to transfer knowledge from the home market to similar markets such as the U.S, the Great Britain and Italy. It is more difficult and it takes longer time to establish facilities in India where more adaptations have to be made. To keep transaction costs low, for example for transfer of know-how there are internal transactions through hierarchy within the company, and external knowledge is seldom bought. Perstorp AB does not sell their know-how other than in joint ventures when prices are kept high.

5.3.3.4 Networks
Perstorp AB is engaged in different national and international networks, among them the organisation Cefic, the European Chemical Industry Council that represents, directly or indirectly, 29,000 large, medium and small chemical companies. It is an international association with scientific objectives (www.cefic.org). A national network Perstorp AB engages in is ”Svenska kemiföretagens intresseorganisation.” Mr. Johansson states that the main reasons for engaging in networks is cost savings, lobbying and common rules for health and safety preventions for the industry. Some R&D is commonly developed within networks. Perstorp AB is not engaged in networks so much due to production. Perstorp AB is engaged in networks with organisations authorising and controlling the industry for zero environmental effluent, zero injuries of employees, ‘green’ production and ISO-standards. The disadvantages with networking are democracy since the company sometimes has to obey decisions not always in favour to the company. It also takes time and effort to be involved.
According to Mr. Johansson, Perstorp AB participates in social networks such as local industry organisations.

5.4 Backer AB
5.4.1 Background
The Norwegian Christian Backer, the founder of Backer AB, emigrated to Canada and in Ottawa he built up a plant for experiments. In Canada Christian Backer developed a complete concept for production units and started selling licenses of his method. After the Second World War Christian Backer wanted to build up an activity in Sweden. Backer Elektro-Värme AB in Sösdala was founded in 1949. The products of Backer can be derived from the technical principle that Christian Backer took out a patent for, in the year of 1921. The company was started together with Nils Bernerup, the founder of NIBE-verken in Markaryd. The technical principle is based on a resistance wire that is positioned in the centre of a tube. The space between the wire and the tube is filled with magnesium oxyde. The element tube with the magnesium oxyde is then compressed and sealed. The electrical heating element is also known as the “Backer element” (www.backer.se).

5.4.2 Modern History
Backer set up a subsidiary in Norway in 1969. Twenty years later NIBE Industrier acquired NIBE and Backer from the Bernerup family, after which three product units gradually emerged. Five years later Backer acquired a 32% stake in Polish tubular element manufacturer OBR and a few years later Backer AB acquired operations in Danmark and transferred production to Markaryd. A sales and service branch was set up in Danmark and later, in 1997, Backer OBR became a wholly owned subsidiary within NIBE element. Backer focuses on three different business areas: element, heating and stoves.

5.4.3 Interview at Backer AB
We interviewed Mr. Robert Nilsson, Market and Technical Manager at Backer AB.
5.4.3.1 Markets
The degree of internationalisation of Backer AB is fairly high, 65 % of turnover abroad, and the internationalisation of the market is also fairly high. In Europe there are five main competitors and about 50 local manufacturers. Backer established production in Sweden 1949, Norway 1969, Poland 1994, The Czech Republic 2000, Italy 2002, Great Britain and China 2004. In 1969 Backer establishes the first production unit abroad in Norway to provide the Scandinavian market. In the 1970s Backer AB established a facility in France, which later was sold off and left is a sales office. Backer has sales offices in Germany and the U.S. The company entered Germany at a late stage, in the early 1990s. One of the reasons was that Backer AB had focused on the France market. Backer AB entered the Polish market at an early stage compared to its competitors. The reason why the company entered this market was that a Polish company contacted Backer for material supplies. At that time Backer AB did not see the Polish market as a potential market and for two years Backer AB turned the Polish offer down. However, as the Polish company tripled the production every year, Backer AB realised the potential of the market. The sporadic export turned into a deeper relation when Backer in 1994 acquired a 32 % stake in the Polish tubulator element manufacturer OBR. In 1997 the Polish company became a wholly owned subsidiary within NIBE heating.

5.4.3.2 New Market Entries
When Backer AB is about to enter a market they look at potential growth and the number of existing competitors in the new market. An important factor when establishing a new facility is low labour costs and an example of this is Czech Republic. The interesting market for future investments is the Eastern Europe, such as Russia, Estonia, Latvia, Lithuania and Poland. The main reason for entering the Baltic market is that Backer AB’s customers move production to these low cost countries. In order to supply the customers Backer AB needs to follow although sales is a bit slow there. When entering new markets Backer AB begins with export. At the moment the company is exporting to the Russian market, but Backer AB has sent a sales man to St. Petersburg and Moscow to establish customer relationships. About 50 potential customers were found and three of them will be in focus. New potential markets are the U.S and Canada.
since the climate is similar to the Scandinavian countries. The barriers for entering these markets may be energy political decisions where other modes of heating may be favoured. Other factors influencing is tradition.

The main market is Sweden and the main export market is France. Backer AB started with export to Norway and Finland where the company also acquired facilities. Further expansions were Denmark, Germany and France, which was mainly a coincidence. Using agents when entering new markets is not in accordance with Backer’s strategy as the products take quite long time to introduce. An exception was made as the German market was entered through acquisition. Further expansion has been made in China where a facility has been established in order to serve existing customers established in China. According to Mr. Nilsson Backer’s competitive advantages are a strong brand name and special products adapted to different markets since 98% of the product range is adapted to customers’ needs. Despite this, Backer AB may use technical know-how gained in the home market and transfer it to new markets. Further advantages are good quality and accuracy in delivery. To avoid problems with psychic distance, for instance in China, sometimes Backers choose to export through an English agent.

5.4.3.3 Networks
The market information is acquired through networks of contacts, such as SandvikCantal, but mainly the company gather market information on their own. To gain knowledge and keep transaction costs for know-how low all technology and know-how are available for all subsidiaries within NIBE and Backer AB. Backer AB acquires new knowledge through acquisitions and mergers. Another way to reduce transaction costs is through intranet and newsletters. Mr. Nilsson states that Backer AB engages in both national and international networks. Backer AB is involved in a network within the region of Sösdala with other technical international actors, for example, Autoliv. At the local level networks are used to gain knowledge and protection of environment. At the global level the advantages for engaging in networks are co-operation against common rivals and to gain further market shares. Global agreements may also give reduced costs of purchasing. According to Mr. Nilsson Backer AB develops most knowledge
internally. Some R&D is bought in projects and sometimes Backer AB needs to buy new technical know-how from the customers to be able to serve them with the right products. Social and informal networks are not of great importance according to Mr. Nilsson.

Mr. Nilsson ends our interview by stressing that very often coincidence is a more determining factor than strategy, when it comes to entering new markets.

5.5 Kron International
5.5.1 Background
Stockholms Borstbinderi AB was founded by Johan Peter Ahlberg in 1871. In 1909 the company was appointed to supply brushes to His Majesty, Gustav V. In 1927 the company moved its production from Stockholm to Vinslöv in Skåne in order to be closer to the beech forest. The Kron Tradename was introduced in 1945. About ten years later Kron started to produce plastic products and the following ten years the company replaced all its semi-automatic punching machines with fully automatic ones. In 1966 the company relocated its main office from Stockholm to Vinslöv and changed its name to AB Kronborsten. Later AB Kronborsten became Kron International.

5.5.2 Interview at Kron International
We interviewed one of the three owners, Mr. Peter Ahlberg of Kron International.

5.5.2.1 Markets
The degree of internationalisation of the company is low since 20 % of the revenue comes from abroad, and the degree of internationalisation of the market is also low. This industry consists of a couple of main competitors and many small competitors around the Nordic and European countries. The main market for Kron is Sweden and the main market abroad is Scandinavia. In Sweden Kron exports through wholesalers in order to keep distribution costs low. The strategy of Kron is to enter large chains of stores, such as ICA, Axfood and Coop. The market on Iceland is supplied through an old brush facility that delivers Kron’s products to the entire market. Export is the only mode of internationalisation for Kron International and all production is made in Vinslöv. However, some
products are imported from Malaysia and China, such as rubber gloves. Mr. Ahlberg states that production in other countries would make Kron less flexible, since production abroad requires control and a constant need to search for low cost production countries. Kron started to export in the 1950s. The first export was to the nearby markets of Norway and then Finland. Further export was made to Denmark and Iceland. Kron also has some export to Germany and this is a market of interest for further expansion. According to Mr. Ahlberg it is an advantage to have customers in the nearby market, since Kron can send sales agents to control and help the customers to promote the products in a correct way.

5.5.2.2 Problems and Possibilities Connected to Market Entries
Mr. Ahlberg finds it difficult to find new potential customers and to enter new markets. He states that Kron is mainly trying to find new customers in Scandinavia. In order to do so Kron participates in Ambiente in Frankfurt, which is the largest trade fair in Europe when it comes to household supplies. The participation in this trade fair led to a Japanese customer. Kron does not purchase any market information, nor do the company send out sales agents to examine the markets due to lack of resources. Instead the company get in touch with potential customers through mail and telephone. Sometimes customers call Kron to find out where the products are available. Sometimes Kron’s products are sold through another brush factory.

5.5.2.3 Psychic Distance
Mr. Ahlberg tells us about the many cultural differences between different markets when it comes to their products. In Scandinavia dish brushes are commonly used while they are not used in the U.S. and Asia. In Scandinavia products are very ergonomically shaped while this is not as developed outside Scandinavia. There are even differences between Sweden, Denmark and Norway, for instance the material cloths are made of and the mix of straw in the brushes. People in Norway and Denmark still like to use the old fashioned materials, or so we call them. Further there are major differences between Sweden and the Mediterranean countries. Japan could have been a potential market since the already established contact, but too many differences create a need for adaptations that are too costly for Kron. An example is that Kron’s toilet brush is impossible
to use in Asian bathrooms. An obstacle for entering new markets could be that Kron does not sell products separately as only the whole assortment is sold. Kron does indeed use the knowledge from the home market when entering a new market. A small part of Kron’s export goes to Qatar and Gran Canaria. The psychic distance is passed as Kron exports to a Swedish retailer in Qatar and to tourists in Gran Canaria.

5.5.2.4 Networks
Kron’s main competitive advantage is quality, good service and distribution system. According to Mr. Ahlberg Kron is not engaged in any formal networks. Kron lets ICA provkök test the products; the main reason is that it is easier to sell the products if it is labelled by ICA. Kron’s informal and social network consists of designers and “Hässleholms samarbetsgrupp”.

Mr. Ahlberg tells us that Kron would like to expand in Northern Germany but it is a difficult market to establish in, with many competitors, and Kron does not possess the resources to send an agent to Germany.

5.6 Furninova
5.6.1 Background

5.6.2 Interview at Furninova
We interviewed the owner of Furninova, Mr.Benny Nilsson.

5.6.2.1 Markets
The degree of internationalisation of the company is fairly high, namely 55 % of revenue abroad, and the degree of internationalisation of the market is high. Furninova has the main part of production in Poland, since production costs and labour cost are low. A small part of production is situated in Denmark, which is a strategic decision. Furninova acquired the facility in Denmark in 2003. Furninova started sales in Sweden, which still is the main market, and further on came sales in Denmark, Norway and Finland in 1995. The main factor to decide where Furninova should export is the contacts the company gets at trade fairs. One of the
countries Furninova had early export to was the United Arab Emirates. A Swedish agent, former employed by IKEA, set up stores and contacted Furninova. Furninova’s strategy is to export to retailers that later sell Furninova’s products. Furninova exports to Scandinavia, Iceland, the Netherlands, Great Britain, Germany, Austria, Dubai, Qatar, Kuwait, Jordanian and Saudi Arabia. Lately, Furninova has noticed an increasing demand for the products in Norway, Germany and the Netherlands. In the late 1990s export to Ukraine, Estonia, Latvia and Lithuania started. These markets are still quite unstructured and do not really have any chain of stores within the furniture business.

5.6.2.2 Problems and Possibilities Connected to Market Entries
Furninova adapts products to a certain amount, like fabrics, but the company always strives for a Nordic design. This company can transfer knowledge from the home market to distant markets. To find new customers Furninova participates in trade fairs, among them, the second largest in Köln, where buyers from all over the world participate. According to Mr. Nilsson Furninova’s main competitive advantage is high flexibility when it comes to fabrics and leather. The company has a very strong brand name for retailers in the furniture industry, but it is rather unknown for customers. Mr. Nilsson also considers the low labour costs in Poland as an advantage. According to Mr. Nilsson Furninova faces psychic distance to some extent. He states that most of the customers in the Arabian countries are Westerners and not Arabians so psychic distance is not a very big problem then. Since Furninova works with persons with many different nationalities in administration, such as Englishmen, Americans and Pakistanis this evens out the psychic barriers. Although, Mr. Nilsson states that the language is the barrier for entering the French market. In order to keep transaction costs low Norwegian customers pay to a Norwegian organisation and German customers to a German organisation and so on. Mr. Nilsson states that Furninova itself makes all product development.

5.6.2.3 Networks
Ideas for new products come from trade fairs, travels and a close co-operation with customers. When it comes to materials Furninova has co-operation with the suppliers. In the small city of Bjärnum there are about ten furniture stores and
Furninova has co-operation with some units within some of these companies when they are not directly competitive.

The next step for Furninova is to enter the British market and also Eastern Europe when the market there becomes better structured. He states that the American market is too tough and both currency and freight are obstacles. It is also hard to maintain control of transactions, over there.
CHAPTER 6

Analysis

This chapter presents the analysis of the hypotheses developed from chapter three, regarding the transaction cost analysis, the network approach and the Uppsala internationalisation model. Finally, we present new factors concerning companies’ internationalisation processes.

6.1 Analysis of Interviews
6.1.1 Introducing Comparison between the Five Companies
Three out of the five studied companies are to be considered very old. They started as early as in the 1800s. The oldest company is Kron international established in 1871 while Perstorp AB started in 1881 and Alfa Laval in 1883. In the second age category we find Backer AB established in 1949 and Furninova started in 1991.

When it comes to size there are big differences between the five companies. Alfa Laval is the largest, with a turnover of SEK 14 billion and 10,000 employees. Next comes Perstorp AB with a turnover of SEK 6 billion and 2,000 employees. Backer AB, a part of the NIBE industry, has a turnover of 2.4 billion and 3,000 employees. Furninova has a turnover of SEK 220 million and 620 employees. The smallest of the studied companies when it comes to turnover, SEK 60 million, and 40 employees is Kron International.

6.1.2 The Five Studied Companies’ History of Production
Kron International started under the name Stockholms Borstbinderi AB. Between the five companies this is the company that has hold on to the original product the most. The company still produces various brushes although it has added the assortment. The old companies Perstorp AB and Alfa Laval have changed almost their entire original production. The development of productions has gone from charcoal, acetic acid and plastic products to a high-tech chemical industry with two main areas, specialty chemical and materials technology. Alfa Laval started with the milk-skimming separator and has now four main areas; food supplies, life science, energy and environment conservation. Backer AB started with
element and has today three areas: element, stoves and heating. Furninova started with furniture and has not changed the product area.

When it comes to the degree of high-tech we consider Alfa Laval, Perstorp AB and Backer AB to some extent to be involved with more or less high-tech products, while Kron International and Furninova produce less technological products. We think that the degree of high-tech has been an underlying factor for expansion and internationalisation regarding Alfa Laval, Perstorp AB and Backer. The studied companies show great differences in the degree of internationalisation. Alfa Laval has the highest degree with 92 %, followed by Perstorp AB with 90 % while Backer AB and Furninova is found in between, with 65 and 55 %. The lowest degree has Kron International with 20 %. A conclusion to be drawn from this is that there seems to be a correlation between the degree of high-tech and the degree of internationalisation between the studied companies. It seems as if the companies with a high degree of high-tech also have a high degree of internationalisation. Another conclusion is that companies with a high degree of internationalisation exist in industries where the degree of internationalisation of the market also is high. Kron International has a low degree of internationalisation and acts in a market with low internationalisation.

6.1.3 The Steps of Internationalisation in the Studied Companies
The companies in our study that have a high degree of internationalisation have a long and gradual internationalisation process. For Alfa Laval and Perstorp AB the internationalisation process goes 60 years back in time. It has been difficult for us, during one-hour interviews, to grasp exactly what steps the companies have made during the internationalisation processes. It may not even be certain that the interviewed persons had the accurate knowledge about the earlier steps in their internationalisation process since they, of natural reasons, were not present at that time.

Alfa Laval started the internationalisation process with traditional export. Mr. Hermansson, stated that Germany and the U.S. were early important export markets. He claimed that the Nordic market also was an early entrance. During the 1970s and 80s foreign acquisitions constituted a major important part of the
company’s internationalisation process. The process started with Alfa Laval’s acquisition of a Danish company in the early 1970s. Thereafter, Alfa Laval acquired companies in France, Germany, Great Britain, the U.S. and Brazil. In the third internationalisation step Alfa Laval established in Russia, China and India with production facilities, apart from acquisitions and own facilities Alfa Laval has sales offices in about 50 countries and sales representatives in 45 countries.

Perstorp also started its’ internationalisation process through export. Early important export markets were Great Britain, Germany and Italy. Perstorp made a typical leap-frog, in 1955, when the company sent out agents to four different distant markets countries, Marocko, Egypt, Singapore and Brazil. One of the agents succeeded and a facility was build. The next faze of internationalisation was made in the mid 1970s through acquisitions in Great Britain, Germany and the U.S. Further internationalisation was made in the 1980s when the company expanded heavily through niching of product areas and concentrated their investments to countries within the E.U. Since the interviewed person Mr. Johansson represents the business unit Penta we limit our study of existing internationalisation process to this area. The company supplies the global market from production facilities in Sweden, Germany, India and the U.S. If a market has enough potential Perstorp AB acquires an existing facility rather than setting up their own, since it is cheaper. Perstorp AB may today according to Mr. Johansson set up production anywhere in the world.

Backer AB started the internationalisation process in 1969 through establishing a subsidiary in Norway, to supply the Scandinavian market. At the same time Backer established operations in France. In the early 1990s the company was established in the German market. Backer AB was at the same time contacted by a Polish company that wanted to co-operate. This led to the acquisition of the Polish company. Further, Backer has established production in the Czech Republic, Italy, Great Britain and China during 2000-2004. New potential markets are Russia, the U.S. and Canada. It seems as if Backer AB to a high extent internationalised their operations through starting production at the potential markets. Often the company has started up own facilities, except from the Polish market where facilities were acquired.
Kron International started the international process in the 1950s through export to Norway and Finland followed by Denmark and Iceland. In a later stage Kron International has also established export to Germany, a market the company is interested in working further on. Kron International has through its participation in trade fairs acquired a Japanese customer. Further, Kron International exports to a Swedish businessman in Qatar and to Scandinavians living on Gran Canaria. Kron International is the only studied company that builds its internationalisation on export and has no facilities outside Sweden.

Furninova’s internationalisation process is different from the other studied companies. Furninova has from the beginning had facilities in Poland and a small part of production in Denmark. The company exports its products to Scandinavia, Western Europe and some Arabian countries through an agent. Since the end of the 1990s some export goes to the Baltic countries and Ukraine.

6.2 Analysis of Hypotheses
6.2.1 Transaction Cost Theory

H:1 The need for control of transactions is more of an obstacle in small companies’ internationalisation process than in large companies.

We think that this hypothesis is valid. Kron International has a great need to control the transaction costs. The company has mostly established in the nearby market, the Nordic countries and Germany. One of the reasons for choosing these nearby markets is to maintain control over the products and make sure they are promoted in a right way. The main reason for only existing in the nearby market is that they posses knowledge about this market and do not need to buy information from another actor able to overprice and/or underperform. To avoid opportunism and moral hazard, in other words to be cheated from other business actors, Kron International keeps all production in Vinslöv. Mr. Ahlberg states that this is a way for the company to maintain control. An example that Kron International tries to keep control over transactions, when it comes to Sweden, is that the company only tries to sell products to chains of stores like ICA, Axfood and Coop. Instead of having transactions with hundreds of stores Kron International delivers products to these chains centrally in order to have fewer
transactions. This makes it easier for Kron to maintain control. Kron International uses the same strategy when exporting, for instance to Iceland, where the company delivers to a wholesaler. Mr. Ahlberg states that lack of control is a reason not to enter the Japanese market. When it comes to the other small company, Furninova, the need for control of transactions is not as high as for Kron International. However, the need is greater than for Backer AB, Perstorp AB and Alfa Laval. Furninova’s production is mainly located in Poland and a small part of production is located in Denmark. The facilities are wholly owned subsidiaries where internal control of transactions is achieved. When the Danish facility was acquired in 2003, knowledge could be transferred from the facility in Poland. Since Furninova does not have any sales offices and sales representatives Mr. Nilsson states that the lack of control over transactions is an obstacle for entering the U.S market.

Alfa Laval has 20 production facilities in six countries and services centres in 47 countries. Sales representations exist in 45 countries and sales companies in 50 countries. This makes Alfa Laval a highly internalised company. Mr. Hermansson stated as an example that if Alfa Laval were interested in establishment in Paraguay, the company could easily transfer knowledge from existing establishment in Uruguay. Due to large resources and a long internationalisation history Perstorp AB is also able for establishment everywhere in the world. Perstorp AB and Alfa Laval are very good examples of internalised companies that have chosen to invest abroad in own facilities rather than through, for example license. These companies’ firm-specific assets are technical know-how, which is an intangible asset and means that it is difficult to do business with. In order to avoid market participants ‘cheating’ behaviour as overpricing and/or underperforming these companies have chosen to organise transactions through hierarchy instead of the price system.

The conclusion to be drawn from this is that control of transactions for small companies may be an obstacle to internationalise due to lack of resources. It is an obstacle of minor importance for the larger studied companies since they are highly internationalised and have greater resources to overcome this problem.
H:2 *The single most important location-specific factor when moving production abroad is labour costs.*

This hypothesis is valid to some extent. Regarding this hypothesis we may only use four of the companies in our study since Kron International has no international production. Mr. Hermansson at Alfa Laval stresses that the most important factor when setting up a new facility abroad is low costs, but not low cost labour since Alfa Laval invests heavily in new machines, in order to be less labour intensive. Another factor influencing Alfa Laval’s decision of production location is to be present at the key markets. Another influencing factor is the possibilities for good transportation in the chosen locations. According to Mr. Johansson Perstorp AB is able to produce everywhere in the world. Factors that influence Perstorp AB’s choice of production location are the structure of the market, production costs as access to raw materials and gas and closeness to harbours for easy transportation and low costs of shipping. Mr. Johansson stress that labour costs is of minor importance.

Mr. Nilsson at Backer AB informs us that a factor of importance for the company’s choice of establishment of new facilities is low labour costs. This is one of the reasons why Backer AB produces in Czech Republic. Mr. Nilsson gives us a very interesting explanation of Backer’s presence in the Baltic and the Chinese market. Since 98 % of Backer AB’s product range is customer adapted they need to follow their customers when they move. This was the scenario when Backer AB established the facilities in China. The fourth company with production abroad is Furninova. The company’s main production is located to Poland and the main reason for this is low labour cost. The small part of production in Denmark is of strategic nature.

To conclude, half of our population stress low labour costs as an important location-specific factor when moving production abroad. Other location-specific factors are access to raw materials and, as both Perstorp AB and Alfa Laval mentioned, closeness to harbours.
6.2.2 Network Approach

H:3 The main reasons for engaging in networks are to co-operate against common rivals and to reduce costs.

We found that this hypothesis is valid to some extent for the studied companies. Mr. Hermansson, at Alfa Laval, states that the company is engaged in different networks. Alfa Laval has a network with Statoil, where the main reason is to lower costs and to gain market shares. Further reason for this company to be involved in networks is R&D and Mr. Hermansson states that this is an important factor. R&D is a recurring statement for involvement in networks and both Perstorp AB and Backer AB stress the importance of this factor. Another recurring factor for the three largest companies is cost savings and reducing costs. Perstorp AB also engages in networks due to factors as lobbying and developing common rules for health and safety preventions. Backer AB participates in networks to gain knowledge and protection of the environment. This company is the only one to state that co-operation against common rivals is a reason. To gain further market shares is another reason. Backer AB is involved in a network with its customers since the products are highly customer adapted. The company sometimes needs to acquire technical know-how from its customers to be able to serve them with the right products. According to the owner of Kron International, Mr. Ahlberg, this company does not engage in any formal networks. The other small company, Furninova, is engaged in a local network in order to gain information about foreign markets and potential customers.

To conclude, we found that a very important reason according to the interviewed persons for engaging in networks is to reduce costs. Only one of the interviewed persons stated that co-operation against common rivals was of importance. Other influencing factors of great importance, mainly for the technological companies, were R&D and to co-operate for environment and safety preventions. As Oliver stated cited in Ebers, 2002, to co-operate for environment and safety preventions, for example ISO-certification, may be a form of necessity for engaging in networks. Necessity is distinguished as companies that are required by law or regulation to establish relationships. Oliver also talks about reciprocity, which is
when companies co-operate to benefit from common goals or interests. An example of this may be companies’ engagement in networks for R&D.

H:4 A company’s development is dependent on networks in its internationalisation process.

This hypothesis has some validity in our study but has not been of crucial importance. Mr. Hermansson states that social network was of importance when Alfa Laval entered the Russian and Chinese market through joint ventures. The company entered these markets earlier than its competitors due to the contacts of the Rausing family. Without these contacts these market entries would have come far later. In order to gain new market information Alfa Laval is engaged in a network with Frost & Sullivan that works interactively with clients to develop innovative growth strategies. Alfa Laval is at the introducing stage of a new customer-relationship programme for closer contact with its customers. A current customer network Alfa Laval has is with Statoil. Further reasons for network engagement are to lower costs, gain access to market shares and R&D. We found that the same reasons are applicable on Backer AB. The most important motive for engaging in networks is a close co-operation with customers in order to adapt products in accordance with the customers’ needs. Tightly structured networks with customers have ‘forced’ Backer AB to follow customers to China and the Baltic market. The same reasons apply to Perstorp AB as for Alfa Laval but for Perstorp AB social networks do not seem to be important for the company’s internationalisation process. The motives for Furninova’s engagement in networks have mainly been social, which has led them to further expansions in the Baltic market due to contacts gained through the Polish facility. Most of the social networks are developed through trade fairs. Kron International’s development in the internationalisation process does not seem to have been dependent on networks according to Mr. Ahlberg.

The sum up, social networks have helped Alfa Laval in the internationalisation process when the company entered some markets. Backer AB has been ‘forced’ into new markets by their customers since they moved production. Social networks have also taken Furninova to new markets and further expansions.
6.2.3 The Uppsala Internationalisation Model

H:5 Swedish manufacturing companies begin their internationalisation process by establishing in the Nordic countries.

We found that the hypothesis is valid for the studied companies. It is very clear that Backer AB and Kron International have followed this pattern. Kron International started the internationalisation process with export to Norway and Finland, and then Denmark and Iceland. Backer AB began export to the Scandinavian market. Regarding Perstorp AB and Alfa Laval it has been a bit more difficult to determine the earliest stages in the companies’ internationalisation processes. According to the interviewed persons also these companies have in the beginning of their internationalisation process had export to the Nordic countries. However, other export countries have early been important for Alfa Laval, such as Germany and the U.S. The relatively new founded Furninova has also started through export to markets as Denmark, Norway, Finland and Iceland. The new, interesting aspect is that Furninova choose to start manufacturing products in Poland, which may partly be seen as a deviation from the hypothesis. It has not been possible for us to find out what considerations were made in the early internationalisation process of the two old companies, Perstorp AB and Alfa Laval. Since the interviewed persons stress that the potential of the market is one of the main reasons for entering a new market it is likely that this has been a determent factor in earlier stages.

To conclude, we find it very likely that the absence of psychic distance in combination with high market potential have been of decisive importance when beginning internationalisation. This is often valid when it comes to both export and establishment of own facilities. We think this hypothesis has a high validity when it comes to our five studied companies.

H:6 Companies establish in the region of Western European industrialised countries when the Nordic region is covered.

We found this hypothesis valid with a few exceptions. Alfa Laval bought, in 1970, a Danish company and twelve years later acquired companies in large Western European countries as France, Germany and Great Britain. However,
Alfa Laval made acquisitions in the U.S. and Brazil at the same time. Perstorp AB started export to Germany, Great Britain and Italy in the 1950s.

After establishing in Norway, 1969, Backer AB established in the French market. Since the 1990s and up until today Backer AB established parallelly in both a number of Western and Eastern European markets. In Western Europe countries as Germany, Italy and Great Britain were entered and in Eastern Europe countries as Poland and Czech Republic were entered. Then, Backer AB made the first non-European establishment, in China. Kron’s internationalisation has followed the hypothesis, after covering the Nordic market the company then entered the German market, while Kron International’s entrances on a couple of new markets may be characterised more as coincidences. When Furninova covered the Nordic market it also established in Western European countries as the Netherlands, Great Britain, Germany and Austria. Soon thereafter or partly parallel Furninova established in a couple of Eastern European countries.

Although the studied companies to a high extent have acted in accordance with the hypothesis, we may state that there is a tendency of the companies that lately have started internationalisation in the Western Europe to deviate from this hypothesis to some extent. The reason is that they have established in some Eastern European countries as Poland, the Baltic countries and Czech Republic at the same time as establishments in Western European countries were made. It is clear that this interest derives from quick political and economic changes in these countries as a result of the fall of the communism. This in a combination with good or increasing market potential within many areas and a lower degree of competition than in the Western European countries. Here to added a low degree of psychic distance led us to believe that Eastern Europe to a higher extent will be an alternative to establishment in Western Europe. Regarding Furninova the possibility to set up a facility in Poland has been of importance.

To conclude, companies tend to enter the Western European markets when the Nordic region is covered. However, there is a tendency for companies that have started internationalisation lately to establish in the Eastern European markets at the same time due to political changes.
H:7 Small companies have a higher propensity than large companies to follow the traditional establishment pattern when going abroad.

This hypothesis has a high degree of validity when it comes to our study. We think that there is a correlation between the size of the company and to what extent it followed the establishment pattern. Kron International, that is the smallest of the companies, has in our opinion followed the establishment pattern of the Uppsala model regarding the strategic establishments. The first export market for the company was the Nordic market and then later northern Germany. The middle companies, Backer AB and Furninova, follow the establishment pattern of the Uppsala model to a higher extent than Alfa Laval and Perstorp AB. As we earlier mentioned it has been more difficult to determine these companies’ earliest establishment patterns abroad.

H:8 Companies ‘leap-frog’ stages in the traditional ‘establishment chain’ of the Uppsala internationalisation model. (No regular export, independent representatives, sales subsidiary, manufacturing subsidiary).

We have found this hypothesis highly valid. Kron International is the company with the lowest degree of internationalisation and the company that has followed the ‘establishment chain’ of the Uppsala model the most. The company started with stage one with sporadic export to the nearby market, which was followed by stage two with export via independent representatives. Kron International has not established any foreign sales subsidiary or moved production from Sweden. Furninova began at stage four with production in Poland followed by stage two, export via independent representatives to Denmark, Norway, Finland and the Arabian market. This company has leap-frogged stage three. Alfa Laval has moved from export to sales subsidiaries and leap-frogged stage two and has later established foreign production. Perstorp AB started at stage one, sporadic export, and went to stage four by establishing production in Brazil. Thereafter stage three was entered with sales subsidiaries. Stage one was the first stage for Backer AB, which was followed by stage four with establishment of production in Norway, This was later followed by stage three and sales subsidiaries. Backer’s choice of export to China through an English agent may be seen as stage two.
To conclude, all the studied companies have leap-froged stages in the traditional ‘establishment chain’ of the Uppsala internationalisation model, except from Kron International.

6.3 Coincidence, an Important Factor in Companies’ Internationalisation Processes

Several of the interviewed persons have stressed the impact of coincidence on the companies’ internationalisation processes. Although the companies have rational market analyses and strategies for the internationalisation processes it turns out that coincidences have, in this study, an unexpected impact on the companies’ actual development of internationalisation.

We will present some examples where coincidence has influenced the companies. Backer AB’s early entrance on the Polish market, relative to the competitors, was not the result of a deliberate strategy. Instead Backer AB was contacted by a Polish company that pulled Backer AB into the Polish market. Another example where coincidence has influenced Backer AB’s expansion was the early establishment in the French market, which delayed the entry of the German market. Kron International participated in the trade fair Ambiente in Frankfurt in order to attract further Scandinavian customers, instead the company was contacted by a Japanese customer. Further, Kron International has through coincidence established contacts, via a Swedish businessman, in Qatar and Gran Canaria. When a former Swedish IKEA employee contacted Furninova the company the Nordic market was the main market. This led to establishment in the Arabian countries and these became an early export market for Furninova. To some extent we also consider Alfa Laval’s early establishments in Russia and China as coincidences rather than deliberate strategy. Through the ownership of the Rausing family Alfa Laval acquired contacts and knowledge about these markets.

To sum up, we may establish that the statements from the interviewed persons as well as our own conclusions show that coincidence seem to have a greater impact than expected, when we started to write this dissertation. If coincidence has a general impact on companies' internationalisation processes, as great as in our
studied companies, we think that this factor is of greater importance in reality than stressed in the studied theories.

### 6.4 Political Considerations and Changes Influencing the Internationalisation Processes

Another factor that we consider important in the internationalisation process is political considerations in addition to commercial considerations. Derived from the studied companies the following examples may be presented. If we made a correct interpretation of Mr. Johansson at Perstorp AB political considerations was of great importance when the company in the early 1950s, during the cold war, via agents investigated the possibility to establish production in a number non-European countries. Perstorp AB saw the risk of a threat from Russia and a possible invasion of Sweden. The most obvious impact of the studied companies’ internationalisation regarding political considerations and political changes has the last 15 years had. The fall of the Communism in the Eastern Europe and the introduction of market economy instead of *planned economy* in the former Communist countries have created new market opportunities. One example is Backer AB’s early establishment in Poland and Czech Republic. Further, the company points out Russia and the Baltic countries as important potential markets.

Furninova has right from the start mainly placed the production in Poland, which probably has been a crucial factor for the company’s quick expansion. In Skåne the company is ranked number 52 on a list of “gasellcompany”. The conditions for a “gasellcompany” are a combination of fast organic growth and good finances. (Dagens Industri, 23 November 2004, Appendix 2) Furninova has also established export to the Baltic countries and Ukraine.

As far as we are concerned the factors that have influenced the market condition the most in Eastern Europe the last decade, are the political changes and the following changes in the economic market. This applies at least to the Swedish small and medium sized companies’ possibilities to expand internationally. A new large nearby market has opened up both for sales and production for these companies. We believe that this change may continue to speed up due to the expansion of the European Union. In our opinion the effects of these political
changes have not been considered important in our theoretical framework regarding the internationalisation of Swedish companies.

6.5 Companies Tend to Follow Customers
A factor that tends to be influential, for some companies, is the companies’ existing customers’ strategic establishments abroad. According to Mr. Nilsson at Backer AB, the main reason for the company’s presence in the Baltic market is that Backer AB’s customers have moved production to this market. In order to provide existing customers with good service Backer AB tend to follow customers to new markets, even if sales to the new customers sometimes is slow. When we found the article “Småländskt företag följer efter kunderna till Kina” published in the newspaper Dagens Industri, 25 November 2004, (Appendix 3) concerning the company Exirgruppen, our interest for this factor increased. We think that this could be an effective internationalisation strategy, mainly for small and medium sized companies, to follow large existing customers abroad. The reason is primary to supply customers with good service and not to risk losing important customers, but also to reach new customers in the markets where the existing customers established. This fact may be the result of close co-operation in a network.
CHAPTER 7

Conclusion

*In this chapter we present the conclusions of the hypotheses and the research problem. Finally, we make suggestions for further research.*

7.1 Introduction

The purpose of this dissertation was to find out if our three chosen theories were applicable to the processes of internationalisation on international manufacturing companies in Skåne. Further, our purpose was to investigate if there were other factors influencing companies’ internationalisation processes.

To fulfil our purpose we studied different theories and factors influencing internationalisation, from which we developed eight hypotheses. To test them we conducted in-depth interviews on five companies.

7.2 Hypotheses

7.2.1 Transaction Costs

Our first hypothesis is valid. For the two small companies, Kron International and Furninova, great need for control of transactions prevent them from internationalisation to a higher degree than large companies. The problem was that small companies lacked resources more than large companies did. Large companies had a greater possibility to internalise transactions to maintain control within the company.

The second hypothesis was valid to some extent. In this hypothesis we could only use four of five companies. Furninova and Backer AB considered low labour costs as an important factor when moving production abroad, which has resulted in production in Poland and Czech Republic. Alfa Laval and Perstorp AB stressed other factors in consideration, such as access to raw materials and closeness to harbours.
7.2.2 Network Approach
The third hypothesis was valid to some extent. There were many motives for companies to engage in networks. To reduce costs was a factor of great importance in our study. Only one of the interviewed persons mentioned co-operations against rivals as an important factor. Other factors companies considered in networks were R&D and co-operation for environment and safety preventions for employees.

The fourth hypothesis has some validity in our study but was not of crucial importance. Social networks have helped Alfa Laval in the internationalisation process when the company entered some markets. Backer AB has been ‘forced’ into new markets by their customers since they moved production. Social networks have also taken Furninova to new markets and further expansions.

7.2.3 The Uppsala Internationalisation Model
The fifth hypothesis was valid in our study. Companies tended to go to the Nordic market first. The reasons were probably the absence of psychic distance in combination with high market potential. The hypothesis was supported both regarding export and establishment of facilities.

The sixth hypothesis was valid with a few exceptions. Companies tended to enter the Western European markets when the Nordic region was covered. However, there was a tendency for companies that had started internationalisation lately to establish in the Eastern European markets at the same time due to political changes.

The seventh hypothesis had a high degree of validity and we conclude that there was a strong correlation between the size of the company and to what extent it followed the establishment pattern.

The eighth was highly valid in our study. All the studied have made ‘leap-frogs’ in the traditional establishment chain with Kron International as only exception. The companies tended to leap-frog the establishment chain; no regular export, independent representatives, sales subsidiary and manufacturing subsidiary.
7.3 Conclusions related to our research problem and purpose

We have through our study found the answers to our research problem. The transaction cost theory, the network approach and the Uppsala internationalisation model explain companies’ internationalisation processes to some extent. The theories least applicable in our study have been the network theory and the Uppsala internationalisation model. We believed that networks would be considered more important for our studied companies’ internationalisation processes. The fact that only one person has been interviewed in order to interpret the company’s internationalisation process may be considered. The two most important forms of networks influencing our five companies were social networks and customer networks. The steps companies make in accordance with the Uppsala internationalisation model are the initial entrants on the Nordic market and then the Western European market. Lately, companies seem to enter the Eastern European market also at an early stage, often parallel to the Western market. The Uppsala internationalisation model was developed in the 1970s when the Eastern market was under the Communistic regime and was closed to the West of Europe. A theory with a high degree of relevance for explaining the studied companies’ internationalisation was the transaction cost theory, which explains why the large companies internalise.

Two new factors, for this study, that influenced the companies’ internationalisation decision processes arose, namely coincidence and political changes. The interest for coincidence arose when Mr. Nilsson at Backer AB stressed that this was a factor of strong influence regarding this company’s internationalisation. We became interested in finding out if this factor was valid in the other companies as well and we saw a tendency pointing in this direction. The statements from the interviewed persons as well as our own conclusions showed that coincidence seemed to have a greater impact than expected, when we started to write this dissertation. If coincidence has a general impact on companies' internationalisation processes, as great as in our studied companies, we think that this factor is of greater importance in reality than stressed in the studied theories.
The second factor we found was related to political considerations and changes. Perstorp AB was early affected by political factors, as a result of this the company chose to move production to Brazil in the 1950s. The last 15 years the importance of this factor has increased as a result of the fall of the Communism in Eastern Europe. A new large nearby market has opened up both for sales and production for companies. We believe that this change may continue to speed up due to the expansion of the European Union. In our opinion the effects of these political changes have not been considered important in our theoretical framework regarding the internationalisation of Swedish companies.

### 7.4 Further Research

After conducting this study we see possibilities for further research within companies’ internationalisation processes.

- It would be interesting to study a larger sample, not limited to the region of Skåne, in order to generalise.
- To conduct a study with companies in other countries and compare them with Swedish companies in order to find similarities and differences in the internationalisation processes.
- Developing a new model including our two “new” factors would be of great interest.
- Further research could also be to investigate the service industry and compare it to the manufacturing industry.
Bibliography

Books


New Jersey: Prentice Hall

**Articles**

Oxford University Press

Europe: Prentice Hall

New York: Croom Helm

University of Uppsala: Department of business administration

University of Uppsala: Department of business studies

Oxford University Press

**Newspapers**


**Internet**

http://www.alfalaval.com (online) cited 16 November 2004

http://www.backer.se (online) cited 16 November 2004

http://www.cefic.org (online) cited 20 November 2004

http://www.foretagsfakta.se (online) cited 28 Oktober 2004

http://www.frost.com/prod/servlet/company/info.pag (online) cited 20 November 2004

http://www.furninova.se (online) cited 16 November 2004
Interview persons

Hermansson. Martin, Market Manager, Alfa Laval, Lund, 11/11/04
Håkansson. Cecilia, Informer, Perstorp AB, Perstorp, 04/11/04
Johansson. Lars Eric, Vice President for Penta, Perstorp AB, Perstorp, 04/11/04
Nilsson. Benny, Owner, Furninova, Bjärnum, 15/11/04
Nilsson. Robert, Market and Technical Manager, Backer AB, Sösdala, 08/11/04
Appendix 1.

Questions

These were the main questions to the interviewed persons.

How would You characterise the degree of the internationalisation of the company, high or low, in relation to Your revenue? Is the degree of internationalisation in the market high or low?

What are the company’s international businesses?
Does the company produce in Sweden and export abroad or do you produce in facilities abroad and export from there to the markets? Or both?
If both, what underlying factors were determinant for this decisions?

What is the company’s specific asset?

In which markets do you exist and which is the main market?

In which markets did the company start export?
Why did the company choose these markets?

How did the company choose to expand? Why did the company choose that mode of expansion? Different for different markets? Has it changed over time?
How does the company gain information about new markets? What market information are you mainly interested in?

Does the company adapt products to different markets?

Which factors decide what markets the company will establish in? Are the factors different for different markets?

Did you enter the nearby market first?
Was psychic distance a factor of influence?

What competitive advantage does the company posses that made it expand?

Is it possible for the company to transfer knowledge from the home market to more distant markets?

What actions are taken to keep transaction cost low?

Is the company engaged in any network? International or national?
What are the advantages and the disadvantages?
Why do you engage in networks?
Is the company engaged in networks in order to gain R&D?
Is social and informal networks of great importance?