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- The internationalization of Swedish SMEs

Writers

Gino Sablic
Monika Duggal

Supervisor

Agneta Moulettes

Examiner

Veronika Tarnovskaya

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Gino Sablic

Monika Duggal

Abstract

Increasing globalization and decreasing trade barriers have created opportunities for Swedish companies to establish their activities in India. The aim with this dissertation is to explore if Swedish SMEs in the service sector follow the process suggested by the Uppsala Internationalization Model when establishing their activities in India.

In order to find out if Swedish SMEs in the service sector follow the process suggested by the Uppsala Internationalization Model, a multiple case study was conducted, adopting a qualitative approach. Three Swedish SMEs in the IT industry, that have successfully established their activities on the Indian market, were interviewed.

The results indicate that none of the companies in this study followed the internationalization process suggested by the Establishment Chain and the Psychic Distance. However, the examined companies in this study internationalized as suggested by the Basic Mechanism of Internationalization.

There is limited research on the internationalization processes of Swedish SMEs in the service sector when entering the Indian market. Subsequently, this study has contributed theoretically to exploring what factors are of importance for Swedish SMEs in the service sector when entering India. Furthermore, it has possibly contributed to the initial step of further research within the field of SMEs internationalization processes, should further research be conducted involving various internationalization models. In addition, this study has contributed by strengthening the existing research regarding the Uppsala Internationalization Model.

A suggestion to future research is to explore various existing internationalization models and to investigate what aspects of each model is applicable to Swedish SMEs.

Keywords: Internationalization, the Uppsala Internationalization Model, India, Swedish SMEs, service sector.

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1. Introduction

This chapter includes the background, problem, research question and purpose of this dissertation.

1.1 Background

Increasing globalization and decreasing trade barriers have made it easier and necessary for many companies to expand into foreign markets (Gaur & Kumar, 2009; Thoumrungroje & Tansuhaj, 2004). The trade barriers that previously existed in languages, time zones, politics, and cultures are decreasing, as the technological development has increased. The countries' economies are also becoming a part of the global system (Hill, 1994). Internalization is another word for geographical expansion of a company's activities across its home country border (Ruzzier, Hisrich & Bostjan 2006; Javalgi, Griffith & White, 2003). Globalization is frequently used when firms are operating on a global scale, not only in a few countries. Additionally, three factors drive the business globally. The first factor is the growth of low cost technology that connects people and locations. Second factor is the declining of trade barriers and financial deregulation. At last, some countries, that were closed areas due to the socialism, are now new markets and opportunities for growth and investment have been created (Ruzzier *et al.*, 2006). Through economic restructuring and liberalization, the geographical expansion can be done on these markets as well (Ruzzier *et al.*, 2006; Galan & Gonzalez-Benito, 2001).

In 2000, the U.S. Department of Commerce identified the largest emerging markets in the world, which in the study were, China, Hong Kong, Taiwan, India, Indonesia, South Korea, Turkey, Poland, Mexico, Brazil, Argentina and South Africa (Cavusgil, Ghauri & Agarwal, 2002). The population is growing in many emerging markets, resulting in higher purchasing power, while the world economy is becoming more stable. In addition, consumption is becoming more like in Western Europe and many companies establish their activities abroad. Especially in emerging markets where there is high

potential for new companies since many industries are unsaturated. Furthermore, a wide variety of barriers to successful export operations can be identified. Critical barriers in the process of internationalization are general market risks, commercial risks and political risks. General market risks include risks such as competition from other firms in foreign markets, language and cultural differences. Commercial risks account for currency changes, frauds, bankruptcy and so on. Political risks are restrictions, complexity of trade documentation, regulations and national export policy (Hollensen, 2007). According to the Swedish Trade Council (2010e), there are many opportunities for establishing activities in emerging markets, especially on the Indian market.

India has the second largest population in the world and is an important democratic country with a growing service sector and significant industrial capabilities (including nuclear and aerospace). Over the last three years, the Indian economy has been one of the world's fastest growing as the gross domestic product (GDP) has increased at an annual rate of approximately 7 % (Halepete, Iyer & Park, 2008). According to the World Bank, India is already the fourth largest economy in the world, if the economic size is measured by the purchasing power. There are many reasons why India is an emerging market. Firstly, India has an extraordinary educational system with institutes that are world-class (Aggarwal, 2009; Altbach, 2009). Secondly, English is the working language and a sign of higher education (Aggarwal, 2009; Ramanathan, 2008). Thirdly, many non-resident Indians who are participating in transferring capital, technology and management know-how are investing and moving back to India from western countries. Finally, because of high level of English speaking, India is becoming the customer service division for many US and European companies. Companies that are establishing in India are creating job opportunities and are contributing to the economic growth (Aggarwal, 2009). Over the last 20 years, India's average annual growth rate was approximately 6-7 % and the foreign direct investment was 10 billion dollars for the period 1990-2000 (Kalyanaram, 2009; Swedish Trade Council, 2010c). Together with China, India represents 40 % of the world's population and today one cannot ignore India as a market says Bengt Johansson, Office Manager for the trade council in Bangalore – India's and Asia's Silicon Valley. India is already one of the world's 15 largest economies with high level of English-speaking market. The high growth rate is to continue over the next 10-15 years, which makes India one of the world's top five

markets together with USA, Japan, China and Germany. In 2050, India will be in third place after China and USA (Swedish Trade Council, 2010d). The Indian economy has been deregulated since the 1990s (Aggarwal, 2009; Maniam, 1998) and this change is forcing Indian businesses to become more competitive due to increased competition (Aggarwal, 2009). Additionally, the recent economic success has come largely through domestic industries, which are considered to be as competitive as global brands, such as Infosys (Software), Bajaj Auto (automobile components) and Tata (Cars). In 2002, *Forbes* listed 200 of the world's best small companies, of which 13 were Indian firms. The domestic consumer consumption has also driven India's growth and accounts for approximately 64 % of India's Gross Domestic Product (GDP). Almost all the sustained successful countries like USA, Japan and countries in Western Europe have economies that are driven by consumer demand and consumption. Empirically, India is on the right way (Kalyanaram, 2009).

Since 1995, the Swedish Trade Council has been in India and their business concept is to help Swedish companies to do business, establish and grow on the Indian market. Sweden is rapidly growing as a trade partner for India. However, Sweden only represents 1 % of India's imports, which puts Sweden as India's 21st largest import country in 2008 (Swedish Trade Council, 2010b). Swedish establishments in India have occurred in four periods. The first period was in the early 1900s (companies such as Ericsson, SKF, Swedish Match, Asea). The second establishment period was in 1960-70's (classical Swedish industry, companies such as Alfa Laval, Tetra Pak, Sandvik and Atlas Copco). The third period was in 1980-90's (second wave of classical industrial, companies such as Volvo and Perstorp, but also purchasing organizations such as Ikea and H&M). Lastly, the recent establishment period occurred in the early 2000s, MNEs (multinational enterprises), such as, Volvo Cars and Scania, combined with SMEs (small and medium size enterprises) such as Systemair and Roxtec (*ibid*).

Export is very important to the Swedish economy as the country is small in terms of surface and population. Additionally, success in exports leads to more Swedish companies making the decision to expand their activities to emerging markets. The globalization gives companies in Sweden the opportunity to develop in emerging markets and simultaneously Sweden achieves a more significant role on the world map.

Moreover, an increase in exports contributes to increased welfare in the country. In Sweden, exports of services have increased. However, the majority of all Swedish exports are still goods (Bernstorp, Hjort, Hugo & Högberg, 2001).

The economic engine in India is the service sector, which now accounts for 54 % of the country's GDP and has an annual growth of approximately 7 %. The industry which has grown most rapidly in India is the IT industry. A study done by McKinsey shows that approximately 65 % of the world's offshore operations in the IT industry are in India (*ibid*). These aspects together with the deregulation in the early 1990s, have led to many foreign firms, in the IT industry, establishing their activities in India (Aggarwal, 2009). In addition, a company's expansion into foreign markets may assist to increase the overall competitiveness of a firm (Hollensen, 2007).

1.2 Problem

There are different approaches to enter a new market. The internationalization models which have been chosen for this dissertation are the Network model, Born globals and the Uppsala Internationalization Model. The Network model and Born globals will be explained in brief. However, the focus will be on Uppsala Internationalization Model. The Uppsala Internationalization Model has been the subject of research on numerous occasions by researchers all over the world (Johanson, Blomstermo & Pahlberg, 2002). Furthermore, not all researchers agree that the model is applicable to companies in the service sector (Hollensen, 2007). In addition, critics claim the Uppsala Internationalization Model is too deterministic and subsequently companies' internationalization processes cannot be affected by other factors (Johanson *et al.*, 2002). Studies have shown that the model is valid for rather large Swedish manufacturing enterprises, since the companies that initially followed the internationalization process suggested by the Uppsala Internationalization Model were large in Sweden prior to their establishment abroad (Johanson & Vahlne, 1977). Additionally, Forsgren & Hagström (2007) claim that several existing internationalization theories, including the Uppsala Internationalization Model, are based on manufacturing companies' internationalization experiences. Another issue is that many companies seem to leapfrog stages in the Uppsala Internationalization Model and its Establishment Chain. Furthermore, companies seem to enter distant markets

earlier than suggested by the Uppsala Internationalization Model and its Psychic Distance. Researchers have previously tried to explain the leapfrogging tendency mentioned above. However, in general, companies' internationalization processes seem to have speeded up (Hollensen, 2007). Furthermore, Hollensen (2007) and Moen, Gavlen, & Endresen (2004) argue that the world has become more homogeneous and the Psychic Distance has decreased, which indicates that the part of the Uppsala Internationalization Model that involves the Psychic Distance is possibly not contemporary. The above mentioned criticism of the Uppsala Internationalization Model together with the limited research done on Swedish SMEs in the service sector entering the Indian market was the inspiration to explore the Uppsala Internationalization Model and its applicability to Swedish SMEs in the service sector when entering India. Furthermore, the Uppsala Internationalization Model is explored in this study because the model is highly developed and has received high penetrating power. Moreover, the model was followed by Swedish manufacturing companies when the model was established. Hence, the aim with this study is to explore if Swedish SMEs in the service sector follow the process suggested by the Uppsala Internationalization Model when entering the Indian market.

1.3 Research question

The problem of limited research done on Swedish SMEs in the service sector and their establishment in India, leads to the aim of this dissertation. This study aims to investigate if the Uppsala Internationalization Model is applicable to Swedish SMEs in the service sector when entering the Indian market. In this case, the term applicable involves exploring if Swedish SMEs in the service sector follow the internationalization process suggested by the Uppsala Internationalization Model, when they establish their activities in India. Thus, the research question is:

Do Swedish SMEs in the service sector follow the process suggested by the Uppsala Internationalization Model?

1.4 Purpose

The Indian market is relatively new, especially for Swedish SMEs (Swedish Trade Council, 2010a). Therefore, this dissertation will explore the Uppsala Internationalization Model and what kind of process Swedish SMEs in the service sector utilize when they establish their activities in India. Hence, the purpose is to explore if the Uppsala Internationalization Model is applicable to Swedish SMEs in the service sector. This will be answered by interviewing three Swedish SMEs, which have successfully established their activities in India.

1.5 Outline

The structure of this dissertation consists of six chapters. The first chapter presents the background, problem, research question and purpose.

The following chapter, which is chapter two, includes research philosophy, choice of methodology, research approach, choice of theory, credibility, generalisability and finally research limitations.

Chapter three involves the theoretical framework, where the Uppsala Internationalization Model is presented in-depth together with criticism of it.

In chapter four, the empirical method is presented which consists of research strategy, time horizons, sample process, semi-structured interviews and operationalization.

Chapter five presents the sample selection, the analysis of the empirical findings and a conclusion of the analysis.

The last chapter, chapter six, contains a summary of the dissertation, concluding discussion, contribution and suggestions to future research.

2. Research method

The purpose of this chapter is to present the research philosophy and the selected choice of methodology. Furthermore, the research approach is discussed, followed by an explanation of the theoretical choice, credibility and generalisability. The final subchapter presents the research limitations of this dissertation.

2.1 Research philosophy

There are different ways of thinking about knowledge development: positivism, interpretivism and realism. The positivistic research philosophy involves an objective stance of the researcher when observing social reality and that the researcher draws general conclusions using the results of the research. When adopting this approach it is expected that the researcher embraces the role of a highly objective analyst using a structured methodology and a quantitative approach to statistical analysis (Saunders, Lewis & Thornhill, 2007).

However, interpretivistic researchers are highly critical of the positivistic research approach since they consider it impossible to draw general conclusions without considering circumstances in this complex world. For interpretivistic researchers generalization is not of importance since they consider each business situation as complex and unique. It is of higher importance to understand the details of a situation since people's actions are affected by different interpretations on the situations they find themselves in (*ibid*). The interpretivistic philosophy appears to have derived from hermeneutics. Hermeneutics is the study of interpretation theory and is a research method where interpretation and understanding of a reality or phenomenon are of essence. The subject for interpretation and understanding could be either written, oral or any aspect that could be interpreted, for example, body language of a human being (Gadamer, 1997; Ormiston & Schrift, 1990).

Lastly, the realistic research approach involves the belief that reality and social factors affecting people are independent of human thoughts and beliefs. The realistic researcher

argues that there is a possibility that social forces and processes affect individuals, without the individuals being aware of these factors. Furthermore, these factors have an impact on the individuals' interpretations and behaviours. This is the reason why this philosophy is most commonly used when studying human subjects as it shows an understanding of people's perceptions of socially constructed interpretations and meanings (*ibid*).

Since the aim of this dissertation is to understand how three Swedish SMEs in the service sector perceive their internationalization process, an interpretivistic philosophy has been selected. The internationalization process is considered to be a complex environment where each company in this study is unique. Hence, law-like generalizations will not be reached as an end product nor will a model be created as a result of this multiple case study.

2.2 Choice of methodology

Since an interpretivistic philosophy has been selected for this dissertation a qualitative approach is considered appropriate to adopt in order to collect the empirical material by conducting semi-structured interviews. Furthermore, a qualitative approach has been selected for this study in order to understand and interpret how the companies in this multiple case study perceive their internationalization processes. Since the perception of a company's internationalization process is a complex environment to investigate, a qualitative study is more suitable than a quantitative approach. Additionally, a quantitative study would not provide in-depth information and explanations to interpret. Semi-structured interviews are conducted with three Swedish SMEs in the IT industry. The companies in our selection have successfully established their activities in India and this source of primary information is considered to be most suitable to this dissertation.

2.3 Research approach

According to Saunders *et al.* (2007), there are two different kinds of research approaches: deductive and inductive. The deductive approach is based on already existing theories that are used to develop new theories and hypotheses. The researchers

use existing theories to create one or several hypotheses. Furthermore, the researchers collect and analyze data in order to test the hypotheses. The opposite is true when it comes to the inductive approach as the researchers start with developing a theory based on the analysis of the data collected.

In this dissertation the deductive approach is adopted. There is substantial existing literature in the field of internationalization, which will be used as a base in this dissertation.

2.4 Choice of theory

In the subject of internationalization there is substantial literature exploring different internationalization models. In chapter three of this dissertation the Network model and Born globals are introduced. However, the focus will be on the Uppsala Internationalization Model, since the model is highly developed and recognized. Furthermore, the model was followed by Swedish companies when the model was established and the model is very well known. In addition, the Uppsala Internationalization Model has received criticism from several researchers over the last 30 years. The above mentioned was the inspiration to exploring whether Swedish SMEs in the service sector follow the steps suggested by the Uppsala Internationalization Model when entering the Indian market. Hence, the theoretical framework is limited to in-depth explore the Uppsala Internationalization Model.

2.5 Credibility and generalisability

When searching for answers to questions while conducting research one needs to consider reducing the possibility of getting the answers wrong since this will reduce the credibility of the research. Attention should be paid to two aspects, *reliability* and *validity*.

2.5.1 Reliability

Reliability is about to what extent the study reaches the same results on other occasions and if other researchers would reach similar results. When conducting a qualitative

study, the reliability is concerned with the question: would other researchers reveal similar information (Saunders *et al.*, 2007)?

We have adopted an interpretivistic approach in this dissertation using semi-structured interviews to collect material from a complex and unique environment. Hence, we are not able to claim that the results reached in this dissertation can be replicated by other researchers. The crucial part in this study is the interviewees' experience of entering the Indian market which they shared during the interviews.

Furthermore, there are concerns regarding reliability when conducting semi-structured interviews. The two main concerns are interviewer bias and interviewee bias. The interviewer bias involves a situation where verbal or non-verbal behaviour of the interviewer creates bias in the approach the interviewee responds to questions. On the contrary, interviewee bias involves a situation where bias is created by the interviewee's perceptions about the interviewer. A reason for this may be that taking part in a semi-structured interview is an intrusive process since the interviewer's aim is to seek detailed explanations and answers (*ibid*).

In order to minimize the concerns with reliability both interviewers were very well prepared in terms of knowledge within the field of internationalization and one of the interviewers possesses internationalization knowledge from previous job positions. In addition, a convenient location for the interviewees was chosen for the interviews and the interviewers investigated what dress code was appropriate in order to wear suitable clothing during the face to face interviews. Furthermore, the semi-structured interviews were opened in the following manner: firstly, the interviewee was thanked for participating in the study. Secondly, interviewers introduced themselves, the topic of the study and Kristianstad University. Thirdly, the interviewers confirmed the previously agreed right to confidentiality and the interviewee's right not to answer any question. The following step involved an explanation to the interviewee of what would happen with the collected material and that the material would be shared with him. In addition, the interviewers asked for permission to digitally record the interview. Finally, an agenda was presented with topic headlines of the questions to be covered and that the time set off by the interviewee for the interview was sufficient. During the interviews, the interviewers aimed at asking questions in a very clear way. Moreover, the

interviewers tried to encourage discussion and provide a signal of attentiveness to the interviewees by keeping an encouraging tone of voice and maintaining an open posture, which involves trying to avoid closed arms.

2.5.2 Validity

Validity is about to what extent the findings measure what they were supposed to measure and if they are what they appear to be about. In other words, the validity refers to the degree the researcher gains access to the interviewee's experience and knowledge (Saunders *et al.*, 2007). Furthermore, high validity is dependent on the researcher's ability to clarify questions when needed and in addition to probe meanings of responses during a qualitative interview (*ibid*).

In this study the validity is not raised as an issue since the interviewees are considered valid sources and were highly involved and had key responsibilities when their companies entered the Indian market. In addition, the interviewers' abilities to clarify questions and probe meanings of responses during the interviews are considered to be sufficient.

2.5.3 Generalisability

It is suitable to discuss generalisability when the study can be generalized to a larger population. In order to generalize the study, the sample has to represent the whole population (Saunders *et al.*, 2007).

In this study the results cannot be generalized as a qualitative study has been conducted consisting of three SMEs. In other words, the sample does not represent the whole population.

2.6 Research limitations

Since a qualitative study is conducted in this dissertation the aim is not to generalize the findings. Hence, we consider a sample consisting of three Swedish SMEs in the service sector sufficient. Furthermore, limited time and restricted resources for this dissertation

would not allow a larger sample group or the opportunity to in-depth explore more than one internationalization model.

3. Theoretical Framework

This chapter includes the theoretical framework. A selection of internationalization theories are presented with focus on Uppsala Internationalization Model. The chapter ends with criticism of the Uppsala Internationalization Model.

3.1 Entering India and the service sector

The service sector is now the sector that is increasing the most in developed countries and in the global economy. Services have become the driving force (Javalgi *et al.*, 2003; Moen *et al.*, 2004; Kundu & Renko, 2005). Since the late 1980s, service sector companies have significantly grown by foreign direct investment and companies have linked their activities to the service sector (Alvarez-Gil, Cardone-Riportella, Lado-Couste & Samartin-Saenz, 2003). Thanks to the globalization of world markets, the opportunities for marketing services, internationally, have increased (Javalgi, *et al.*, 2003). In spite of the importance of the service sector on the global market, the amount of empirical research with reference to the internationalization of services remains low (*ibid*). More than that, international business literature has mainly explained how larger, established multinational manufacturing companies internationalize (Kundu & Renko, 2005; Javalgi, *et al.*, 2003; Alvarez-Gil *et al.*, 2003). Knight (1999) suggests there is a need for more research addressing the internationalization of services. In addition, the service providers are mostly from rising technology industries (Javalgi, *et al.*, 2003). Since last decade, India exports information technology, that is, IT services. The software industry in India has emerged as a vital element of the world software industry (Bharati, 2006). Despite of the Indian economy expanding rapidly as result of the deregulation, there are parts of the Indian economy that are regulated and protected from foreign competition that ban direct investment by foreigners. For example, multi brand retailers cannot own and operate their own stores in India, since the retailers are prohibited from direct investment in India (Halepete *et al.*, 2008). However, a solution to this is to join a partnership with a domestic company. For example, when Wal-Mart established in India, in 2005, the company announced a partnership with Bharti

Enterprises, which is India's largest mobile phone company (*ibid*). Additionally, a joint venture between a foreign retail company and an Indian company, is an alternative way of establishing in India. Furthermore, the large emerging market of India has created a new low cost market for foreign companies. Both service and product based companies are becoming aware of the opportunities in India and are increasingly internationalizing to the country (Enderwick, 2009). It may be possible that the barriers of entering the Indian market, as described above in Wal-Mart's case, have assisted India in becoming a favoured outsourcing destination. According to Raghuram (2009), in the late 1990s India offered a platform ready to be utilized for outsourcing of services, thanks to the low labour cost advantage and the availability of an educated workforce. This appears to have made outsourcing of services to India attractive to companies in western countries. Currently the outsourcing industry in India employs 1.6 million people and turns over 47.8 billion US dollars, of which 30 billion US dollars in the IT industry (Raghuram, 2009). Entering India for outsourcing purposes appears to be another way of conducting business in the country.

It appears that India is a rather interesting and simultaneously challenging market for companies to enter. In addition, it is a relatively new market to Swedish SMEs in the service sector. Hence, the choice was made to explore how Swedish SMEs in the IT industry establish their activities in India. Another reason for this choice is the limited research done on Swedish SMEs in the service sector entering the Indian market. Subsequently, the decision was made to explore if Swedish SMEs in the IT industry follow the internationalization process suggested by the Uppsala Internationalization Model. In the following subchapters, the Network model and Born globals are introduced. However, the main focus will be on the Uppsala Internationalization Model.

3.2 Internationalization theories

There are several internationalization theories such as the Network model, Born globals and the Uppsala Internationalization Model. The concept with the Network model is that a firm has direct or indirect contacts, so called bridges, between different firms and country networks. These bridges can be vital when entering new markets and connect the network through technical, economic, legal and personal reasons (Hollensen, 2007; Whitelock, 2002). Furthermore, a firm has a personal relationship with other actors such

as customers, suppliers, partners and these relationships represent the company's network (Johanson *et al.*, 2002). On the other hand, Born globals is the latest phenomenon. The aim of Born globals is the international market or the global market from the beginning of the company's birth. Born global firms see the world as a single place with unlimited opportunities and the firms are small, technology enterprises (Hollensen, 2007). Often the founders of Born global firms have had international experience that is useful to improve the company (Johanson, Flowers, Thermal & Pahlberg, 2002; Hollensen, 2007). According to Moen (2002), a majority of newly established export firms are Born globals. The Network model and Born globals are available and used by companies. However, the primary purpose with this dissertation is to explore the Uppsala Internationalization Model. Therefore, the Network model and Born globals are not explained in-depth. The focus is on the Uppsala Internationalization Model as the model is well known, highly developed and has received high penetrating power as well as it was followed by Swedish companies when the model was established. In the following subchapters the aspects of the Uppsala Internationalization Model will be discussed in detail.

3.3 The Uppsala Internationalization Model

Researchers Johanson, Vahlne and Wiedersheim-Paul, all operating at Uppsala University in Sweden, developed a model for the internationalization process: the Scandinavian School of Management, or as it is called in this dissertation, the Uppsala Internationalization Model (Johanson *et al.*, 2002). The model is based on a study of large Swedish manufacturing companies' establishments abroad (Forsgren *et al.*, 2007; Johanson *et al.*, 2002). According to Forsgren (2001) and Forsgren *et al.* (2007) there are three important assumptions with regards to the Uppsala Internationalization Model. Firstly, shortage of market knowledge is a substantial difficulty when a company is establishing activities in a foreign market. Nevertheless, this knowledge can be acquired. The acquisition of knowledge can take place by being active in the new market and subsequently make available this tacit market knowledge (Forsgren, 2001). This knowledge is rather to be acquired through experience and not through market researches and literature (Forsgren, 2001; Johanson *et al.*, 2002; Whitelock, 2002). In addition, the company becomes more closely connected to the foreign market by operating in it and subsequently the resources can better be used for the right purposes

(Forsgren, 2001). Secondly, decisions concerning foreign investments are made gradually in stages as the market is perceived as uncertain. Hence, this can be seen as acquiring knowledge through learning by doing. The perceived risk of a market will become lower as the foreign market knowledge increases within the company. This leads to higher level of foreign investment into that market (Forsgren, 2001; Forsgren *et al.*, 2007). Finally, knowledge is dependent on individuals. Consequently, it is difficult to transfer the knowledge to other individuals. Hence, the difficulties and opportunities in a foreign market will most likely be discovered by the individuals working in it. These individuals are inclined to reach a natural solution to a problem or a natural approach to an opportunity as a result of the adaptation and extension of present operations. Furthermore, experience is supposed to be the driving force in the internationalization process as it generates business opportunities (Forsgren, 2001).

3.3.1 The Establishment Chain

The researchers at Uppsala University discovered that companies begin to establish their activities abroad in markets nearby the domestic market. The following step is to continue gradual establishment of activities in markets further away (Hollensen, 2007). Furthermore, as displayed in figure 3.1 below, it appeared that the expanding companies initially establish their activities in foreign markets through sporadic exports (Hollensen, 2007; Johanson *et al.*, 2002). Following the initial sporadic export activities, the companies export through an independent intermediary, for example, an agent. The third step involves establishing a sales subsidiary in the country and the final stage is to manufacture within the foreign market (Johanson *et al.*, 2002; Whitelock, 2002). According to research, it is rare that companies place a large organization in the market initially (Hollensen, 2007). Hence, the researchers at Uppsala University came to the conclusion that there are four stages in the Establishment Chain as displayed in figure 3.1 (Johanson *et al.*, 1977; Buckley & Ghauri, 1999; Johanson *et al.*, 2002; Whitelock, 2002; Moen *et al.*, 2004):

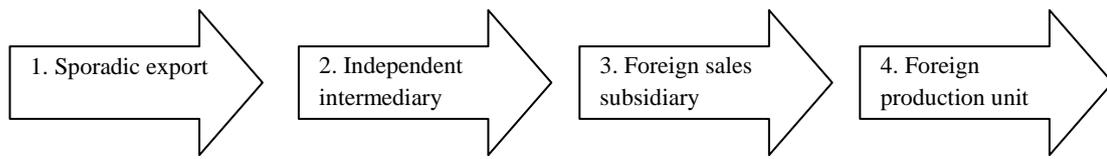


Figure 3.1 The Establishment Chain
(Based on: Johanson *et al.*, 2002, p. 47.)

Each stage in the Establishment Chain is based on the limited knowledge of the expanding companies. In each stage of the Establishment Chain, the level of knowledge within the company increases and the more knowledge a company acquires, the more it advances in its internationalization process (Bell, 1995; Johanson *et al.*, 2002).

3.3.2 The Psychic Distance

Market knowledge is a crucial factor when companies enter foreign markets (Johanson *et al.*, 2002). Hence, companies develop their activities abroad gradually based on their knowledge development. There are two kinds of knowledge that can be acquired. Firstly, there is objective knowledge, which is the kind of knowledge that can be taught. Secondly, there is experiential knowledge, which can only be gained through personal experience. The latter is considered to be a crucial kind of knowledge in this case (Whitelock, 2002; Johanson *et al.*, 2002).

The development of knowledge is explained with the concept of Psychic Distance (Whitelock, 2002). Psychic Distance is the “the perceived degree of similarity or difference between two markets, according to cultural and business issues” (Hollensen, 2007, p. 64). The differences may be in language, culture and political systems that disturb the flow of information between the company and the market (Johanson *et al.*, 1977; Buckley *et al.*, 1999; Johanson *et al.*, 2002; Hollensen, 2007). Furthermore, companies initially expand into markets with less Psychic Distance and then enter markets with greater Psychic Distance as market knowledge is being acquired, which can be seen in figure 3.2 (Bell, 1995; Hollensen, 2007; Whitelock, 2002; Buckley *et al.*, 1999). Figure 3.2 indicates a relation between market knowledge and market commitment, where the commitment to the market increases as the market knowledge

becomes stronger. The commitment to the market can be measured by the size of investment in the market i.e. marketing, organization and personnel. It can also be measured by the degree of difficulty of finding an alternative use for the resources committed to the market (Hollensen, 2007). The figure below also shows that additional market commitment is made in gradual fashion, both in the market commitment aspect and in the geographical dimension.

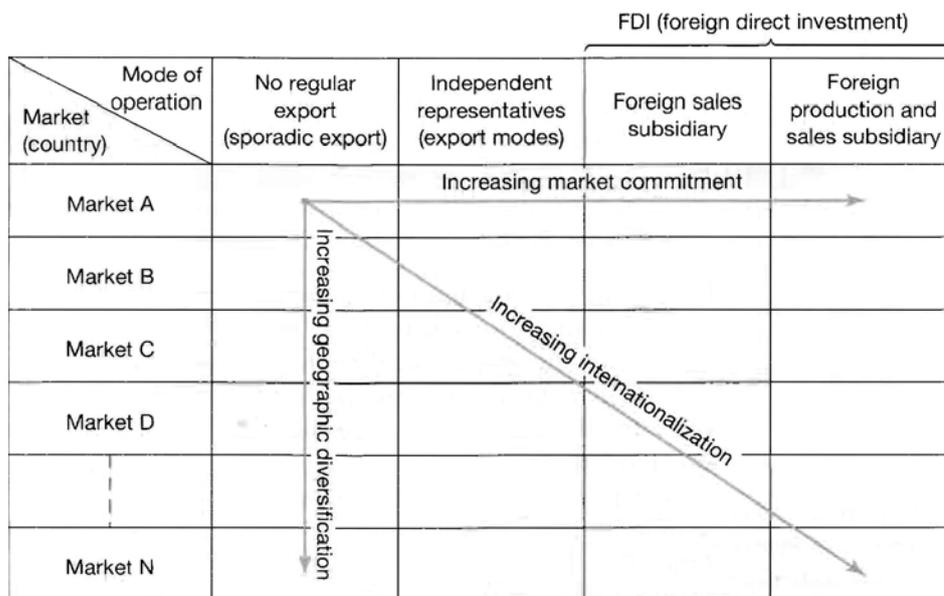


Figure 3.2 Internationalization of the firm: an incremental (organic) approach (Source: Hollensen, 2007, p. 64. Adapted from Forsgren and Johanson, 1975, p. 16.)

However, there are three exceptions, to the above mentioned, according to Hollensen (2007). Firstly, companies that have large resources can take larger internationalization steps. Secondly, market knowledge can be acquired in different ways than from experience when market conditions are stable and homogeneous. Finally, when the company has relevant experience from markets with similar conditions it might be able to generalize this experience to other markets (Hollensen, 2007).

According to Hollensen (2007) and Buckley *et al.* (1999), companies begin to expand into markets they most easily understand as the opportunities will be recognized and the market uncertainty will be perceived as low. Johanson *et al.* (2002) claim that the characteristic behavior of Swedish companies is to initially enter Scandinavian countries as the differences between the domestic market and the foreign market is perceived as low. The next step involves entering countries in Europe such as Germany, Great

Britain and the Netherlands, which are markets with greater Psychic Distance to the Swedish market compared to the Scandinavian markets. After entering European markets, the Swedish companies try to enter markets with even greater Psychic Distance, that is, markets outside of Europe (*ibid*).

3.3.3 *The Basic Mechanism of Internationalization*

In order to clarify the findings made in the research mentioned above, an expansion of the Uppsala Internationalization Model had to be created to explain a company's internationalization process (Johanson *et al.*, 2002). Johanson *et al.* (2002) refers to the expansion as *IP-modellen* in Swedish and in this dissertation it is referred to as the Basic Mechanism of Internationalization. Two aspects were crucial as the foundation of this expansion to the Uppsala Internationalization Model. Firstly, one assumption is that most companies were rather small, internationally, when expanding abroad. Secondly, the companies' international development was dependent on their growth on foreign markets. This theory was influenced by Penrose's (1959) observations that company growth is a result of their ability to utilize, combine and develop resources. In this aspect the knowledge of how to utilize the resources was critical, not the resources themselves. The second aspect deals with the knowledge the companies should possess regarding resources and the market environment (Johanson *et al.*, 2002). A great part of companies' operations aim to develop this knowledge, as limited knowledge can be harmful when making business decisions (Buckley *et al.*, 1999; Johanson *et al.*, 2002).

A mechanism was established with these two aspects as its foundation, which is displayed in figure 3.3 below. The mechanism stipulates that internationalization processes are interactions between knowledge development and foreign market commitment (Johanson *et al.*, 2002; Forsgren *et al.*, 2007). The model contains four interconnected concepts which aim to explain a company's internationalization process. Two of the concepts represent the change aspects of the internationalization process and explain how the internationalization process occurs, *commitment decisions* and *current activities*. The other two concepts are *market knowledge* and *market commitment* which are state aspects that describe what level of internationalization the company is on (Johanson *et al.*, 1977; Johanson *et al.*, 2002). A basic idea which is displayed in figure

3.3 below is that *market knowledge* and *market commitment* are assumed to affect *commitment decisions* and how they are carried out during a specific period (*current activities*). Figure 3.3 also shows that *commitment decisions* and *current business activities* will subsequently affect the *market knowledge* and *market commitment* at a later stage (Johanson *et al.*, 1977; Forsgren, 2001; Johanson *et al.*, 2002).

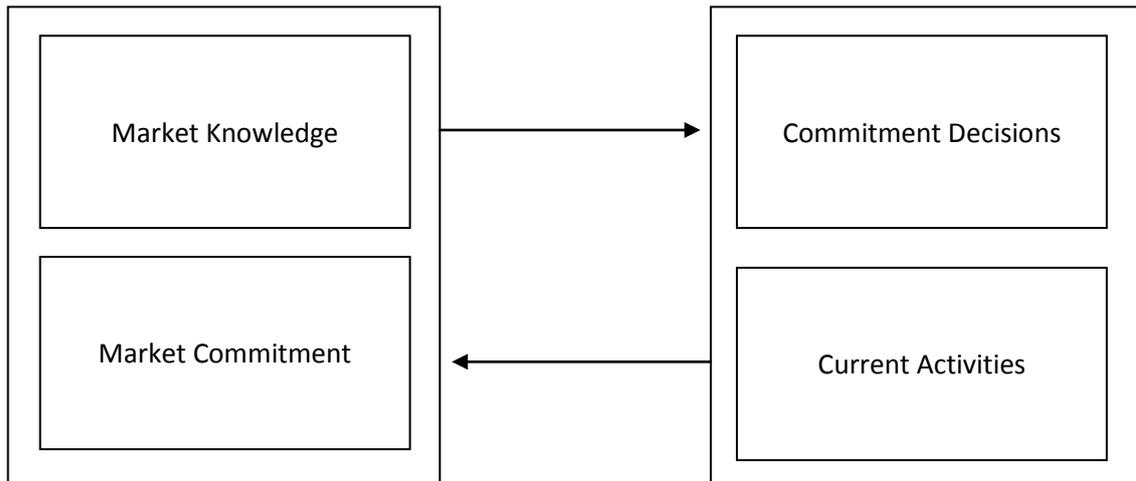


Figure 3.3 The Basic Mechanism of Internationalization – state and change aspects
(Source: Johanson, J. and Associates, *Internationalization, Relationships and Networks*, 1994, p. 54.)

Forsgren (2001) suggests that using the above mentioned four concepts as the foundation in the Uppsala Internationalization Model explains a company's internationalization process, which is:

1. Not to invest in several markets simultaneously but to focus investments on one or a limited number of markets nearby the domestic market and
2. Investments into a market are done in a cautious and sequential manner. They are done simultaneously as the companies' personnel develop knowledge in that specific market. Furthermore, companies are expected to enter new foreign markets with successively greater Psychic Distance and their investments into the specific market follow the Establishment Chain (mentioned in chapter 3.3.1).

In the following four sub-chapters the four aspects of the Basic Mechanism of Internationalization are presented.

3.3.3.1 Market commitment

The concept of market commitment is composed of two concepts. The first concept is the amount of resources the company has committed to a market. The second concept is the degree of that commitment, which consists of the degree of difficulty of finding an alternative use of the resources already committed to the foreign market (Johanson *et al.*, 1977; Johanson *et al.*, 2002). An example of a strong market commitment is a sales organization which is specially focused on its products and has established integrated customer relations. In addition, it is difficult to find an alternative use of the resources (Johanson *et al.*, 2002).

The market commitment can also represent specific knowledge about a market or a customer segment in that specific market. The more specific the knowledge is, the higher the commitment to the market. Furthermore, the market commitment is important to the model as it explains that the expanding company is exposed to a higher risk if problems occur in the market and the market commitment is high, for example, if an agent wants to terminate the relationship with the company. Market commitment is closely connected to the concepts *market knowledge* and *current activities* as the concept *current activities* gradually enhance the market commitment on the market. These attributes of the internationalization model describe that a company's development is dependent on its previous actions – its history (Johanson *et al.*, 2002).

3.3.3.2 Market knowledge

There are two kinds of knowledge that can be acquired. Firstly, there is objective knowledge, which is the kind of knowledge that can be taught and acquired from books for example. Secondly, there is experiential knowledge, which can only be gained through personal experience (Johanson *et al.*, 1977; Whitelock, 2002; Johanson *et al.*, 2002). The latter is more difficult to share with other people as each person is unique and reacts differently to certain situations. In this way companies are very similar to people and understanding for a specific company can be established only through direct contact with it (Johanson *et al.*, 2002). When a company is establishing its activities in a foreign market it is critical for it to acquire the experiential knowledge (Johanson *et al.*, 2002; Whitelock, 2002). The objective knowledge helps the company to establish

theoretical business opportunities but the experiential knowledge is associated with intuition and often referred to as tacit knowledge (Johanson *et al.*, 2002).

The Basic Mechanism of Internationalization in figure 3.3 divides experiential knowledge into two aspects. Firstly, there is market knowledge which involves the knowledge about customers, suppliers, authorities and the relations between them in a certain market. Market knowledge from a specific market is not applicable to other markets as it is not possible to generalize it. Secondly, there is internationalization knowledge which involves the company's ability to establish and develop its international activities. Furthermore, the internationalization knowledge is acquired by being active in foreign markets on an ongoing basis and it is not restricted to a single market. Thus it can be applied to other foreign markets (Johanson *et al.*, 2002).

3.3.3.3 Current business activities

As mentioned previously in this dissertation, experiential knowledge is crucial when a company is establishing its activities abroad and it can be acquired by current business activities on the foreign market. Expanding companies interact with suppliers, customers, authorities and other important organizations regularly, which leads to experiential knowledge. When a company is entering a new market the acquisition of experiential knowledge is very time consuming but it can be dealt with in different ways. An example is market research, which does not provide for experiential knowledge but can possibly be used as a foundation for experiential knowledge and act as a supplement to it (Johanson *et al.*, 2002). Furthermore, it is possible to hire people with the desired experience from a specific market. However, this approach may lead to some adversity for the company as the person does not possess the experience of the company's capabilities and knowledge (Johanson *et al.*, 1977; Johanson *et al.*, 2002). Another example is to acquire an existing company in the new market, which possesses the required experience. However, this approach brings the same difficulties as hiring experienced people. In conclusion, an internationalization process is a time consuming process (Johanson *et al.*, 2002).

3.3.3.4 Commitment decisions

Companies decide to enter new markets when potential business opportunities are identified. These opportunities are identified on the basis of the companies' experiential knowledge in that specific market. The experiential knowledge helps the companies to identify, understand and evaluate the business opportunities and possible threats. Furthermore, the experiential knowledge is acquired by conducting current business activities in that specific market. A crucial part of the internationalization model is that companies decide to enter foreign markets and commit resources to it on the basis of the experiential knowledge the companies possess. Hence, it is important for the companies to gradually increase the commitment to the markets where they are currently operating and where they have the experiential knowledge. The potential opportunities can be identified and the solutions to potential problems can be found in a more adequate way. Market commitment involves a certain risk and if a company possesses the experiential knowledge from a specific market, it is easier to take certain risks in that specific market. The level of risk which is tolerable to the company is associated with the company's position in the market and its access to capital for example (Johanson *et al.*, 2002).

3.4 Criticism of the Uppsala Internationalization Model

The Uppsala Internationalization Model has been empirically tested by researchers around the world on many occasions. Some findings have shown that the model is relevant and sustainable whilst other findings have pointed out several weaknesses. Research has shown that different aspects of the model do not relate to reality (Johanson *et al.*, 2002).

A part of the criticism to the model is that it is deterministic (Hollensen, 2007). Hence, the expanding companies' internationalization processes are predetermined and cannot be affected by other factors. Furthermore, critics claim that the model is a simplification of reality and it leaves out crucial factors such as evaluations companies do when being in certain situations which affect their decisions regarding their internationalization processes (Johanson *et al.*, 2002). One of these factors might be the expanding company's personal network. Ojala & Tyrväinen (2008) claim that US software SMEs

have developed personal networks, which enable the US software SMEs to enter foreign markets successfully. In addition, it is suggested that the managers of such companies are active in developing such networks in order to grasp potential business opportunities in the foreign market (Ojala & Tyrväinen, 2008).

Furthermore, studies have shown that the internationalization model is not valid for the service sector (Kundu & Renko 2005; Hollensen, 2007). When research was conducted among Swedish technological companies the findings indicated that the gradual commitment to foreign markets, as described by the Uppsala Internationalization Model, was absent. Companies have lately started to leapfrog the stages suggested by the model by entering psychic distant markets earlier than what the Uppsala Internationalization Model suggests. This seems to have supported the criticism of the model (Hollensen, 2007). Furthermore, it is possible that the world has become much more homogeneous which has led to a decreased Psychic Distance (Hollensen, 2007; Moen *et al.*, 2004). In addition, Hollensen (2007) confirms this argument by claiming that Swedish companies target the markets of USA, Great Britain and Germany before penetrating the Scandinavian markets.

However, Forsgren *et al.* (2007) conducted a study on eight Swedish internet-related firms and their internationalization processes. The findings indicate that the companies did enter close markets, in terms of Psychic Distance, initially. However, it appeared that the main reason of entering these markets initially was market size and maturity, rather than the cultural similarity and low perceived risk (Forsgren *et al.*, 2007).

In addition, Bell (1995) claims there is a tendency that small software firms in Finland, Ireland and Norway, decide to expand into foreign markets based on client followership, rather than geographical and cultural proximity as suggested by the Psychic Distance (Bell, 1995). Client followership is "...when firms enter new export markets as a result of the international strategies of their domestic clients" (Bell, 1995, p. 65). Blomstermo, Sharma & Sallis (2006) suggest this might be the case for Swedish service companies when entering foreign markets as well.

Furthermore, the leapfrogging tendency is not only related to entering psychic distant markets but it regards the company's entry mode as well. Hollensen (2007) claims that companies have learned from previous market operations which has led to gained

experience. For that reason, companies choose to leapfrog some stages of the Establishment Chain when entering foreign markets (*ibid*). In addition, Bell (1995) suggests that various different strategies, such as licensing and joint ventures, are being adopted by small companies when initially entering foreign markets. However, Blomstermo *et al.* (2006) claim that Swedish service companies tend to choose a market entry mode that involves a rather high commitment of resources to the foreign market, such as an own subsidiary. This indicates that the two initial steps suggested by the Establishment Chain are expected to be leapfrogged. Choosing to establish a subsidiary as the initial step to a foreign market allows the company to interact with its customers more closely and to learn about the foreign culture (Blomstermo *et al.*, 2006).

According to Whitelock (2002), German, American, Japanese, Turkish and Australian companies show strong support to the Uppsala Internationalization Model especially in the early stages of the internationalization process. Meanwhile, Whitelock (2002) claims that companies use diverse approaches when entering specific markets and do not use export as an initial step to enter a foreign market. Furthermore, Whitelock (2002) suggests that not all companies aim to establish a production unit abroad. In addition, Whitelock (2002) suggests that in reality a company's foreign market entry is a combination of key features of different internationalization models.

Furthermore, Whitelock (2002) suggests that there are three exceptions to their internationalization model. Firstly, when companies have large resources they are expected to take larger internationalization steps. Secondly, when market conditions are stable and homogeneous, market knowledge can be acquired in other ways than through experience. Finally, when a company has experience from similar markets, it is possible to generalize the experience to a specific market (Whitelock, 2002).

According to Whitelock (2002) the Uppsala Internationalization Model initially focused on the companies' experiential knowledge. At a later stage t an additional variable became important, which is the relationship between the expanding company and its customers, suppliers and competitors in the foreign market (Whitelock, 2002).

With regards to Hollensen's (2007) claim that the Uppsala Internationalization Model is not applicable to firms in the service sector and the limited research done on Swedish SMEs in the service sector entering the Indian market brings us to the purpose of this

dissertation; to explore if Swedish SMEs in the service sector follow the steps of internationalization suggested by the Uppsala Internationalization Model when entering the Indian market.

4. Empirical method

In this chapter the research strategy and time horizons are presented along with the sample process. Furthermore, the method of collecting the empirical material is explained and the operationalization is introduced in the final subchapter.

4.1 Research strategy

A multiple case study is conducted in this dissertation. The multiple case study strategy is considered to be suitable if a rich understanding of a process is to be gained. In addition this strategy provides the opportunity to generate answers to “why?”, “what?” and “how?”. Furthermore, the multiple case study is considered appropriate when exploring or challenging an existing theory (Saunders *et al.*, 2007). Since the aim in this study is to gain a deep understanding of three companies’ internationalization processes, a multiple case study is conducted and considered to be most suitable. Additionally, it is appropriate since an existing theory, that is, the Uppsala Internationalization Model, would be explored. Furthermore, the multiple case study allows comparing the findings between the cases in the study.

4.2 Time horizons

According to Saunders *et al.* (2007) it is important to clarify whether one wants his research to be a “snapshot” of a reality taken at a specific time or if one wants his research to be a series of “snapshots”, that is, a diary that represents an event over a specific period. The time horizon involving a “snapshot” is referred to as cross-sectional. On the other hand, a series of “snapshots” is referred to as longitudinal time horizon (*ibid*).

The usage of the two time horizons depends on the research question. The research conducted in this dissertation fits the cross-sectional time horizon criteria as the study aimed at taking a “snapshot” of three companies’ internationalization processes when entering the Indian market. Furthermore, we conducted one hour long interviews on one

occasion with each company in the sample, which fits the cross-sectional criteria as well.

4.3 Sample process

The sample process began with first requesting information from the Swedish Trade Council regarding companies that have established their activities in India. Then access to a list of subsidiaries of Swedish companies operating in India was acquired. In the following we narrowed down the list by excluding the large enterprises and only examined the SMEs in the service sector with fewer than 250 employees. From there, we began contacting the companies on the list requesting the contact details of the person responsible for the establishment in India. Once the contact information was received, the person at each company responsible for the establishment on the Indian market was contacted and a meeting for an interview was requested.

4.4 Semi-structured interviews

For this dissertation we have chosen to collect the empirical material through semi-structured interviews due to the complexity of the subject. Furthermore, semi-structured interviews provide more extensive answers and allow us to gain a better and deeper understanding of the subject. In addition, the information that this dissertation aims to acquire cannot be quantified in a suitable way. At each company, the individual responsible for the company's establishment in India was interviewed. The purpose of the interviews was to receive information about the companies' processes of establishing their activities on the Indian market. By analyzing the collected material the aim was to compare the different companies' steps that were taken when entering the Indian market to investigate whether or not the Uppsala Internationalization Model is applicable to Swedish SMEs in the service sector. Material was collected through phone and face-to-face interviews. The reason phone interviews were selected is that the person responsible for the entry on the Indian market was occupied and this option was considered to be more time efficient.

Semi-structured interviews were used, asking the respondents to use their own words when describing their Indian establishment process. Subsequently, the interview was directed to more specific questions as to what steps were taken when entering India, how information about the market was collected, what possibilities and difficulties were encountered and whether or not they possessed previous experience of entering foreign markets. In addition, follow up questions were asked in order to complement the interviewees' answers.

The interviews were recorded on a digital recording device and in addition notes were taken in case the digital recording device would not be working properly. Furthermore, Swedish was the language of communication during the interviews and the material has been translated by the authors of this dissertation.

4.5 Operationalization

This section discusses the operationalization of the research questions in this dissertation. This study aims to explore whether Swedish SMEs in the service sector follow the steps of internationalization as suggested by the Uppsala Internationalization Model.

4.5.1 Operational definitions

The operational definitions will refer to the definitions taken from the theoretical framework in terms of the Establishment Chain, the Psychic Distance and the Basic Mechanism of Internationalization. The Basic Mechanism of Internationalization consists of market commitment, market knowledge, current business activities and commitment decisions.

4.5.1.1 The Establishment Chain

A part of the Uppsala Internationalization Model consists of the Establishment Chain, which describes that expanding companies establish their activities through four steps. The first step is to establish the company's activities through sporadic exports. The second step is to export through an independent intermediary, for example, an agent.

The third step involves establishing a sales subsidiary in the country and the fourth step is to manufacture within the market (Johanson *et al.*, 1977; Buckley & Ghauri, 1999; Johanson *et al.*, 2002; Whitelock, 2002; Moen *et al.*, 2004).

In order to explore what steps of the Establishment Chain were taken by the companies in this study the following question was asked during the semi-structured interview: In what way did [company name] approach the Indian market?

4.5.1.2 The Psychic Distance

Another part of the Uppsala Internationalization Model is the Psychic Distance. An assumption is that companies initially expand into countries located close to the domestic market as the Psychic Distance is considered to be low compared to markets further away. Once activities are established in nearby markets, companies then gradually expand into markets further away, that is, markets with greater Psychic Distance (Bell, 1995; Hollensen, 2007; Whitelock, 2002; Buckley *et al.*, 1999).

In order to investigate in what manner the companies in this study expanded into India and whether they expanded into nearby markets and gradually entered psychic distant markets the following question was asked: Does [company name] have any previous experience from entering foreign markets? If yes, to what countries?

4.5.1.3 The Basic Mechanism of Internationalization

In order to clarify a company's internationalization process an expansion of the Uppsala Internationalization Model had to be created: the Basic Mechanism of Internationalization. A great part of companies' operations aim to develop knowledge, as limited knowledge can be harmful when making business decisions (Buckley *et al.*, 1999; Johanson *et al.*, 2002). The mechanism stipulates that internationalization processes are interactions between knowledge development and foreign market commitment (Johanson *et al.*, 2002; Forsgren *et al.*, 2007). The Basic Mechanism of Internationalization contains four interconnected concepts which aim to explain the internationalization process of a company: (1) market commitment, (2) market knowledge, (3) current business activities and (4) commitment decisions. A basic idea is

that market knowledge and market commitment are assumed to affect commitment decisions and how they are carried out during a specific period (current activities). Commitment decisions will subsequently affect the market knowledge and market commitment at a later stage (Forsgren, 2001; Johanson *et al.*, 2002).

In order to explore how the companies in this study acquired market knowledge through current business activities and in what manner they decided to commit resources to the Indian market the following questions were asked: (1) Why did [company name] decide to enter the Indian market? (2) How did [company name] develop its establishment strategy when deciding to enter the Indian market? (3) How did [company name] gather information about the Indian market (Knowledge about customers, business traditions etc)? (4) What possibilities did [company name] see on the Indian market? (5) What difficulties did [company name] encounter? (6) How did [company name] overcome the difficulties?

Asking these questions allowed the interviewees to describe in what manner market knowledge was acquired and how this knowledge affected their internationalization processes. Furthermore, the questions provided an opportunity to explore the companies' current business activities and whether these activities facilitated their internationalization processes as suggested by the Uppsala Internationalization Model and its Basic Mechanism of Internationalization.

The findings from the semi-structured interviews in this multiple case study are displayed in the following chapter of this dissertation and are summarized individually for each one of the companies. Furthermore, the collected material is divided into different categories which are inspired by the subchapters of the Uppsala Internationalization Model in the theoretical framework chapter in this dissertation. In each of the separate categories the material is analyzed category by category and company by company. By doing this the reader is provided with a uniform structure which makes the collected and analyzed material comparable in a distinct way.

5. Multiple case study

In this chapter the companies in this multiple case study are presented. Furthermore, the empirical material is introduced and categorized into subchapters which are inspired by the subchapters of the Uppsala Internationalization Model in the theoretical framework chapter in this dissertation. In each of the separate categories the material is analyzed, company by company. The final subchapter contains a conclusion of the analysis.

5.1 Sample selection

The companies researched in this dissertation have successfully entered the Indian market. All three companies match the profile that this dissertation wants to study of being Swedish SMEs in the service sector, that is, in the IT industry. The person responsible for entering the Indian market at each company has been of interest for this study. Following companies and persons have been interviewed:

Teleopti AB

Teleopti AB is a Swedish IT company with its headquarters in Stockholm. The company was founded in 1992 and has 110 employees who are developing software solutions to customers in more than 52 countries. In 2004, Olle Düring, the Business Development Director at Teleopti AB, initiated the establishment process in India where the company currently employs eight people. Teleopti AB is developing software for call centers and the company established its activities in India since a large number of its customers had relocated their call centers from other English speaking countries to India. Since Olle Düring was responsible for the company's establishment in India we consider him to be a valid interviewee possessing the information about the company's internationalization process. A telephone interview with Olle Düring was held on April 8 between 09.10 and 09.45.

Signifikant AB

Signifikant AB is a Swedish IT company established in 2004 and it employs 19 people. The headquarters are situated in Stockholm and the company established its activities in India in late 2006. Signifikant AB provides IT solutions, business to business, with three main products. Assert is one of the products, which is developed to increase the aftersales for customers in the industrial sector. The customers are mainly multinational Swedish and Indian companies. Secondly, e-archiving is a product mainly targeting the Swedish public sector and it is a digital archiving solution. The third and final product is IT consultancy services. Signifikant AB provides its consultancy services to Indian and Swedish customers. Mattias Löfstrand, the company's CEO and founder, was responsible for Signifikant AB's establishment on the Indian market. The interview was conducted on April 22 between 08.00 and 08.50 in Stockholm.

Bombayworks AB

Bombayworks AB is a Swedish IT company with two main customer segments. Firstly, advertising and web agencies and secondly, newly founded companies. The company is mainly focused on web production but offers turnkey solutions to customers as well. For example, when the customer is an advertising agency, Bombayworks AB usually receives storyboards and scripts in order to complete a website. However, if the customer is a newly founded company, Bombayworks AB is involved in the project to a greater extent. This means identifying what specification is required for each specific website and developing a strategy in order to create the website from start to a turn key product. The website programming and development is done by hybrid outsourcing. This means that both Swedish and Indian IT engineers, employed by Bombayworks AB, are involved in each project. However, it may occur that some projects require only the skills of IT engineers located in Sweden. This depends on the complexity level of the project. On the contrary, it might be that the project is only performed by IT engineers employed in India. Bombayworks AB with its headquarters in Stockholm was founded in 2007 and employs 18 people. The process of establishing an Indian subsidiary started in November 2007. In April 2008, the subsidiary in India was established and it currently has six people working in Bombay. The interview was held in Stockholm with Gabriel Mannheimer, Co-founder and Project Manager, on April 22nd at 15.00 and

lasted approximately one hour. Gabriel Mannheimer was responsible for establishing the company's activities in India.

5.2 Empirical findings and analysis

In the following subchapters the empirical findings are presented and analyzed in congruence with the theoretical framework. The material was collected by semi-structured interviews in Swedish. The translation from Swedish to English was done by the authors of this dissertation.

5.2.1 The Establishment Chain

According to the researchers Johanson, Vahlne and Wiedersheim-Paul, it appeared that expanding companies establish their activities abroad through four steps. These steps of this Establishment Chain are displayed below in figure 5.1. The first step is to establish the company's activities through sporadic exports. The second step is to export through an independent intermediary, for example, an agent. The third step involves establishing a sales subsidiary in the country and the fourth step is to manufacture within the market (Johanson *et al.*, 1977; Buckley & Ghauri, 1999; Johanson *et al.*, 2002; Whitelock, 2002; Moen *et al.*, 2004).

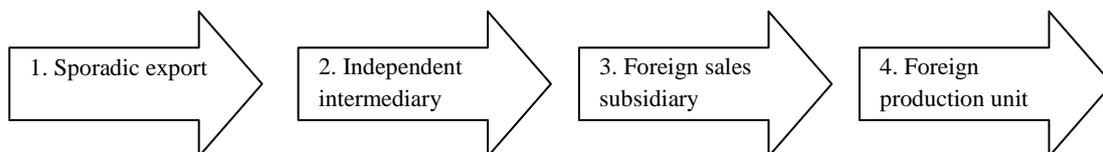


Figure 5.1: The Establishment Chain
(Based on: Johanson *et al.*, 2002, p. 47.)

5.2.1.1 Teleopti AB

Teleopti AB shows that it partially followed the three initial steps of the Establishment Chain described in subchapter 5.2.1. Olle Düring explains Teleopti AB's establishment process in India:

We initially exported our services to India before we established a sales office. We began by selling from our Swedish company, that is, through pure exports. After that, two steps were followed simultaneously; we established a sales office in India while

we exported through independent intermediaries. We always sell directly to the customer and partially through channels such as, for example, agents.

Düring continues by explaining Teleopti AB's experience of entering foreign markets:

Before entering the Indian market we possessed experience of entering the Norwegian market. We established our activities in Finland and pulled out from Finland and now we are back in Finland again. We had an office in Holland, but withdrew from the Dutch market and we entered England prior to establishing our activities in India.

It appears that the initial steps of the Establishment Chain were to a certain extent followed by Teleopti AB. First, Teleopti AB exported from their Swedish company to India. The company's following step involved both exports through an independent intermediary and establishment of a sales office in India. According to Johanson *et al.* (2002), each step of the Establishment Chain is based on the limited knowledge of the expanding companies and the more knowledge it acquires, the more it advances in its internationalization process. However, it appears that Teleopti AB possessed experience of entering foreign markets before entering the Indian market. Subsequently, this may have led to steps two and three in the Establishment Chain being taken simultaneously when Teleopti AB entered the Indian market. Furthermore, the leapfrogging in Teleopti AB's establishment process seems to strengthen Hollensen's (2007) assumption that companies have learned from previous market operations which has led to gained experience. As a consequence, companies choose to leapfrog some stages of the Establishment Chain when entering foreign markets.

Düring explains Teleopti AB's possibilities of taking step four of the Establishment Chain:

We develop our software in Sweden and sell it on the Indian market. It is possible that we will complement our development in India, as we grow as a company, but today it is only a sales and support office in India.

The fourth step, to move its software development to India, has not yet been taken since Teleopti AB is still selling software to customers in India that is developed in Sweden. Maybe in the future, Teleopti AB will complement its development in India as the company grows. However, currently Teleopti AB does not have plans to relocate the

whole development to India. This strengthens Whitelock's (2002) criticism to the Uppsala Internationalization Model that not all companies aim to establish a production unit abroad. If Teleopti AB eventually establishes a software development unit in India, step four of the Establishment Chain would be taken. According to Johanson *et al.* (2002), in each stage of the Establishment Chain the level of knowledge within the company increases and the more knowledge a company acquires, the more it advances in its internationalization process. However, Teleopti AB seems to have advanced by leapfrogging in its Establishment Chain and the knowledge was acquired by entering other foreign markets and this knowledge appears to have been applied when establishing its activities on the Indian market.

Figure 5.2 below shows a revised Establishment Chain displaying the steps taken by Teleopti AB when entering the Indian market. Furthermore, figure 5.2 illustrates that steps two and three were taken simultaneously and that there is a possibility for Teleopti AB to complete step four of the Establishment Chain.

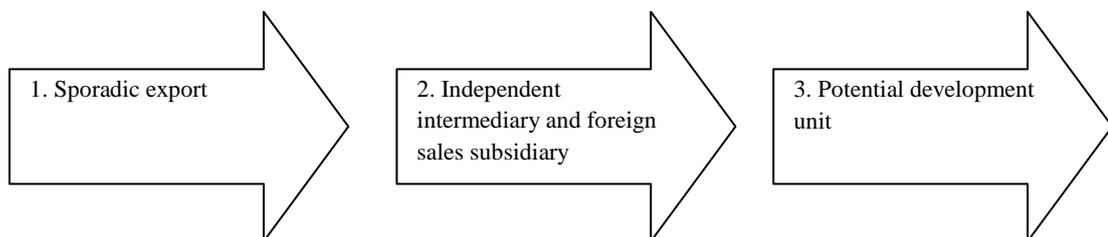


Figure 5.2: Teleopti AB's establishment process in India.
(Developed from: Johanson *et al.*, 2002, p. 47.)

5.2.1.2 Signifikant AB

Signifikant AB's process of establishing its activities in India appears not to have followed the suggested steps of the Establishment Chain in the Uppsala Internationalization Model. Mattias L fstrand explains Signifikant AB's establishment process in India:

We did not export any services to the Indian market prior to our establishment of a local company in India. Since establishing an Indian company all sales activities to the Indian market have been done locally.

Löftstrand continues explaining:

Our product development is done in India and in Sweden today. Three people are handling the product development in Sweden and two people in India. In other words, the product development is still performed to a greater extent in Sweden.

Löftstrand adds:

The core development and product design is still done in Sweden. In India product adjustments are done in order to meet the local demand.

The first step Signifikant AB made on the Indian market was to establish a local sales subsidiary. Following this, a part of the company's product development was established in India. Signifikant AB's establishment process is illustrated in figure 5.3 below. This process is significantly different to the Establishment Chain as suggested by the Uppsala Internationalization Model in figure 5.1.

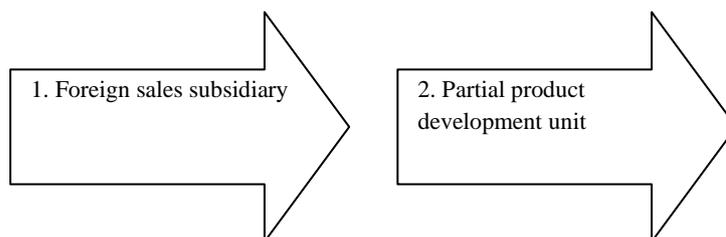


Figure 5.3: Signifikant AB's establishment process in India
(Developed from: Johanson *et al.*, 2002, p. 47.)

Signifikant AB appears to have leapfrogged the initial two stages of the Establishment Chain: sporadic export and sales through an independent intermediary. This strengthens Hollensen's (2007) criticism of the Uppsala Internationalization Model as he claims that findings of a study conducted among Swedish technological firms indicate that the gradual commitment to foreign markets is absent. Furthermore, it strengthens Whitelock's (2002) suggestion that companies use diverse approaches when entering specific markets and do not use export as an initial step to entering a foreign market. In addition, it appears to coincide with Blomstermo *et al.*'s (2006) suggestion that that Swedish service companies tend to choose a market entry mode that involves a rather high commitment of resources to the foreign market, such as an own subsidiary.

5.2.1.3 Bombayworks AB

Bombayworks AB's process of establishing its activities in India appears not to have followed the suggested steps of the Establishment Chain in the Uppsala Internationalization Model. Gabriel Mannheimer explains Bombayworks AB's establishment process in India:

We do not sell to the Indian market at all today. Bombayworks AB only has a web production unit there. Initially we thought we would not have the financial resources to establish a company of our own in India. Hence, we aimed at using a subcontractor initially as we wanted to avoid fixed costs.

Mannheimer explains the relationship to the subcontractor:

To begin with, the subcontractor delivered his projects properly but we realized very quickly that this would not work in the long perspective. The only way we could move forward was to establish a subsidiary of our own to do the web production for our Swedish customers.

Bombayworks AB's initial step to enter the Indian market was through a short term independent intermediary: a subcontractor as displayed in figure 5.4 below. However, as indicated in figure 5.4, the company rapidly established a subsidiary in India.

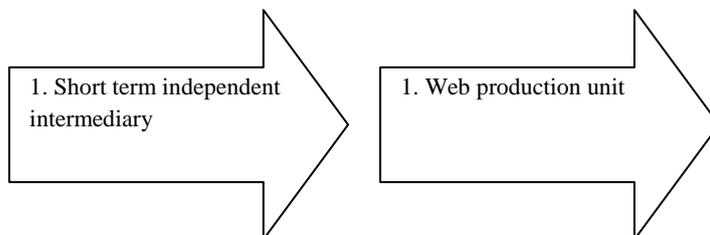


Figure 5.4: Bombayworks AB's establishment process in India (Developed from: Johanson *et al.*, 2002, p. 47.)

However, the subsidiary in India does not perform any sales activities. It is a pure web production unit. It appears that Bombayworks AB leapfrogged the first stage of the Establishment Chain which is sporadic exports to the Indian market since the company does not sell to the Indian market at all. Furthermore, the second step of the Establishment Chain was seemingly taken to a certain degree as Bombayworks AB used an independent intermediary for a relatively short period of time. However, the

independent intermediary was not used to export to the Indian market as suggested by the Uppsala Internationalization Model. The third step of the Establishment Chain, that is, establishing a foreign sales subsidiary, was not a part of Bombayworks AB's internationalization process as the company does not perform any sales activities on the Indian market. In addition Bombayworks AB established a web production unit in India immediately after ending the relationship with the independent intermediary, which suggests that the company leapfrogged, not only step one of the Establishment Chain, but step three as well. This strengthens Hollensen's (2007) criticism of the Uppsala Internationalization Model as he claims that findings of a study conducted among Swedish technological firms indicate that the gradual commitment to foreign markets is absent. Additionally, Hollensen (2007) claims that companies have learned from previous market operations which has led to gained experience and this might be the reason companies choose to leapfrog some stages of the Establishment Chain when entering a foreign market. What Hollensen (2007) claims may be Bombayworks AB's situation as well, as Gabriel Mannheimer had lived and worked in India for six years prior to establishing Bombayworks AB on the Indian market. During these years he gained valuable experience and market knowledge. Mannheimer explains:

What made it possible for us to establish our activities in India was the experience I had gained during the six years I spent working there. In addition, I had a well developed network of valuable contacts that could assist us in meeting the right people. It also allowed us to do things in the right way when establishing our activities.

As Mannheimer explains, he had valuable market knowledge and contacts in the Indian market. Subsequently, Bombayworks AB, possessed experience from operating in the Indian market through Mannheimer, which may have led to leapfrogging stages of the Establishment Chain. Furthermore, this confirms Hollensen's (2007) assumption that companies with prior experience from similar markets are an exception and may not follow the steps suggested by the Establishment Chain.

5.2.2 *Psychic Distance*

An additional part of the Uppsala Internationalization Model is the Psychic Distance. An assumption is that companies initially expand into countries located close to the domestic market as the Psychic Distance is considered to be low compared to markets further away. Once activities are established in nearby markets, companies then gradually expand into markets further away, that is, markets with greater Psychic Distance. The expansion to these markets occurs once sufficient market knowledge is acquired (Bell, 1995; Hollensen, 2007; Whitelock, 2002; Buckley *et al.*, 1999; Johanson *et al.*, 2002). Swedish companies are assumed to enter the Scandinavian markets initially followed by establishing activities in other European countries before entering markets outside of Europe.

5.2.2.1 Teleopti AB

Teleopti AB initially expanded into markets close to the Swedish market, that is, into markets where the Psychic Distance is considered to be low. Olle Düring explains:

Before entering the Indian market we possessed experience of entering the Norwegian market. We established our activities in Finland and pulled out from Finland and now we are back in Finland again. We had an office in Holland, but withdrew from the Dutch market and we entered England prior establishing our activities in India.

Teleopti AB had entered Norway, Finland, Holland and England before entering the Indian market. What Düring explains is confirmed by Johanson *et al.* (2002) and Whitelock (2002), which is, that companies initially enter markets close to their domestic market. The model suggests that a Swedish company enters Scandinavian markets before entering markets further away. The following step involves establishment in other European countries and finally companies enter markets outside of Europe (Johanson *et al.*, 2002). It appears that Teleopti AB has not strictly followed the internationalization pattern suggested by the Uppsala Internationalization Model since markets with considerably lower Psychic Distance, for example in western and southern Europe, have not been entered before entering the Indian market.

In order to cope with the differences between the domestic and the foreign market efficiently, companies can hire local personnel in the foreign market. Subsequently, this can potentially decrease the Psychic Distance (Johanson *et al.*, 2002). Düring explains:

It is a matter of finding a trustworthy person, who knows how it works, who understands how we operate and with whom we can collaborate. Then that person can recruit staff that is suitable to the local market. It is important to find that first person on site and trust that person to establish the correct environment and values.

Düring explains how important it is to find the right person on site in the foreign market. This person is assumed to possess the experiential knowledge which is crucial when companies internationalize.

5.2.2.2 Signifikant AB

Signifikant AB had customers only in Sweden before entering the Indian market and Mattias Löfstrand explains:

Initially we had customers in Sweden. Then we entered India, thereafter we established relations with customers in the Scandinavian countries. The Scandinavian market we see as our domestic market. We are currently exporting our services to these countries and our plan is to continue doing that without establishing a local sales office in each of the Scandinavian countries.

Löfstrand continues:

In addition, we have plans on expanding our activities to Germany, northern Italy and France. Currently we are in the process of entering the Chinese market through personal relations via partnership. We have no plans of entering the US market and the British market might still be a possibility.

In Signifikant AB's case, India was the first foreign market the company entered followed by exporting to the Scandinavian markets, which strengthens the criticism of the Uppsala Internationalization Model; Hollensen (2007) claims that companies lately have started entering psychic distant markets earlier than the Uppsala Internationalization Model suggests. Hollensen (2007) and Moen *et al.* (2004) suggest it

might be a result of the world becoming more homogeneous, which has led to decreased Psychic Distance.

Furthermore, the differences between the domestic and the foreign market can potentially be vast. By hiring local personnel in the foreign market the Psychic Distance can perhaps be decreased and these differences between the markets can be encountered more efficiently (Johanson *et al.*, 2002). Löfstrand expresses the importance of hiring local staff in order to successfully establish Signifikant AB's activities in India:

We knew a person in India who was willing to be our CEO (Chief Executive Officer) during our establishment in India. We had confidence in this person and he possessed the necessary market knowledge. Furthermore, he had knowledge of what was needed in order to establish our activities successfully in India.

The fact that Signifikant AB employed a CEO that possessed information about the Indian market appears to confirm the fact the Uppsala Internationalization Model suggests to be crucial when a company is entering foreign markets: experiential knowledge. Signifikant AB's CEO seems to have possessed the necessary experiential knowledge which may lead to decreased Psychic Distance between the firm and the foreign market. Subsequently this appeared to simplify Signifikant AB's internationalization process.

5.2.2.3 Bombayworks AB

Bombayworks AB only sells to customers on the Swedish market but there is a possibility the company will start its sales activities to Indian customers in conjunction with establishing sales activities on the Scandinavian market. Mannheimer explains:

We do not sell to the Indian market at all today. We plan to start selling to Indian customers in the next 12 to 24 months as we assume there will be a market for our services. In addition we plan to enter the Scandinavian countries, perhaps this will occur simultaneously as we start selling in India.

In Bombayworks AB's case the customers are located in Sweden, while the company's web production sites are located in Sweden and in India. It appears that Bombayworks AB's internationalization process started by entering the Indian market, which is

considered to be a psychic distant market. The next step for Bombayworks AB will most likely be to enter the Scandinavian markets, which are considered to be close markets with low Psychic Distance. India was the first foreign market the company entered and this strengthens the criticism of the Uppsala Internationalization Model; Hollensen (2007) claims that companies lately have started entering psychic distant markets earlier than the Uppsala Internationalization Model suggests. Hollensen (2007) and Moen *et al.* (2004) suggest it might be a result of the world becoming more homogeneous, which has led to decreased Psychic Distance. However, the Indian market has not been entered by Bombayworks AB from a sales perspective since it does not sell its products on the Indian market. Furthermore, the company is likely to start sales activities in India and in Scandinavia simultaneously, which would potentially be contradicting the Uppsala Internationalization Model's suggestion that companies enter psychic close markets before entering psychic distant markets. In addition it would potentially strengthen Hollensen's (2007) and Moen *et al.*'s (2004) criticism to the Uppsala Internationalization Model mentioned above.

Furthermore, the differences between the domestic and the foreign market can potentially be vast. By hiring local personnel in the foreign market the Psychic Distance can perhaps be decreased and these differences between the markets can be encountered more efficiently (Johanson *et al.*, 2002). However, in Bombayworks AB's case Mannheimer, co-founder of Bombayworks AB, appears to have possessed the experiential knowledge to potentially decrease the Psychic Distance and he expresses the importance of his experiential knowledge by the following:

What made it possible for us to establish our activities in India was the experience I had gained during the six years I spent working there. In addition, I had a well developed network of valuable contacts that could assist us in meeting the right people. It also allowed us to do things in the right way when establishing our activities.

5.2.3 The Basic Mechanism of Internationalization

The Basic Mechanism of Internationalization contains four interconnected concepts which aim to explain the internationalization process of a company: (1) market commitment, (2) market knowledge, (3) current business activities and (4) commitment decisions. The mechanism stipulates that internationalization processes are interactions

between knowledge development and foreign market commitment (Johanson *et al.*, 2002; Forsgren *et al.*, 2007).

5.2.3.1 Market commitment

Market commitment has two concepts. Firstly, the amount of resources the company has committed to a market. Secondly, the degree of difficulty of finding an alternative use of the resources that is already committed to the foreign market (Johanson *et al.*, 1977; Johanson *et al.*, 2002). Specific knowledge about a market or a customer segment can also be represented by the market commitment. The more specific the knowledge is, the higher the commitment to the market (Johanson *et al.*, 2002).

5.2.3.1.1 Teleopti AB

The level of market commitment of Teleopti AB is dependent on the resources the company has committed to the market. Resources committed to the market can be such as the time spent on the establishment on the market, signed agreement with partners and independent intermediaries. Furthermore, customer knowledge and offices rented are considered to be resources committed to a specific market as well. Düring clarifies:

We began to process the Indian market from Europe 2004. I and a number of colleagues started to travel to India in order to visit a few potential customers initially. Approximately one year later we had our first local employee in India – in the first quarter of 2005.

Düring continues by explaining the importance of their customer base:

We are a company that develops products and software used in call centers. That means, when call center operations move their activities, such as from England or the U.S. to English-speaking country India, our customer base moves to India.

Teleopti AB displays that it had committed to its customers. Hence, they expanded their operations along with the customers. This appears to coincide with Bell's (1995) and Blomstermo *et al.*'s (2006) suggestion that software firms tend to decide to expand into foreign markets based on their clients' internationalization strategies. In addition, Teleopti AB spent reasonable amounts of time to establish its activities in India. Düring continues to explain:

A business concept that is well suitable for companies establishing themselves, which are small, need office space quickly, everything is in place from day one and that provide a professional image towards customers, partners and other organizations, is serviced offices. We used that type of infrastructure providers and offices in many places in world. But now we have grown and we have our own offices. Serviced offices are something that is used while you are in the start up phase and relatively small.

An assumption is that Teleopti AB gradually committed the resources it utilized when establishing in India, as it used serviced offices to begin its sales in India before establishing a sales office on its own. Teleopti AB's commitment to the market was considerably low when the company used serviced offices since the serviced office providers offer flexible contract lengths, fully furnished offices and immediately available phone and internet facilities. In other words, Teleopti AB initially did not have to arrange, for example, furniture, phone or internet. According to Johanson *et al.* (2002), when the market commitment is low, the risks of occurring problems are also low. The risks of potential problems occurring were initially shifted to, for example, the provider of serviced offices. During the time spent in serviced offices it is assumed that Teleopti AB's experiential knowledge increased. An assumption is that a result of increased experiential knowledge, Teleopti AB opened their own offices in India and no longer had the need to use serviced offices. It appears Teleopti AB gradually increased its commitment to the Indian market as the company's experiential knowledge increased which strengthens Johanson *et al.*'s (2002) suggestion that expanding companies commit more resources to the foreign market as their experiential knowledge increases.

5.2.3.1.2 Signifikant AB

The level of market commitment of Signifikant AB is dependent on the resources the company has committed to the market. Löfstrand clarifies:

We knew a person in India who was willing to be our CEO (Chief Executive Officer) during our establishment in India. We had confidence in this person and he possessed the necessary market knowledge. Furthermore, he had knowledge of what was needed in order to establish our activities successfully in India. Furthermore, he had a network, which contained all the functions that are needed within the company. We entered the Indian market through a network.

Löfstrand continues:

Furthermore, we had personal relations with individuals in India who could help us with establishing our activities there. In addition, we received a governmental contribution to establish our activities in India. It was not much, but enough to get us started.

According to Johanson *et al.* (2002), there are two aspects of a market commitment. Firstly, the amount of resources the company has committed to a market. Secondly, the degree of that commitment, which consists of the degree of difficulty of finding an alternative use of the resources already committed to the foreign market. In Signifikant AB's case, the possibility of finding an alternative use of its resources committed to the Indian market is limited since the CEO's knowledge and the company's personal relations appear restricted to the Indian market. Signifikant AB's situation indicates that it has reasonable amounts of resources committed to the Indian market since it is committed to the company's CEO. Furthermore, it appears Signifikant AB is gradually increasing their commitment to the Indian market by hiring additional staff members as the company's experiential knowledge is developing. This strengthens Johanson *et al.*'s (2002) suggestion that expanding companies commit more resources to the foreign market as their experiential knowledge increases. Signifikant AB has gradually committed to the market as their internationalization process has expanded. Furthermore, Johanson *et al.* (2002) assume that the market commitment is vital as it explains that the expanding company is exposed to a higher risk if problems occur in the market. As Signifikant AB gradually is committing resources to the Indian market, the company is exposed to an increasing level of potential risks. In addition, the market commitment is perceived as high since the company would suffer great risk if, for example, the CEO would choose to terminate the relationship with the company (*ibid*). Furthermore, Signifikant AB received a governmental contribution, which appears to have decreased the level of risks. Hence, the company could easier commit resources to the Indian market.

5.2.3.1.3 Bombayworks AB

The level of market commitment of Bombayworks AB is dependent on the resources the company has committed to the market. Mannheimer explains:

Initially, we only wanted to have a subcontractor to avoid fixed costs. The subcontractor in India would deliver services to our Swedish customers, since we were small as a company and had limited resources. We had a few projects with the subcontractor and initially it worked reasonably well. However, we did not feel comfortable with investing our resources and knowledge in someone else's staff. Therefore, we opened our own office in November 2007 and withdrew the cooperation with the subcontractor. We opened a subsidiary in order to employ our own staff, to train them and to invest our resources in their development.

Bombayworks AB level of market commitment was initially high since they were committed to the subcontractor. This strengthens Johanson *et al.*'s (2002) assumption that the market commitment is vital as it explains that the expanding company is exposed to a higher risk if problems occur in the market. Furthermore, the market commitment is high when the company is exposed to a high degree of risk, for example, the risk of a subcontractor wanting to terminate the relationship with the company (*ibid*). It is assumed that Bombayworks AB gained experiential knowledge during the time spent in the relationship with the independent intermediary. Additionally, it appears that Bombayworks AB gradually increased its commitment to the Indian market as the company's experiential knowledge increased, which strengthens Johanson *et al.*'s (2002) suggestion that expanding companies commit more resources to the foreign market as their experiential knowledge increases. Bombayworks AB appears to have gradually committed resources to the Indian market as it initially entered the Indian market through an independent intermediary before establishing a subsidiary of its own. However, the risk of occurring problems in the market was gradually transferred to Bombayworks AB, since the company gradually increased their commitment to the Indian market.

5.2.3.2 Market knowledge

Knowledge can be acquired in two ways. Firstly, there is objective knowledge that can be taught and acquired from literature. Secondly, there is experiential knowledge that only can be acquired from personal experience (Johanson *et al.*, 1977; Whitelock, 2002; Johanson *et al.*, 2002). Experiential knowledge can be divided into two aspects. The first aspect is the market knowledge, which is knowledge about customers, suppliers, authorities and the relations between them in a certain market. The second aspect is the

internationalization knowledge, that is, the company's ability to establish and develop its international activities (Johanson *et al.*, 2002).

5.2.3.2.1 Teleopti AB

It appears that Teleopti AB had internationalization knowledge before entering India and it did not acquire its knowledge through literature. Düring explains:

Before entering the Indian market we possessed experience of entering the Norwegian market. We established our activities in Finland and pulled out from Finland and now we are back in Finland again. We had an office in Holland, but withdrew from the Dutch market and we entered England prior to establishing our activities in India.

Since, Teleopti AB had internationalization knowledge before entering India, the company did not encounter many difficulties when establishing its activities in India.

Düring explains:

Establishment-wise, it is not much difference in India than if we would open an office in Copenhagen for example. You need a good person, probably a good partner and intermediaries - the questions are the same regardless of which country we are establishing ourselves in. The approach is the same no matter which country we are directed to. In our business, it comes to having the right person, an office and a phone.

It appears that the experiential knowledge has been very vital for Teleopti AB. According Whitelock (2002) and Johanson *et al.* (2002), experiential knowledge can only be acquired by personal experience. The company gained internationalization knowledge from entering other markets before establishing its activities in India. Furthermore, internationalization knowledge appears not be restricted to a single specific market, thus it can be applied to other foreign markets such as India. This strengthens Johanson *et al.*'s (2002) assumption that internationalization knowledge is applicable to multiple markets. The pre internationalization knowledge led to the decision to enter India. Düring explains:

It was a pretty fast decision to enter India. If the production moved to China, the service outsourcing moved to India. A typical service that was very easy to move

was call centers. In a few years, India became one of the world's largest markets for call centers, in terms of how many people who worked in call centers.

Furthermore, Teleopti AB had high level of market knowledge and knowledge about their customers. Düring continues by explaining:

The fact that our customers are call centers, we needed to be where they are. We simply knew the market. When call center operations move their activities, from England or the U.S. to English-speaking country India, our customer base moves to India. A simple question for us when deciding to enter the Indian market was: where is our customer base? Well, it is increasingly in India, so we must be where our customers are.

This implies that Teleopti AB had high level of market knowledge that made it easier to establish its sales activities in India, which strengthens Johanson *et al.*'s (2002) assumption that market knowledge cannot be generalized since it is restricted to a single market. Furthermore, it appears that Teleopti AB establishes its activities in foreign markets by following its customers. This seems to coincide with Bell's (1995) and Blomstermo *et al.*'s (2006) suggestion that software firms tend to decide to expand into foreign markets based on their clients' internationalization strategies.

5.2.3.2.2 Signifikant AB

It appears that Signifikant AB did not have internationalization knowledge before entering India. Löftstrand explains:

Our goal was not to establish ourselves in India at the founding stage of this company since we had lot of customers in Sweden. Neither does our company or any member of the staff have previous international experience.

It is a fact that Signifikant AB did not have any internationalization knowledge before entering India. However, the company is utilizing the Indian market to gain internationalization knowledge in order to establish themselves in other foreign markets.

Löfstrand confirms this by explaining:

Our goal was to establish ourselves in several foreign markets, however, we chose India to learn to have subsidiaries and affiliates abroad. This gained experience and

knowledge, we would use to enter other foreign markets. We also gained market knowledge from the future CEO of our company.

However, Löfstrand emphasizes the importance of internationalization knowledge to establish in foreign markets:

Our aim in recent years has been to enter international markets and to be active in international markets. When it comes to India we were looking to find competencies at a lower cost. Furthermore, we realized that this would be the first time we expand to a foreign market and decided we would not enter a high-cost country to do so. As our aim is to sell abroad we need to learn how to establish our activities in foreign markets. In order to do so we expect a few years to acquire the necessary knowledge. We would not be able to choose for example, Germany or the US as the costs of establishing in those countries would be significantly higher than in India. As our sales process is rather long we would have to finance the foreign entity from Sweden until the first transactions were done. This would not be possible to do in a country as the US or Germany. From this perspective, India was a perfect choice because the relatively low costs involved.

The internationalization knowledge, which Signifikant AB gained during its process of entering the Indian market, would be of assistance when the company decides to establish and develop its international activities. This strengthens Johanson *et al.*'s (2002) assumption that internationalization knowledge is attained by being active in foreign markets and it can be applied in other foreign markets.

Löfstrand carries on by explaining Signifikant AB's future expanding plans:

In addition, we have plans of expanding our activities to Germany, northern Italy and France. Currently we are in the process of entering the Chinese market through personal relations via partnership. We have no plans of entering the US market and the British market might still be a possibility.

Signifikant AB indicates that through their internationalization knowledge which it is gaining from its activities in India, the company can expand to other countries, such as Germany, Northern Italy and France. The company has identified a potential future market in Great Britain and is currently establishing its activities on the Chinese market, through personal relations. When the internationalization knowledge is being acquired by being on a foreign market, it is not restricted to a single market, which is strengthened by Johanson *et al.* (2002).

5.2.3.2.3 Bombayworks AB

According to Whitelock (2002) and Johanson *et al.* (2002), experiential knowledge can only be acquired by personal experience. Mannheimer emphasizes the importance of experiential knowledge, explaining how Bombayworks AB established its activities in India through a network:

I and other member of the staff do not have any experience of establishing a company internationally. What made it possible for us to establish our activities in India was the experience I had gained during the six years I spent working there. In addition, I had a well developed network of valuable contacts that could assist us in meeting the right people. It also allowed us to do things in the right way when establishing our activities.

Mannheimer continues by explaining:

We would not have established our activities in India if it was not for my personal network. Many of our activities were based on my personal network. Furthermore, my partners possessed very deep IT knowledge gained from their previous positions at a multinational IT consultancy firm. In conjunction with my personal network, these factors were crucial for our establishment in India.

According to Johanson *et al.* (2002), there are two kinds of experiential knowledge. First, there is market knowledge, which involves the knowledge about customers, suppliers, authorities and relations between them in a certain market. However, market knowledge from a specific market is not applicable to other markets since it is not possible to generalize it. Second, there is the internalization knowledge which is the company's ability to establish and develop its international activities. This knowledge can be acquired by being active on foreign markets and it is not restricted to a single market. Bombayworks AB implies that the experiential knowledge which it acquired in India is the first kind, which is the market knowledge that contains knowledge about customers, suppliers, authorities and relations between them in a certain market. Bombayworks AB's market knowledge cannot be applicable to other foreign markets, as it is not possible to generalize it.

Bombayworks AB gained its market knowledge through Mannheimer's network. This network he developed during his six years living and working in India. It appears that the experiential knowledge Mannheimer gained while working and living in India is what made it possible for Bombayworks AB to establish in India. This personal experience which Mannheimer gained from India was implemented on Bombayworks

AB through investing in the staff to increase their knowledge base in order to make the company's establishment in India as smooth as possible. According to Johanson *et al.* (2002), experiential knowledge is more difficult to share with other people as each person is unique and reacts differently to certain situations. However, it appears that Bombayworks AB did not have any problems to apply Mannheimer's experiential knowledge to the company which contradicts Johanson *et al.* (2002). The knowledge which Mannheimer has is tacit knowledge which is confirmed by Johanson *et al.* (2002).

5.2.3.3 Current business activities

Current business activities, that is, consistent interaction with suppliers, customers, authorities and other important organizations leads to experiential knowledge and facilitates the internationalization process of a company (Johanson *et al.*, 2002).

5.2.3.3.1 Teleopti AB

Düring emphasizes the importance of current business activities, explaining how the market knowledge in India was acquired:

Initially we were on site. One cannot only open an office and hire a local Indian employee. Our employees from Sweden need to learn about the Indian market to a reasonable extent, which lead to us travelling from Sweden in order to meet with customers and partners. In addition, we received some help from the Swedish Trade Council.

It appears that Teleopti AB's current business activities in India increased the company's experiential knowledge as time was spent meeting customers and partners in order to gain market knowledge. The increased experiential knowledge appears to have facilitated the company's internationalization process as the initial step was taken to export to the Indian market followed by recruiting a local employee and opening a sales office in India. This strengthens Johanson *et al.*'s (2002) suggestion that current business activities contribute to acquiring experiential knowledge and facilitate the internationalization process.

Johanson *et al.* (2002) suggest that acquiring experiential knowledge is a time consuming process. Furthermore, a way of dealing with the acquisition of desired experience is by hiring local employees. However, this may lead to some adversity to the company as the local employee does not have the experience of the company's knowledge and capabilities (Johanson *et al.*, 1977; Johanson *et al.*, 2002).

Düring explained that the company experienced difficulties finding suitable employees and suggests how to cope with the adversity it brings:

You have to be prepared for stepping on a few mines perhaps. You will always step on a couple. That was the case for us as well. We had a lot of personnel changes before finding the suitable person. In addition, it is all about being on site in India initially and doing the job yourself.

According to Düring, one has to be prepared to make mistakes and Teleopti AB made mistakes as well. Making mistakes is assumed to be time consuming. Hence, it appears that Teleopti AB's experience of entering the Indian market was a time consuming process and that hiring local employees may bring adversity to the company since difficulties were encountered when trying to find the right person on site in India. Furthermore, it was time consuming dealing with the difficulties that arose. This seems to confirm that acquiring experiential knowledge is a time consuming process.

5.2.3.3.2 Signifikant AB

Löfstrand emphasizes the importance of current business activities, explaining how the market knowledge in India was acquired:

We joined a program called Business Opportunity Program, which is provided by the Swedish Trade Council. They screened the Indian market and created a report from that material. Then we received a visit program with scheduled meetings with potential customers in India. During that week in India we met with customers and partners.

Löfstrand continues explaining:

We wanted to identify if we could find customers that we could potentially do business with in India. The crucial aspect for us was: can we get a first deal with a customer that will allow us to get started in India, if yes, let us do it. We absolutely believed that was reachable. This was the base of our decision to enter the Indian market and not a huge market research.

It seems that Signifikant AB's current business activities in India increased the company's experiential knowledge as the market was screened for them and a visit program was arranged in order for Signifikant AB to meet with potential customers and partners in India. The increased experiential knowledge appears to have facilitated the company's internationalization process as the next step was to establish a local legal entity by leapfrogging the first two initial steps of internationalization according to the Establishment Chain: firstly, sporadic export and secondly, export through an independent intermediary. This strengthens Johanson *et al.*'s (2002) suggestion that current business activities contribute to acquiring experiential knowledge and facilitate the internationalization process (Johanson *et al.*, 2002).

5.2.3.3.3 Bombayworks AB

Bombayworks AB's current business activities appear to be slightly different to the above mentioned companies' since Bombayworks AB does not perform any sales activities on the Indian market at this stage. Mannheimer explains how Bombayworks AB's current business activities were carried out:

What made it possible for us to establish our activities in India was the experience I had gained during the six years I spent working there. In addition, I had a well developed network of valuable contacts that could assist us in meeting the right people. It also allowed us to do things in the right way when establishing our activities.

This implies that current business activities were initiated six years prior Bombayworks AB's establishment in India. Mannheimer, developed a valuable network with contacts that could potentially assist Bombayworks AB's internationalization process, that is, help with the aspects of establishing a legal entity in India and finding competent people to hire. Having established a valuable relationship with crucial people and authorities, seem to have facilitated Bombayworks AB's internationalization process. This is strengthened by Johanson *et al.*'s (2002) suggestion that current business activities contribute to acquiring experiential knowledge and facilitate the internationalization process (Johanson *et al.*, 2002).

Furthermore Mannheimer explains the importance of current business activities:

We would not have established our activities in India if it was not for our personal network. Many of our activities were based on my personal network. Furthermore, my partners possessed very deep IT knowledge gained from their previous positions at a multinational IT consultancy firm. In conjunction with my personal network, these factors were crucial for our establishment in India. If we would not have had access to my personal network an alternative solution would be to contact the Swedish Trade Council in India. They have many competent employees in India and would be of great assistance.

This indicates that current business activities and experiential knowledge are crucial factors when establishing activities in foreign markets, such as India, as they facilitate the internationalization process as the experiential knowledge increases. It appears that Mannheimer's personal network played a significant role in the decision to enter the Indian market. Furthermore, the experiential knowledge of Mannheimer's partners appears to have been crucial when Bombayworks AB established their activities on the Indian market since they possessed valuable IT experience gained from their previous positions at a multinational IT consultancy firm. This also strengthens Johanson *et al.*'s (2002) assumption that current business activities contribute to acquiring experiential knowledge and facilitate the internationalization process.

Furthermore, as the company established a web production unit in India in order to export services to the Swedish market and potentially to sell to the Indian market, the main activities were to hire personnel with the desired experiential knowledge which may lead to adversity for the company. Mannheimer explains:

We encountered huge difficulties in finding the people we needed to hire in India. We noticed that they were very competent but were lacking the knowledge we required. The programmers were experienced but did not possess the knowledge of our company's competencies. This we have solved by training our employees; by sending Swedish employees to India for workshops and by video tutorials. The team we currently have in Bombay is very competent but it took a long time to get there.

This strengthens Johanson *et al.*'s (1977) and Johanson *et al.*'s (2002) suggestion that acquiring experiential knowledge is a time consuming process. Furthermore, a way of dealing with the acquisition of desired experience is by hiring local employees. However, this may lead to some adversity to the company as the local employee does

not have the experience of the company's knowledge and capabilities (*ibid*). This argument appears to be strengthened by the difficulties Bombayworks AB encountered when hiring local staff to their Indian subsidiary since Mannheimer confirms that the local staff had experience from the IT sector but lacked the knowledge of Bombayworks AB's capabilities. However, Mannheimer confirms that his partners possess the core competencies of Bombayworks AB's industry knowledge as they were IT consultants at a multinational company prior to founding Bombayworks AB. This appears to have made the process of transferring knowledge to Indian employees more efficient.

5.2.3.4 Commitment decisions

Companies decide to enter new markets when potential business opportunities are identified. These opportunities are identified on the basis of the companies' experiential knowledge in that specific market (Johanson *et al.*, 2002). According to Johanson *et al.* (2002), a crucial part of the internationalization model is that companies decide to enter foreign markets and commit resources to it on the basis of the experiential knowledge the companies possess. Furthermore, it is crucial to gradually increase the commitment to the foreign market (*ibid*).

5.2.3.4.1 Teleopti AB

Düring explains how the decision to enter the Indian market arose and points out the importance of market knowledge:

India became a large outsourcing market very rapidly. The country quickly took a leading position as it was the country to where companies relocated their outsourcing of services. If the production moved to China, outsourcing of services moved to India. A service that very easily could be relocated to India was call center solutions. In a few years, India became one of the world's largest markets for call centers, in terms of how many people work in call centers. The fact that our customers are call centers, we needed to be where they are. We simply knew the market. A simple question for us when deciding to enter the Indian market was: where is our customer base? Well, it is increasingly in India, so we must be where our customers are.

Before establishing activities in India, Teleopti AB identified a crucial opportunity based on their experiential knowledge: a part of the company's customer base had

relocated from other English speaking countries, such as the US and Great Britain, to India. Hence, Düring explains that Teleopti AB's presence on the Indian market was crucial as the company identified a great market potential in terms of potential customers.

Furthermore, Johanson *et al.* (2002) suggest that committing resources to the foreign market should be done in an incremental fashion as the company's experiential knowledge increases by current business activities in the foreign market.

According to Düring, Teleopti AB initiated its activities in India in 2004 in the following manner:

I and a number of colleagues started to travel to India in order to visit a few potential customers initially. Approximately one year later we had our first local employee in India – in the first quarter of 2005.

This implies that Teleopti AB gradually acquired market knowledge by current business activities as representatives of the company initially travelled to India to meet with potential customers. Furthermore, the company committed its resources in an incremental fashion since the first step was to travel and visit potential customers and the following step was to establish a sales subsidiary in India. Today, five years post establishment on the Indian market, Teleopti AB employs 7 people in India, which suggests that commitment decisions are made gradually. These aspects strengthen Johanson *et al.*'s (2002) suggestion that committing resources to a foreign market is to be done in an incremental fashion as the company's experiential knowledge increases by current business activities in the foreign market.

5.2.3.4.2 Signifikant AB

Löfstrand explains how the company decided to enter the Indian market:

Our goal was not to establish ourselves in India at the founding stage of this company since we had lot of customers in Sweden. Neither does our company or any member of the staff have previous international experience.

Löfstrand clarifies Signifikant AB's aim with establishing its activities in India:

Our aim in recent years has been to enter international markets and to be active in international markets. When it comes to India we were looking to find competencies at a lower cost. Furthermore, we realized that this would be the first time we expand to a foreign market and decided we would not enter a high-cost country to do so. As our aim is to sell abroad we need to learn how to establish our activities in foreign markets. In order to do so we expect a few years to acquire the necessary knowledge. We would not be able to choose for example, Germany or the US as the costs of establishing in those countries would be significantly higher than in India. As our sales process is rather long we would have to finance the foreign entity from Sweden until the first transactions were done. This would not be possible to in a country as the US or Germany. From this perspective, India was a perfect choice because the relatively low costs involved.

Löftstrand continues explaining the company's personal relations and the governmental contribution Signifikant AB received:

Furthermore, we had personal relations with individuals in India who could help us with establishing our activities there. In addition we received a governmental contribution to establish our activities in India. It was not much, but enough to get us started.

Signifikant AB appears to have identified the potential business opportunities on the Indian market based on the information the company received by conducting its current business activities there. Valuable information was received from the Swedish Trade Council and on site in India during the week spent meeting with potential customers and partners, as mentioned in subchapter 5.2.3.3.2. This appears to confirm Johanson *et al.*'s (2002) suggestion that the experiential knowledge helps the companies to identify, understand and evaluate the business opportunities and possible threats. Furthermore, it seems to strengthen Johanson *et al.*'s (2002) suggestions that companies decide to enter new markets when potential business opportunities are identified. These opportunities are identified on the basis of the companies' experiential knowledge in that specific market, which is acquired by current business activities in that specific market (*ibid*).

Furthermore, Signifikant AB appears to have decided to commit resources to the Indian market based on the potential business opportunities that were identified, simultaneously as the company acquired increased experiential knowledge through current business activities. This strengthens Johanson *et al.*'s (2002) assumption that a crucial part of the Uppsala Internationalization Model is that companies decide to enter foreign markets and commit resources to it on the basis of the experiential knowledge the companies possess. Furthermore, once Signifikant AB established a sales subsidiary

on the Indian market it appears commitment decisions were made in a gradual manner while gaining experiential knowledge, since the company relocated parts of its development to the Indian market as the next step in its internationalization process. It is assumed experiential knowledge was acquired during the time of establishing and operating the sales subsidiary.

Finally, Signifikant AB evaluated a number of factors prior entering the Indian market, such as, governmental contributions for entering the Indian market and India being a relatively low cost country to establish activities in. This appears to justify the criticism of the Uppsala Internationalization Model as expressed by Johanson *et al.* (2002); the model is a simplification of reality and it leaves out crucial factors such as evaluations companies do when being in certain situations which affect their decisions regarding their internationalization process.

5.2.3.4.3 Bombayworks AB

Mannheimer explains how Bombayworks AB decided to enter the Indian market:

Our operations were based on being in India from the beginning. Firstly, I and my partners found it very difficult finding programmers in Sweden. However, there was a great potential to find programmers in India. Secondly, we aimed at offering Swedish SMEs the same cost advantages as the multinational companies have in India, without the Swedish SMEs having to go to India and screen the market and find suppliers themselves.

Bombayworks AB appears to have identified potential business opportunities on the Indian market based on Mannheimer's experiential knowledge, which he gained during his six years working and living in India prior to Bombayworks AB's establishment on the Indian market. In addition, Mannheimer's partners possessed IT related experiential knowledge, as mentioned previously in subchapter 5.2.3.3.3. The combined experiential knowledge appears to have been crucial when deciding to enter the Indian market and commit resources to it. The above mentioned seems to strengthen Johanson *et al.*'s (2002) suggestions that companies decide to enter new markets when potential business opportunities are identified and that these opportunities are identified on the basis of the companies' experiential knowledge which is acquired by current business activities in

that specific market. Furthermore, it appears to confirm Johanson *et al.*'s (2002) suggestion that the experiential knowledge helps the companies to identify, understand and evaluate the business opportunities and possible threats.

Johanson *et al.* (2002) suggest that commitments to the foreign markets should be done in incremental fashion. Bombayworks AB initially entered the Indian market through an independent intermediary. However, during the relationship with the intermediary Bombayworks AB gained experiential knowledge which appears to have facilitated the decision to take the next step in the internationalization process. This step involved to establish a subsidiary in India. Mannheimer explains:

Initially, we only wanted to have a subcontractor to avoid fixed costs. The subcontractor in India who would deliver services to our Swedish customers, since we were small as a company and had limited resources. We had a few projects with the subcontractor and initially it worked reasonably well. However, we did not feel comfortable with investing our resources and knowledge in someone else's staff. So, we opened our own office in November 2007 and withdrew the cooperation with the subcontractor. We opened a subsidiary in order to employ our own staff, to train them and to invest our resources in their development.

Bombayworks AB initially operated on the Indian market through an independent intermediary and this decision appears to have been made based on Bombayworks AB's experiential knowledge. Furthermore, during the relationship with the intermediary, Bombayworks AB acquired increased experiential knowledge which facilitated the company's next commitment decision. This decision involved establishing a subsidiary in Bombay for web production purposes. This strengthens Johanson *et al.*'s (2002) assumption that a crucial part of the Uppsala Internationalization Model is that companies decide to enter foreign markets and commit resources to it on the basis of the experiential knowledge the companies possess.

5.3 Conclusion of the analysis

From the material acquired during the interviews with Teleopti AB, Signifikant AB and Bombaworks AB we drew the conclusion that none of the companies in this study followed the internationalization process suggested by the Uppsala Internationalization Model and its Establishment Chain.

Teleopti AB exported to the Indian market initially as the Establishment Chain suggests. Steps two and three, exports through an independent intermediary and establishing a foreign sales subsidiary, were taken simultaneously as supposed to taking them individually and in a gradual manner. Step four has not been taken at this point. Furthermore, Signifikant AB's first step onto the Indian market was to establish a sales subsidiary followed by establishing a partial production unit. In other words, Signifikant AB leapfrogged the initial two steps suggested by the Establishment Chain, that is, sporadic exports and exports through an independent intermeidiary. Bombayworks AB skipped the initial step, that is, sporadic exports to the Indian market and initially established a relationship with an independent intermediary. This was followed by leapfrogging step three, which is establishing a foreign sales subsidiary. The fourth step of the Establishment Chain was taken since the company established a web production unit in India.

Moreover, we came to the conclusion that none of the companies in this study expanded into foreign markets by entering psychic close markets to then enter more psychic distant markets in a gradual fashion as described by the Psychic Distance.

Teleopti AB entered the Norwegian, Finnish, Dutch and English market before establishing its activities on the Indian market. The company entered parts of the Scandinavian markets and only two other European countries before entering the Indian market. Both Signifikant AB and Bombayworks AB had not entered any foreign markets prior their establishment in India.

Finally, we came to the conclusion that the companies in this study internationalized as suggested by the Basic Mechanism of Internationalization. Teleopti AB, Signifikant AB and Bombayworks AB conducted current business activities on the Indian market, which involves, interacting with customers, partners and authorities on a regular basis. This helped the companies gain knowledge, both market and internationalization

knowledge, that facilitated their internationalization processes, since commitment decisions were made to increase the amounts of resources committed to the Indian market as a result of the acquired knowledge. An indication of this is the companies' gradual manner of increasing the amount of resources to the Indian market, once the first internationalization step was taken as described by the Uppsala Internationalization Model and its Establishment Chain.

6. Conclusion

This chapter starts with a summary of this dissertation followed by a concluding discussion of the findings. In addition, the contributions of this study are presented. The chapter ends with suggestions to future research.

6.1 Summary

According to Gaur & Kumar (2009) and Thoumrungroje & Tansuhaj (2004), increasing globalization and decreasing trade barriers have made it easier and necessary for many companies to expand into foreign markets. Increasing globalization gives companies in Sweden the opportunity to develop their activities in emerging markets (Bernstorp *et al.*, 2001). In 2000, the U.S. Department of Commerce identified the largest emerging markets in the world and amongst them was India (Cavusgil *et al.*, 2002). Furthermore, according to the Swedish Trade Council (2010e) there are many opportunities for Swedish companies to establish their activities on the emerging market of India. Since the service sector in India accounts for 54% of the country's GDP and approximately 65% of the world's offshore operations in the IT industry are in India, the main opportunities on the Indian market appear to be in the service sector (Bernstorp *et al.*, 2001).

This inspired us to explore the internationalization process of Swedish companies when entering the Indian market. In addition, there is limited existing research on Swedish SMEs in the service sector entering the Indian market. Hence, we limited our study to include only Swedish SMEs in the service sector. The aim was to explore whether Swedish SMEs in the service sector follow the steps suggested by the Uppsala Internationalization Model when entering the Indian market. The Uppsala Internationalization Model has been chosen for examination in this study because the model is highly developed and has received high penetrating power. The model was followed by Swedish companies when the model was established and the model is very

well known. Furthermore, the Uppsala Internationalization Model has been criticized of not being applicable to companies in the service sector (Hollensen, 2007). Hence the research question is:

Do Swedish SMEs in the service sector follow the process suggested by the Uppsala Internationalization Model?

A multiple case study strategy was adopted and the empirical material was collected by interviewing three Swedish SMEs in the IT industry. A semi-structured interview was conducted with the person at each company that was responsible for the company's establishment on the Indian market. The empirical material is analyzed in chapter five of this dissertation and in the following subchapter the findings are discussed.

6.2 Concluding discussion

The Uppsala Internationalization Model has been the subject of research on numerous occasions by researchers all over the world. Furthermore, not all researchers agree that the model is applicable to the service sector. The above mentioned together with the fact that there is very limited existing research on the internationalization process of Swedish SMEs in the service sector when entering the Indian market, generated the idea to explore whether Swedish SMEs in the service sector follow the internationalization process suggested by the Uppsala Internationalization Model.

According to the Uppsala Internationalization Model and its Establishment Chain, expanding companies initially establish their activities in foreign markets through sporadic exports. Following the initial sporadic export, the companies export through an independent intermediary, for example, an agent. The third step involves establishing a sales subsidiary in the foreign country and the final stage is to manufacture within the market. Furthermore, the Psychic Distance describes that companies initially expand into markets with less Psychic Distance and then enter markets with greater Psychic Distance as market knowledge is being acquired.

As mentioned in subchapter 5.3 we came to the conclusion that none of the companies in the study internationalized as suggested by the Uppsala Internationalization Model and its Establishment Chain and Psychic Distance. This suggests that these two parts of

the Uppsala Internationalization Model are not applicable to Swedish SMEs in the service sector. However, all companies appear to have internationalized as the Basic Mechanism of Internationalization suggests, which is, by conducting current business activities in the foreign market and acquiring experiential knowledge (both market knowledge and internationalization knowledge) in the process. Furthermore, the acquired experiential knowledge facilitated the companies' internationalization processes as decisions were made to gradually increase the commitment of resources to the Indian market. This is an indication that this part of the Uppsala Internationalization Model is applicable to Swedish SMEs in the service sector.

In the following section we will propose the reasons why the companies in this study did not follow the internationalization process as suggested by the Establishment Chain and the Psychic Distance.

Teleopti AB initially exported its services to the Indian market. The following step was to export through an independent intermediary simultaneously as a local sales subsidiary was established. The reason steps two and three of the Establishment Chain were taken at the same time, appears to be that Teleopti AB always sells through these two channels simultaneously. Teleopti AB may have learned that exporting through an independent intermediary and performing sales activities from its own sales subsidiary simultaneously, is efficient from a sales perspective. This knowledge may have been acquired from their operations in other markets. Should this be the case, it would strengthen Hollensen's (2007) assumption that companies have learned from previous market operations which has led to increased experience. Therefore, companies choose to leapfrog some stages of the Establishment Chain when entering foreign markets. However, step four, which involves establishing a production unit in India, has not been taken by the company. The reason may be that Teleopti AB currently does not have any plans of establishing a production unit in India. This confirms Whitelock's (2002) assumption that not all companies aim to establish a production unit abroad. Furthermore, an additional reason of not taking step four of the Establishment Chain may be that Teleopti AB possesses its core product development competencies in Sweden and assume it is a time consuming process to hire the right competencies in India since they would not have the experience of Teleopti AB's competencies.

Signifikant AB has leapfrogged the initial two stages of the Establishment Chain: sporadic export and sales through an independent intermediary. The company's initial step on the Indian market was to establish a sales subsidiary followed by establishing a partial development unit. This strengthens Whitelock's (2002) assumption that not all companies' initial step is to use exports when entering a foreign market. Since Signifikant AB financed the Indian sales subsidiary until the first business transactions occurred with Indian customers and considering the company's long sales process, one can assume that the initial two steps of the Establishment Chain were leapfrogged as Signifikant AB aimed at reaching business transactions rapidly. This may indicate that Signifikant AB's resources were limited and the company was forced to have local staff on site conducting the current business activities in order to bridge the psychic distant gap between the markets and to subsequently sell its services to Indian customers more swiftly. It can be assumed that not having a local sales subsidiary and only exporting from Sweden would increase the length of the sales process. Therefore the Indian subsidiary would have to be financed by the Swedish company even longer. If business transactions would occur earlier, the Indian sales subsidiary could finance itself at an earlier stage, which perhaps would be in the company's interest. However, the further a company gets in their internationalization process according to the Establishment Chain, the higher the market commitment. Subsequently, with high market commitment comes increased risk if any potential problems occur. Hence, the leapfrogging in the Establishment Chain by Signifikant AB, indicates that the company is inclined to take risks as it committed to the Indian market by establishing a sales subsidiary without initially probing the market through sporadic exports and exports through an independent intermediary. The two latter options involve a lower market commitment and lower perceived risk.

As described earlier, Teleopti AB entered the Indian market by sporadic exports followed by exports through an independent intermediary and establishment of a sales subsidiary. Furthermore, Teleopti AB employs 110 people while Signifikant AB employs 19 people. Only Teleopti AB and Signifikant AB, out of the three companies in this study, are performing sales activities on the Indian market. Could this comparison between the two companies be an indication of that the smaller the company, in terms of number of employees, the more inclined it is to take larger steps of internationalization

and subsequently is more willing to accept the increased risk it is exposed to? Should this be the case, it would contradict Whitelock's (2002) assumption that companies with larger resources are expected to take larger internationalization steps when referring to the Establishment Chain.

Bombayworks AB did not export to the Indian market and the company does not have a local sales subsidiary in India. The first step Bombayworks AB took when it entered the Indian market was to make an arrangement with an independent intermediary for web production purposes. However, this only lasted for a short period before Bombayworks AB established a web production unit in India. As Bombayworks AB does not currently sell its services to Indian customers, it can be assumed that the lack of sales activities was the reason steps one and three of the Establishment Chain were leapfrogged. Furthermore, Hollensen (2007) suggests that companies have learned from previous market operations which have led to gained experience. Therefore, companies choose to leapfrog some stages of the Establishment Chain when entering foreign markets (*ibid*). Bombayworks AB's situation appears to be strengthening this suggestion as the co-founder had lived and worked in India for six years prior to establishing Bombayworks AB on the Indian market. During these years he gained valuable experience and market knowledge.

None of the companies in this study started their internationalization process by entering the Scandinavian markets followed by entering other European markets before establishing activities outside of Europe, as described by the Uppsala Internationalization Model and its Psychic Distance. This might be explained by the companies' abilities to identify business opportunities as it may be the reason why leapfrogging in the process occurred.

An indication of this is that Teleopti AB identified that a large part of their customer base relocated from English speaking countries to India. Therefore the company had to be present on the Indian market. This appears to coincide with Bell's (1995) and Blomstermo *et al.*'s (2006) assumption that small software firms tend to enter foreign markets based on their clients' international strategies and in this way follow their clients.

On the other hand, Signifikant AB made a strategic decision to become active internationally and realized the opportunity of gaining internationalization knowledge by entering the Indian market. Since the Indian subsidiary would initially be financed by Signifikant AB (Swedish entity) and the company considered India to be a market where low cost competency could be hired, the process of gaining internationalization knowledge from its activities in India would be affordable to Signifikant AB. In addition, the company realized there is a demand for its products and services on the Indian market.

Finally, Bombayworks AB's aim was to provide web production services to its Swedish customers in a cost competitive manner and realized that this would be possible by complementing its Swedish development unit with Indian competencies. Hence, Bombayworks AB entered the Indian market.

Perhaps the world has become much more homogenous as Hollensen (2007) suggests or may there be a possibility that Swedish SMEs in the service sector perceive the differences between markets but choose to enter psychic distant markets, earlier in their internationalization processes than described by the Psychic Distance in the Uppsala Internationalization Model, in order to pursue an opportunity?

Furthermore, Teleopti AB, established in 1992, had entered the Norwegian, Finnish, Dutch and English market prior to its establishment in India in 2004. Signifikant AB was established in 2004 and entered the Indian market two years later as their first foreign market. Bombayworks AB was established in 2007 and entered their first foreign market the same year, that is, the Indian market. All three companies entered the Indian market between year 2004 and 2007, which indicates that there was not long time between each company's initial step to the Indian market. Since Teleopti AB was founded more than a decade earlier than the other two companies in this study, this provided time for Teleopti AB to enter other foreign markets prior to its establishment in India. This was time that Signifikant AB and Bombayworks AB did not have at their disposal, being founded in 2004 and 2007 respectively. However, if it was possible, it would have been interesting to find out whether Teleopti AB would have entered the Indian market as their first foreign market if the company was established one and a half decade later, that is, in 2007.

Previous studies have shown that the Uppsala Internationalization Model is not valid to the service sector (Hollensen, 2007; Kundu & Renko, 2005). This piece of criticism appears to be supported by the above mentioned. However, the companies in this study appear to have followed the internationalization process suggested by the Basic Mechanism of Internationalization which indicates that the Uppsala Internationalization Model is partially applicable to Swedish SMEs in the service sector.

The Basic Mechanism of Internationalization contains four interconnected concepts which aim to explain the internationalization process of a company. These four concepts are market commitment, market knowledge, current business activities and commitment decisions. The mechanism stipulates that internationalization processes are interactions between knowledge development and foreign market commitment (Johanson *et al.*, 2002). The mechanism describes that current business activities lead to increased market knowledge which subsequently leads to commitment decisions, that is, decisions to commit resources to the foreign market.

All three companies in this study appear to have conducted current business activities in India by regular interaction with customers, partners and authorities. By doing this, market knowledge has been acquired. Over time, as market knowledge was acquired, new business opportunities were seemingly identified and pursued. Subsequently, this possibly lead to commitment decisions being made to increase the level of resources committed to the Indian market. In other words, the companies' internationalization processes were facilitated by the increased market knowledge. All companies seem to have gradually increased their commitment of resources to the Indian market throughout their internationalization processes, as their market knowledge increased. The gradual commitment of resources is evident in the following three descriptions. Firstly, Teleopti AB initially entered the Indian market through sporadic exports followed by exports through an independent intermediary and sales through a foreign sales subsidiary simultaneously. Today the company employs eight people in India. Secondly, Signifikant AB initially established its activities in India by setting up a local sales subsidiary followed by relocating parts of its development unit. Currently the company employs five people in India. Thirdly, Bombayworks AB started its activities in India through an independent intermediary followed by partially relocating its production unit. Today the company employs six people in Bombay, India. The above mentioned

appears to contradict the criticism of the Uppsala Internationalization Model as the Basic Mechanism of Internationalization appears to be applicable to the service sector.

However, in Signifikant AB's and Bombayworks AB's case, another factor appeared to be crucial in their internationalization process; their personal networks in India. This appears to coincide with Ojala & Tyrväinen's (2008) findings, that US software SMEs developed personal networks, which enabled them to enter foreign markets successfully. However, this was not the case for Teleopti AB. Teleopti AB currently employs 110 people while the other two companies employ less than 20 people. Is it possible that smaller companies, in terms of number of employees, are more dependent on personal networks? Both Signifikant AB and Bombayworks AB emphasize the importance of their personal network and point out that the network played a crucial part in their decision to enter the Indian market. Furthermore, it also assisted them significantly during their internationalization process which seems to fit the criteria of the Network model. The concept of the Network model is that a company has direct or indirect contacts, so called bridges, between different companies and country networks. These bridges can possibly be crucial when entering new markets and connect the network through technical, economic, legal and personal reasons (Hollensen, 2007). Furthermore, a firm has a personal relationship with other customers, suppliers, partners and these relationships represent the company's network (Johanson *et al.*, 2002). The companies' personal networks appear to be crucial factors which have been considered and evaluated by Signifikant AB and Bombayworks AB when decisions were made with regards to their internationalization processes. This appears to strengthen Johanson *et al.*'s (2002) claim that critics suggest that the Uppsala Internationalization Model is a simplification of reality and it leaves out crucial factors such as evaluations companies do when being in certain situations which affect their decisions regarding their internationalization process. Furthermore, it seems to strengthen Whitelock's (2002) claim that in reality a company's foreign market entry is a combination of key features of different internationalization models.

6.3 Contribution

The aim of this study was to explore whether Swedish SMEs in the service sector follow the steps of internationalization suggested by the Uppsala Internationalization

Model. Very limited research has been done on Swedish SME's internationalization processes when entering the Indian market. Hence, this study has some theoretical value. There lies value in strengthening existing research regarding the Uppsala Internationalization Model. Furthermore, the idea that companies with larger resources are expected to take larger internationalization steps was contradicted by the results of this study as the SMEs in this study leapfrogged stages of the Establishment Chain. This could possibly contribute to the Uppsala Internationalization Model's theoretical development.

In addition, the results of the Psychic Distance are of interest as it appears that the companies in this study did not gradually expand, as their knowledge increased, across borders from Sweden to Scandinavian markets and then to other European markets, before entering markets outside of Europe. Instead, the companies in this study identified opportunities and expanded into a market outside of Europe, that is, a market with greater Psychic Distance: India. Theoretically, this study may have contributed to exploring what factors are of importance to Swedish SMEs in the service sector when entering psychic distant markets, such as the Indian market. Furthermore, by exploring what aspects of the Uppsala Internationalization Model are applicable to Swedish SMEs in the service sector, this study has possibly contributed to the initial step of further research, should further research explore various existing internationalization models to investigate what key elements are suitable to Swedish SMEs in the service sector.

6.4 Future research

It would be interesting to explore if the Uppsala Internationalization Model is applicable to a more homogeneous group of Swedish SMEs in the service sector that were established approximately at the same time with about the same number of employees. For example, the sample could consist of nine companies established between 2000 and 2001; of which three employ less than 50 employees, three companies between 51 and 150 employees and three companies with 151-250 employees. Furthermore, it would be of interest to explore and compare the differences in their internationalization processes in order to investigate what factors are of importance, for the three different groups in the sample, when internationalizing. By identifying these factors the results could possibly contribute to assist Swedish SMEs in their internationalization processes. In

addition, it would be of interest to conduct further research on multiple Swedish SMEs in the service sector to explore whether size of company determines the size of the internationalization steps taken.

A final suggestion to future research is to involve various existing internationalization models and to explore which aspects of each model is applicable to Swedish SMEs in the service sector. By conducting such a study, perhaps a new internationalization model would be developed applicable to Swedish SMEs in the service sector. This new, developed model could possibly be of great value to SMEs that are planning on becoming active internationally.

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Appendix 1 – INTERVJUGUIDE (Swedish)

Bakgrund

I vilken bransch är [företagsnamn]?

Vilken är din position på [företagsnamn]?

Hur många anställda har [företagsnamn]?

Sedan när är [företagsnamn] aktiva på den indiska marknaden?

Psykiskt Avstånd

Har [företagsnamn] tidigare erfarenhet av att etablera sig på utländska marknader? Om ja, till vilka länder?

IP-modellen

Varför beslöt sig [företagsnamn] att etablera sig på den indiska marknaden?

Hur utvecklade [företagsnamn] sin etableringsprocess?

Hur samlade [företagsnamn] information om den indiska marknaden? (Om tex kunder, affärstraditioner etc.)

Vilka möjligheter såg [företagsnamn] på den indiska marknaden?

Vilka svårigheter stötte [företagsnamn] på i etableringsfasen?

På vilket sätt hanterade [företagsnamn] dessa svårigheter?

Etableringskedjan

På vilket sätt etablerades [företagsnamn] i indien?

Appendix 2 - INTERVIEW GUIDE (English)

Background

In what industry is [company name]?

What is your position at [company name]?

How many employees does [company name] have?

Since when is [company name] active in India?

The Psychic Distance

Does [company name] have any previous experience from entering foreign markets? If yes, to what countries?

The Basic Mechanism of Internationalization

Why did [company name] decide to enter the Indian market?

How did [company name] develop its establishment strategy when deciding to enter the Indian market?

How did [company name] gather information about the Indian market? (Knowledge about customers, business traditions etc)

What possibilities did [company name] see on the Indian market?

What difficulties did [company name] encounter?

How did [company name] overcome the difficulties?

The Establishment Chain

In what way did [company name] approach the Indian market?