Why Not China?
- A study of organizational features behind Swedish SMEs’ internationalization towards China

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Abstract

In today’s global market, China attracts great attention due to its rapid growing economy. Organizations from different countries take advantage of this, and move production to China. The noteworthy aspect of this situation is that most of these companies are Multi National Enterprises. These MNEs are aggressive in their expansion due to possession of major capabilities and possibilities to confront barriers and take economic risks. However, there are smaller companies with fewer resources that are more limited and choose not to move production to China. What drives these companies to bypass the well documented advantages with a production process in there? This research aims to fill that gap.

This deductive research is based on Swedish SMEs that have been inquired to rank the most influential drivers behind their decision to move or not to move production to China. The investigation is conducted quantitatively by a survey. Another aspect of the survey which strengthens the result is the core strategies of the SMEs, which are asked to be ranked in order to reveal the most dominant one. The results analysis signifies that the key-drivers and the core strategy together influence the decision, to either move or not to move.

However, the generalizability is negatively affected by the low level of participants. Therefore, in-depth analysis has been conducted, which highlights that the results do reveal a connection between the drivers and the core strategy and how they influence the decision. This research reveals the most influential processes for Swedish SMEs, which can further be considered by other SMEs that are in the process of making a decision to move or not to move production to China.

Key words: Swedish SMEs, China, Move of production, Drivers, Core strategies, Organizational features.
Acknowledgement

First of all, we would like to give special thanks to Timurs Umans for outstanding supervision from the beginning to the completion of this project. We would also like to thank Annika Fjelkner for proofreading the research, making us aware of our language issues and helping us to skill-wise develop tremendously. Last but not least, thanks to Pierre Carbonniere for his statistical support.

Kristianstad, 2011

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1. Introduction

The first part of the dissertation mainly focuses on guiding the reader towards the research question through topics concerning background, problem, purpose and research question.

1.1 Background

Today’s fast growing global market creates intense competition between domestic and foreign companies. There is nothing new about companies which are moving their production to low-cost countries such as China (Sinha et al. 2011). Numbers of companies moving production to China accelerated after the changes of economic reforms in China made by Deng Xiaoping in 1979. The Chinese government switched from the inflexible plan economy to a market economy approach. The changes has obviously decreased the institutional bureaucracy within the country and opened it up towards the global market. Since these reforms took place, the Chinese business society has been connected to the global market at a high scale. China has become a major economic world power due to the country’s size and huge population. With its membership in the World Trade Organization in 2001, China is in a more favorable condition to implement its economic reforms and industrial restructuring in order to integrate with the outer world. This has stimulated the development of the country’s logistic industry, reduced its barriers for inward FDI and provided the domestic economy with an enormous increase in global demand for manufacturing in China (Lau et al. 2006).

The possibilities of great profits that China presents for western manufacturing-companies has made the entrance to China a vital move in their strategic approach (Lau et al. 2006). The change towards a capitalistic market economy has not only led to major economic changes within China but also globally. The increased demand to move production to China has created intense global competition between companies and high pressure on costs and responsiveness. This pressure has led to reduced prices for the customers and higher revenues for the producers (Sinha et al. 2011).

The decision to enter a low cost manufacturing nation has in some cases become essential for a company in order to not be out conquered by domestic competitors. However, the move is a big step which requires resources and other specific capabilities. The move does also include
big risks, especially regarding entering a large and in some places undeveloped market as China (Sinha et al. 2011). The drivers that affect a company’s decision to move production can also be seen as advantages and disadvantages within organizational processes. When the benefits outweigh the main negative aspects, move of production seems relevant. Due to all the documented benefits of moving production to China, one question arises; why do some firms choose not to move production to China and which organizational processes are taken in concern in their decision?

1.2 Problematization

The number of Swedish companies that chooses to move their production to low cost manufacturing countries has grown vastly in recent years (Jansson 2005). The choice of production move depends on several different drivers, many which are already known such as low labor costs and expanding markets. China, which is a common choice regarding move of production, presents a lot of advantages and disadvantages for Swedish SMEs. Companies that need to make a choice have to analyze several different drivers regarding the process of production move (Jansson 2005). The advantages are well known, but there are still some Swedish SMEs that chooses not to enter China. Thus, the questions arise; why do these Swedish companies choose not to enter China and what drivers are taken into consideration? Which drivers are seen as most influential behind the decision? Existing research within the area has identified drivers concerning internationalization such as, relative production costs, quality importance, unfamiliarity of the foreign market, lack of competences and resources. However, these drivers concern MNEs and are argued for being the drivers behind their decision to move production. (Sinha et al. 2011)

As mentioned by Sinha et al. (2011) these drivers are differently encountered by SMEs. As an example, the difference in size between SMEs and MNEs provides SMEs with a superior level of communication and interaction within the company (Sinha et al. 2011). Good communication systems create strong relationships and alliances between business partners. This also creates higher trust and lower costs. This is an example that proves the benefit processes within MNEs, have a different influence on SMEs (Sinha et al. 2011). In this study, the most influential drivers will be explored through a research based on Swedish SMEs’ preferences towards move of production to China. Due to lack of similar existing data
concerning SMEs, the preferences are concerning MNEs and extracted from existing data. These are in this research applied on Swedish SMEs.

1.3 Research question

How do organizational features of Swedish SMEs influence the choice to move or not to move production to China?

1.4 Purpose

The purpose of this research is to explore the drivers and core strategies that influence Swedish SMEs’ to move or not to move production to China. This research will also highlight these characteristics and reveal a general feature amongst the Swedish SMEs. Existing studies show that there is a strong emphasis on why MNEs enter China but less about SMEs. This study aims at filling that empirical gap. Another interesting observation is the features amongst companies that do not move to China

1.5 Limitations

This research analyzes international business and corporate strategy. However, there are several limitations in the process. First, the research is performed on a large number of organizations during a very limited time period. This research is carried out through a questionnaire survey sent to 400 Swedish SMEs through e-mail. The method used is essential to receive a general result but unfortunately decreases the chances to receive a large amount of participants within the time given to complete this investigation.

The aim is to be able to apply the result on other similar organizations. Another limitation is the fact that the responding companies operate within several industries. In order to overcome this issue, companies that have a part of their production within plastics and rubber, were chosen. This was thoroughly investigated through the search tools used when choosing the relevant companies. This facilitates the generalizability and the comparability since; companies with similar demographics can easily be chosen.
1.6 Research outline

The process of this dissertation will be carried out through six main chapters. Each chapter is managed in a way to guide the reader and to give a proper understanding of the dissertation. The first chapter consists of the background regarding the subject of the dissertation, purpose, research question and the theoretical limitations. Second chapter introduces the different parts of the research process through a model called the “onion”. These parts explain the different philosophies, approaches, theories and methods that exist. It also introduces the chosen philosophies, theories and approaches for this research.

In the third chapter the chosen philosophies, approaches, theories and methods are put in practice. The chapter consists of theoretical reviews, which lead to exploration of relevant theories, strategies and at the end, the research model created for this dissertation. The fourth chapter is concerned with the research strategy, design, time horizon, data collection, sample selection, operationalization and how reliable and valid the variables are in order to generalize the measurements. In the fifth, the results from the research are presented and discussed. Finally in the sixth part of the dissertation, conclusions of the findings, criticism of the research and suggestion for further research is provided.
2. Research Method

Until now we have discussed the content of the research and why it is executed. In this chapter, the different methods that are used to approach this study are identified. Here the research process, research philosophy, research approach, choice of theory and choice of methodology provide an explanation of how this study will be carried out.

2.1 Research process

The “onion” model of the research philosophy, introduced by Saunders et al. (2009), shows the different parts of the research process. The process is divided into five main parts: Research Philosophy, Research Approaches, Research Strategies, Time Horizons, and Data Collection Methods. According to Saunders et al. (2009) these are vital in order to manage the survey in a proper way and to achieve its purpose. The objective is to approach the research process with several components from the main categories in the onion. What these components focus on, is described in this chapter.

Fig 1: Research process “onion” (Saunders et al. 2009)
2.2 Research philosophy

The choice of research philosophy is very much affected by a person’s values, assumptions and world view. The philosophical view determines the appropriate strategy approach and the direction of a research. The research question is based on the understanding of a philosophical view, which makes the choice of philosophy a very significant part in the problem development.

There are two major views on research philosophy; one is the ontological view which determines the way of looking at reality from different angles: objective and subjective (Saunders et al. 2009). The objective angle is where social entities are external to social actors, for example management towards employees. The subjective view on the other hand, analyzes how the social actors interpret the reality and by that act from their own perceptions. The other view of research philosophy is the epistemological view (Saunders et al. 2009). This view analyses the most important knowledge within a field of study. There are two different outlooks within the epistemological view, namely, if gained knowledge is acceptable or not. The first is resource orientated which treats data collection closely and the other is orientated towards feelings, which base the research on attitudes and feelings (Saunders et al. 2009). The resource orientated research looks to implement one amongst four main research philosophies within management research: Positivism, Realism, Interpretivism and Pragmatism (Saunders et al. 2009).

A Positivistic philosophy is where existing theories are used to develop a hypothesis. Observations on reality are preferred to collect credible data in order to answer the significant questions. A positivistically orientated researcher has more focus on facts than impressions. The Realistic philosophy is also a view that emphasizes science. The theory underlines the reality in what the mind experiences, in other words “you see what you get” (Saunders et al. 2009). The Interpretivistic philosophy, on the other hand, explains the reality as a complex environment with different sides to everything. Laws for example cannot be set due to different interpretations of them. This erases the opportunity to generalize and forces the research to go in-depth. There is also a pragmatic view which emphasizes the best philosophy adjusted to each individual research (Saunders et al. 2009). To avoid taking any major standpoint, one can be flexible according to the situation. Saunders et al. (2009) points out that one philosophy is not superior to another. What it comes down to is the best way to integrate the research question with the personal view on philosophy. All of these philosophies are recommendable depending on how the research is planned to be carried out.
However, in this dissertation, a positivistic approach is required because we will use existing empirical studies to develop our hypotheses and we will collect data by questioning relevant Swedish SMEs.

2.3 Research approach

A research can be approached in two different ways, deductively or inductively. These two different approaches determine the research process. In a deductive approach one should create hypotheses based on existing theories which are put in practice through specifying how the issue will be researched. Thereafter, results are analyzed and modification of the study is done if the results. The inductive way is managed oppositely. In other words, data is collected through an investigation thereby a theory is created based on the result (ibid).

A deductive approach is mostly used when a scientific research is necessary. The deductive approach answers what is going on. It relies on existing empirical studies and directs the research towards a quantitative research method, which enhances the possibilities to generalize the outcome. This approach makes the outcome more reliable since, previous studies are used as a support. An inductive approach, on the other hand, is a way to analyze a situation more deeply and it answers why something is going on. It focuses on studies of small complex variables such as age or other factors that influence the research indirectly (Saunders et al. 2009). Normally there is not sufficient data that can be used as support; therefore, the inductive approach directs the research towards the use of qualitative methods, which can have a negative impact on both generalizability and reliability (ibid).

As mentioned above a deductive approach is dependent on the extent of information available within the field. In this research, there are a large number of empirical studies but there is lack of knowledge dealing with the question; why organizations do not enter China. Since, the deductive approach has generalization as a purpose, directs this research towards the use of a deductive approach. This in turn leads to the use of a quantitative research method. The objective is to research numerous companies in order gather enough information regarding the decision to move or not to move production to China. The outcome of the survey makes it possible to generalize the quantitative results of this scientific study which is our actual contribution.
2.4 Choice of theory

There are some scientific articles that explain factors that influence a company’s decision to move operations to China (Sinha et al. 2011; Cuervo-Cazurra et al. 2007; Eden et al. 2004). This dissertation focuses on previous theories and data to develop a model. However, the big task is to gather empirical studies and analyze drivers that influence Swedish SMEs’ decision to enter or not to enter China. The aim is to contribute with information that is not well known for Swedish SMEs. This research is done to show that there is an empirical gap in this field. Nowadays the move of production to China is understandable and therefore, questioning locally producing SMEs will highlight the reasons to not move production to China. Since, this research deals with organizational expansion and sourcing to an external environment, the research is based on both traditional trade and internationalization theories. A theory regarding organizational typology is also used.

2.5 Choice of methodology

The decision to choose methodology depends on both the approach and the philosophy. As mentioned in the literature, the inductive way of approaching a research is connected to the interpretivistic philosophy and a qualitative research. Under an inductive approach a research focuses on small variables, in other words, a more in-depth research is taking place where there is no or less existing data. Therefore, the data need to be collected qualitatively in order to make the research valid and reliable. A quantitative method, on the other hand, is relevant for research focused on a broader field where existing data can be used as reliable and supportive source. The method goes hand in hand with a positivistic philosophy and a deductive approach, which also highlights the possibility to generalize the research.

This dissertation uses a deductive approach since existing data is gathered and then used to execute a quantitative research. The existing data constitute the research base and helps to answer the research question. In other words, the research is done according to the positivistic philosophy, which means that a quantitative research method is used (Saunders et al. 2009). Information is gathered through questionnaires sent to a large number of Swedish SMEs. The questionnaire survey explores the influence of each driver within the given industry. The survey is resource orientated and conducted through observations of real situations in order to make the results measurable, comparable and possible to generalize.
3. Literature Review

In this chapter Globalization, strategy, traditional trade and internationalization theories are described. The internationalization theories are the main tools of creating the model needed to carry out this research. Analysis of the theories has contributed to explore strategies and drivers behind the internationalization process. These initially create a model.

3.1 Globalization

The holistic process of internationalizing companies is in general terms called globalization. Therefore knowledge of reasons behind globalization and its historical process is necessary to understand for the modern corporation.

Nowadays, nations are shifting towards a situation where barriers of trade and investments are decreasing and different cultures are globally starting to collaborate. The progressively emergence of nations into an integrated global economic system is actually the results of highly developed communication and transportation systems (Baffour et al. 2009). This process of an economic shift toward a world economy is normally referred as globalization (Brinkman et al. 2002). Most organizations that are successful today are utilizing the globalization in order to be competitive. One example is the case of Vizio, a flat panel TV producer which only has 75 employees but still manages to out conquer larger organizations due to its efficient production. This is possible because Vizio’s flat panels are manufactured in South Korea, their electronic components are brought from China, the microprocessors are made in the US and finally the TVs are assembled in Mexico (Hill 2009). In other words, products are made from inputs from all over the world. The example reveals the purpose of globalization, namely the efficient production through utilization of location specific advantages. This example concerns all organizations because each organization must expand in order to be able to compete and not be out conquered.

The major rise of globalization progressed after the world collapse of communism in the 80s. Nations like China started privatizing state-owned enterprises and welcome foreign nations in order to develop the domestic economy through increased competition (Hill 2009). Through increasing globalization, trade barriers declined and common trade regulations through authorities such as the World Trade Organization (WTO) (Brinkman et al. 2002). Today’s
global economy has made it possible for organizations such as McDonalds and Sony to become multinational enterprises (MNEs) and globally popular. This high level of integration has caused interdependency between distant markets where a recession in Asia can lead to higher interest rates in the US (Brinkman et al. 2002). Historically there have been many protests against globalization due to increasing unemployment and environmental degradation in developed countries. However, researches reveal that globalization, in the long run contributes to the global economic growth and its benefits outweigh its disadvantages. It is simply a vital phenomenon which cannot be neglected in today’s economic society (Sinha et al. 2011; Brinkman et al. 2002).

Globalization can be divided into two categories. First, the globalization of markets which has become possible due to fallen cross-border trade barriers. It has made it possible for MNEs such as IKEA, McDonalds and Coca-Cola to sell their products internationally. Foreign products being accepted in recently entered markets reveal that tastes and preferences have become global. However, MNEs are not alone benefiting from the globalization of markets. Over time shown, US and German small and medium sized companies (SMEs) have a remarkable increase in total exports. In other words, globalization of markets can be advantageous for both large and smaller companies. Even though barriers have fallen and markets for industrial goods have become globalized, many markets are hard to open up and have just recently done so. This is due to different cultures and political systems (Hill 2009).

The second category is the globalization of production which previously has been introduced by the Vizio flat Panel case where inputs from all over the world are utilized in production of a product. Each nation produces the component in which they have great competencies. Just like globalization of markets have limits, so doe’s globalization of production. These limits are caused by formal and informal barriers such as barriers to FDI, transportation costs and issues with economic and political risk. Organizations such as the WTO are working to reduce these barriers and create an open global business system. However, some opponents charge that globalization seizes the national sovereignty. Due to globalization, interdependency between markets has increased and caused individual nations to have less control over the product flow into their country. As mentioned previously, the benefits of globalization outweigh the losses for the world economy; therefore, the process still carries on (Hill 2009).
3.2 Traditional trade theories

In “An Inquiry into the Nature and Causes of Wealth of Nations” from 1776, Adam Smith lays the foundation for the international trade theory that was later developed by Ricardo, Heckscher and Ohlin, Vernon, Krugman, and others. The book reveals that countries will prosper from trade with each other due to the fact that exchange provides advantages in production and labor. This innovative view questioned the dominating mercantilist view and laid the ground for free trade societies. (Crowley et al. 2010). In order to get a better understanding of the modern internationalization of companies, the traditional trade theories’ development is explained in detail below. These theories are still emphasized within modern corporate strategies.

3.2.1 The mercantilist theory

The Mercantilist theory dominated Western European economic policies until the late-18th century. It can in some cases be described as a nation’s order at the expense of foreign nations (Karsstensson 1999). The theory originates from England during Queen Elizabeth 1 rule in mid-1600. During that time the national wealth was measured through the amount of gold and silver which also was the currency of trade between countries (Karsstensson 1999). The Mercantilist theory’s main vision was to create a trade surplus by increased exports and decreased imports. Therefore the strength of the nation was maximized through the expense of foreigners, namely by increased exports. As the English merchant Thomas Mun stated:

> Although a Kingdom may be enriched by gifts received, or by purchase taken from some other nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value. (Karsstensson, 1999, p.8)

Since the theory is based on this belief, government interventions took place in order to gain a surplus in the balance of trade. This led to policies to promote exports and restrict imports through tariffs and quotas (Karsstensson 1999).

The Mercantilist theory is often referred to as a zero sum game because increased export will in the longer run lead to higher money supply which leads to inflation. The importing country on the other hand would experience a decline in the money supply and its prices, which would encourage the exporter to raise imports and the importer to raise exports. This zero sum game is the reason for diminishing trust in mercantilism (Karsstensson 1999).
3.2.2 Theory of competitive advantage, Adam Smith

The zero-sum game in the mercantilist view was criticized by the Scottish philosopher Adam Smith. In his book; *The Wealth of Nations 1776*, he argues that nations can produce goods with different efficiency and that the market should not be controlled by any government regulations (Crowley et al. 2010). Within his theory Smith uses the metaphor “invisible hand” to explain how the market is self-regulating according to the situation of a nation’s factor endowments and absolute advantage (Crowley et al. 2010). According to Smith’s theory, every nation should focus on its strengths and specialize in production of goods in which it possesses an absolute advantage. By specializing, each nation can produce higher quantity of a product and trade with other countries that can produce another product at a higher quantity. Since, each country maximizes its manufacturing in one product respectively, the total production and welfare increases and every nation involved benefits from trading with each other.

3.2.3 Theory of comparative advantage, David Ricardo

According to Smith’s theory, a nation should never produce goods domestically if it can import similar products from another country at a lower price. This argument was later modified by the English political economist David Ricardo. In Ricardo’s book; *Principles of Political Economics (1817)*, he developed Smith’s theory regarding absolute advantage. In the book, Ricardo argues that it is beneficial to trade even if a nation owns absolute advantage within the manufacturing of every product in contradiction to another nation. In this sense, the superior nation has a comparative advantage, meaning that it should still focus on its most productive industry and import goods that it does not produce as efficiently (Lee et al. 2011). Ricardo’s theory enhances internationalization of companies and shows that trade is beneficial to every nation even in circumstances where wealthy countries trade with developing countries.

Both Ricardo and Smith argues in their theories that free trade is highly beneficial for all companies involved but their free trade orientated theories involves some contradiction. For example, David Ricardo’s theory of comparative advantage explains that productivity is dependent on how efficient resources are utilized and the theory assumes that the market consists of only two companies which are an inaccurate description of the real world scenario.
3.2.4 Heckshcher and Ohlin theory

The theory of Ricardo has been developed and explained differently by two Swedish researchers named Bertil Ohlin and Eli Heckshcher. Their study supports the idea that comparative advantage arises from differences in a nation’s possession of factor endowments. By factor endowments they indicate a nation’s resources such as land, capital and labor. The possession of factor endowments can vary from country to country and according to the Heckscher and Ohlin theory a nation will export the products which require the resources they possess (Gounder et al. 2011). An example could be if a product requires a high amount of capital, it will be most efficient for the capital intense country to produce the specific product. Heckscher and Ohlin agree with Ricardo and Smith that trade is beneficial for all parts involved. However, unlike Ricardo and Smith, Heckscher and Ohlin state that trade is determined by differences in resources rather than differences in productivity (Gounder et al. 2011).

3.2.5 Product life cycle, Raymond Vernon

Another philosopher named Raymond Vernon found the factor endowment phenomenon mentioned by Heckscher and Ohlin to be highly relevant. He introduced the Product Life Cycle theory (PLC) in the mid-1960s as an internationalization process, which also explains that location-specific advantages should determine the location of production. Vernon states that most new products are initially domestically produced since pioneering firms want to keep the production facilities near to the headquarters and the domestic market (Parrish et al. 2004). These firms sacrifice low cost locations in order to avoid risks and uncertainty of a foreign market. According to Vernon, the prevention is only possible in the early stage of a products life cycle since, the demand of products tend to grow in similar foreign markets. The increased demand makes it worthwhile for a company to move its production and compete effectively. Gradually, the product matures and becomes more standardized on the market, which makes the price the primary competitive element (Parrish et al. 2004). At this stage, a company is almost forced to move its production once more, but this time, to a low cost or developing country.
3.2.6 Porter’s diamond

The philosopher Michael Porter introduced the model called Porter’s Diamond in 1990. Porter bases his research on why some countries are more productive than others in production of a certain product (Javalgi et al. 2011). Porter explains the reason through his model that consists of four broad elements to reach competitive advantage.

- Factor endowments
- Demand conditions
- Relating and supporting industries
- Firm strategy, structure and rivalry

*Factor endowments* are a nation’s endowed resources, such as labor, capital or other skills and experiences. Porter describes two main categories of factor endowments, basic and advanced factors. Basic factors concern natural resources such as climate and demographics whilst the latter consists of technological resources, communication infrastructure and research facilities (Bridwell et al. 2005).

By *Demand conditions* Porter states the importance to fulfill the needs of customers, in other words, the importance to fulfill the needs of domestic demand. Porter explains that a firm needs sophisticated and demanding customers in order to innovate and develop its products, which creates higher possibilities to compete internationally (Bridwell et al. 2005).

The existence of *Related and supporting industries* is also a vital component in order to achieve a competitive advantage. Porter here points out the influence of spillovers from one industry to another. As an example, he explains the creation of clusters where one industry such as the semiconductor industry in US contributes to the success of the computer industry (Bridwell et al. 2005).

In the last element of Porter’s diamond *Firm strategy, structure and rivalry*, he first explains that a firm’s strategy is differently managed due to that different ideologies originate from different traditions and a nation’s norms and values. He argues that these ideologies can either be helpful or cause damage for a nation’s competitiveness. The second point regards the domestic rivalry which promotes the urge to innovate and invest in a nation’s advanced endowments (Bridwell et al. 2005).
3.2.7 New trade theory, economies of scale theory; Paul Krugman

Another approach towards internationalization is the *Economies of Scale theory*, invented by Paul Krugman during the 1970s. The theory signifies that unit cost reductions are made by large scale of output. However, the Economy of Scale theory does not only concern the ability to spread the costs over large volumes. The theory also includes the ability to use high technological assets and educated personnel (Husan 1997). The economies of scale theory support the theory of specialization introduced by Smith because through specialized tasks, economies of scale become possible (Husan 1997).

The trade theories described above can be recognized in the internationalization processes described below.

3.3 China’s internationalization

As an unofficial leader of the communist party in China between the years 1978-1992, Deng Xiaoping instated several new reforms that would drastically change the whole country’s financial system and economic situation. The reforms were mainly intended to change the Chinese plan economy to a socialist market economy (Manuela et al. 2002). The new capitalistic Chinese market allowed people to individualize their business and compete against the bureaucratic state owned enterprises. Agricultural reforms were established to allow people to own their land and to choose their crops according to the market demand (Ling et al. 1994). The urbanization created by the market economy reforms evolved rapidly and the urban communities could be supported by the rural farmers.

The new bank reforms in 1984 created major developments in the Chinese financial system. By separating the People’s bank of China from other commercial banks, a central bank system was installed. The system allowed regional inter-bank loans, which led to the establishment of the Shanghai and Shenzhen stock market in 1990 and 1991. The liberalization of the Chinese economic system was clearly revealed, based on the drop of state owned enterprises from 78% to 29% between 1978 and 1996 (Manuela et al. 2002). The decentralization of government decision making through the new reforms have led to a highly developed product market; through increased internationalization by Chinese companies and extremely high rates of growth during the past two decades (Hassard et al. 2010). The Chinese cell phone market for example is one of the largest in the world with an increase from almost zero users
to 200 million in two years between, 1998-2002. The demand for products amongst the Chinese consumers is still increasing due to the growing middle class society (Geib 2005).

After many years of negotiations China entered the World Trade Organization (WTO) in 2001 and agreed to follow the organizations’ frameworks: uniformity, transparency and judicial reviewability (Agarwal et al. 2004). By entering the WTO, an even higher potential of development has been created for China through the reduction in trade tariffs and other internationalization barriers (Agarwal et al. 2004). The changes are not only to be seen in the country’s constant increase in GDP but also in companies’ culture and the approach toward other business cultures, trade and internationalization. Other factors that followed the WTO agreement are the new rights to invest and establish subsidiaries and also the right to choose an own joint venture partner. These agreements have come to play a big role in the future of China’s strategic approach towards international strategy and collaboration with foreign companies (Yolles et al. 2006).

With low production costs and the world’s biggest domestic market, China’s liberalization has attracted substantial inflows of foreign direct investment (FDI) into the country. The current situation is very different from the one before 1978 where FDI was almost unknown to the Chinese business society. The explosion of FDI in recent years has made China the second largest recipient of FDI in the world after USA. China is now considered to be the main location in the world for manufacturing, especially within labor intensive industries such as garments, textiles and footwear, which attracts 70 per cent of the country’s total inward FDI (Salavrakos 2010). The Computer and telecommunication industry is also on the rise. The country is starting to become more technology intensive by adjusting to the global market demand. China’s entrance into the WTO has given the country a comparative advantage over many other Asian exporting countries. The fact that the country possesses the second lowest labor costs in the region (after Indonesia) makes them a target for non-labor intensive countries such as the USA to invest a great amount of capital in FDI towards China (Agarwal et al. 2004). China’s specialization according to their comparative advantage is not only used for exports but also for exposure of new products on the domestic market since, the possibilities of gaining enormous economies of scale domestically are big. The east part of China has received the biggest amount of FDI at 86% compared to only 14% inland, measured 2003. This significant difference is due to the eastern costal region which simplifies the logistics and transportations. The foreign capital has contributed to a fast development in infrastructure which further simplifies the access to FDI in these areas (Salavrakos 2010).
China has during recent years developed into a superpower with a huge influence on the world economy. The country has opened up globally and developed economically and culturally. However, the country’s export far exceeds its import, which presents the argument that the country possesses a neo-mercantilist view.

The internationalization and opening of the Chinese trade boarders has given foreign companies the possibility to use the advantages that the Chinese market has to offer. These advantages are revealed in different internationalization theories that are explained below.

### 3.4 Sweden’s internationalization

Sweden’s internationalization history has gone up and down during the recent century. The internationalization process of Sweden was put on hold during the 1920s economic world crisis, when grain prices globally dropped. Due to the decreased prices, the Swedish government instated protectionism within the country in order to prevent people to consume cheaper grain from abroad (Lindberg 2007).

The protectionism continued during the 1930s with involvement from the social democrats. Regulations on import regarding production and food processing were created by the party. The involvement caused by the social democrats led to exploitations through increased prices by Swedish farming organizations. The protection from imported goods was mostly obtained in order to benefit the domestic agrarians, landlords who controlled the Swedish farming organizations (Lindberg 2007). This phenomenon is referred to as intervention dynamic. Gradually the agrarian party got majority of the control over the import regulations. (Lindberg 2007).

At the beginning of the 1920 crisis, the producers had no power to influence the import policies. The agrarians’ achieve of control gave the producers power and legitimacy. The new agricultural policy was introduced in the 1940s and formed into an interventionist labor-market policy (Ibid).

During the Second World War, the authorities in Sweden controlled prices and set quotas on certain foods within the country. The authorities had formed an “iron triangle” between producer organizations, politicians with farming interests and a growing agricultural bureaucracy.
After the war, new regulations were imposed but not for the better. The new regulations were stricter and also aimed to benefit the wealthy landlord’s interests. The regulations were done through tariffs and price controls much like in the 1920s. This again protected the farmers from foreign competition and at the same time, generated higher prices. The authorities did not only keep inward FDIs away but they even depressed the possibilities for the Swedish natives to buy land or become farmers, which led to the creation of cartels. The protectionism had its rule for many years but during the 1950s and 1960s a rapid structural transformation took place. Swedish economists started to criticize the system. They argued that the system was vague and contradictory, which spread the dissatisfaction amongst consumers. The issue the economists explored was the overproduction due to production goals set too high, which led to an inefficient agriculture sector. The economists also stated that the overproduction existed because of the current agricultural market only had its interest in the Swedish Farmers Federation and not in consumers (Ibid).

The critic given by many economists was not taken into consideration even though the critics started during the 1930s and continued until the 1960s. However, during the 1960s, Consumer’s Delegation was founded to participate in price negotiations but they were unsuccessful in their attempt. The negotiation of farm product prices was hard to manage because the producers controlled key skills and technological know-how of agricultural operations. The foundation of the consumer’s committee was only to give the current system more legitimacy but without countering the “iron triangle” and the producers income protection. Economist’s constant struggle to change the agricultural system continued during the 1960’s and economists such as Assar Lindbeck and Odd Gulbrandsen argued for another solution that would give priority to industry rationalization rather than income protection. They explained that a price pressure system, where low prices were guaranteed, the effects on the total costs would significantly decrease for producing farmers. This argument during the 1966, led to the creation of a coalition of labor unions and business interests, which gradually helped to pressure farmers to lower their prices towards consumers. The farmers were although, not ready to give up their high income (Ibid).

A year later, a counter offense was initiated in newspapers and media to defend the regulations and high prices but at the end of the 1960s economists were seen as the voice of efficiency. They took the government direction against income maintenance which stimulated the growth and efficiency. However, the Swedish government did not remove the major instruments such as tariffs and price regulations (Ibid).
The first step towards internationalization was during late 1970s, when support to third world countries came into the Swedish government’s consideration. The concern led, once again, to involvement from the Swedish Farmer’s Federation through subsidizes and increased regulations on tariffs on imported goods. The involvement occurred because of Sweden’s need of domestic production growth in order to fulfill the needs of the third world countries. However, this strategic decision contributed to growing dissatisfaction from the economists who were constantly struggling to lower the regulations on import tariffs and high prices.

The economists of Sweden constantly came with new ideas to succeed in their approach to liberalize the country. Their next step was to align themselves with the finance ministry in order to investigate and develop the Swedish farming sector. The argument was that new specialized people with knowledge in the agricultural field were needed in order to understand the benefits of international trade. Here, the need to restructure the current economy to a market-based system was utilized in order to reduce tariffs and prices. The support by agricultural ministry was important for Sweden’s internationalization (Ibid).

In 1986, the new chiefs of agricultural ministry, Mats Hellström and Michael Sohlman, gave the economists this support by deregulating the old protectionist system. During 1990, the deregulation started, it enforced educated people to enter the farm market and the agriculture ministry to appoint professional economists and analysts. The farming industry had become free market oriented which contributed to prices being regulated through both, domestic and international competition. Foreign monetary and labor investments were seen as a beneficial aspect of economic growth. This system led the Swedish government to become consumer orientated, which would gradually lead to higher competition and development through fulfilling consumer interests. In 1994-95 Sweden joined the EU, which confirmed that Sweden had become internationalized. Barriers of trade declined and so did prices for the food industry. This step was highly influential in the international trade. The process of Sweden’s internationalization can be stretched as far as possible where agricultural issues are fought. It shows the country’s long-time favor of the Mercantilistic view. However, the extensive period of struggle against Swedish Farmers Federation led to the country becoming highly liberal at the end. The liberalization had a further positive influence on other less liberalized European countries that joined the EU-union. The process of Sweden’s internationalization shows the country’s struggle towards reducing barriers and internationalizing. Its history also signifies its interest in fulfilling consumer interests in order
to become competitive. Therefore, Swedish organizations are always looking to expand to countries where specific advantages for their production can be found (Ibid).

3.5 Internationalization theories

The internationalization of a company has long been an essential strategic move for organizations (Ruzzier et al. 2006). Its purpose is to lower costs and give an organization a possibility to utilize location specific advantages of emerging countries such as China. It is obvious and well documented that the decision to enter a new market gives a company a competitive advantage over its competitors (Ruzzier et al. 2006). The adverse part of this opportunity is that the entering of a new market such as China requires a lot of knowledge and resources. This is the reason to why large MNEs process the majority of investments in emerging markets (Sinha et al. 2011). However, recent studies show that SMEs have started to internationalize and are attracted to foreign markets such as China, in order to compete with its larger competitors (Ruzzier et al. 2006). The number is small though, which raise the question: “which organizational features influence SMEs to move or not to move”.

The traditional theories mentioned earlier in this paper (chapter 3.2) concern the internationalization procedure. However, internationalization is a large process which requires constant researches and update in different areas within the field. Besides the traditional trade theories, there are theories and approaches mentioned by other philosophers. These theories are more in depth going. They focus more on details regarding internationalization processes. These theories are:

- Contract Theory
- Transaction Cost Theory
- Core Competences Theory
- Network and alliances Theory

These theories are essential to this dissertation and create the base for the developed model and survey. By analyzing the theories closely, drivers behind the decision to internationalize have been extracted and utilized in the research process. These drivers are further explained under the head topic 3.6.
3.5.1 Contract theory

*The Contract theory,* developed by Patrick Bolton and Mathias Dewatripont, focus on contractual issues. The contract theory concerns long-term and dynamic contracting (Bolton *et al.* 2005). Within the field of economics the contract theory refers to understanding the balance between competency and rewards. It points out the need for communication between two or more individuals in order to create a clear understanding of the agreement in a certain situation. The contract agreement involves a written performance expectance from both parts. (Seeck *et al.* 2008). The contract theory concerns the concept of moral hazard due to the trust which is required to perform something for each other. Contractual agreement is an essential part in today’s business environment. It plays a big role for organizations when a long-term agreement needs to be made, both internationally and locally (Seeck *et al.* 2008).

3.5.2 Transaction Cost theory

*The Transaction cost theory* is developed by Williamson (1979) to facilitate the comparative costs of planning, adapting and monitoring tasks under a governance structure. The transaction costs normally refer to the costs that occur when a transaction of a good or service is executed. Transaction costs concern many different kinds of costs such as; the time of an agreement, travelling, establishment costs, operational and bonding costs. The main argument of transaction cost theory is that it reduces the overall costs regarding company’s business transactions in all aspects. It helps firms to consider all hidden costs. The theory helps to clarify that transaction costs can outweigh the main profit of actually producing abroad. Williamson (1979) explains the different factors which lead to transaction costs. The explanation is given through two major categories. Human Factors and Environmental Factors;

*Human Factors:* Humans do not always have the abilities or resources to consider all the required costs that are associated to a transaction. Hidden costs may occur which lead to hold-up” situations. Humans also have a tendency to act in order to promote their self-interest without regard for the consequences of others. Opportunism may be an issue for economic activity that involves transaction-specific investments in human and physical capital.
Environmental Factors: Uncertainty of an environment and market may contribute to transaction costs. The time to settle down and find the appropriate suppliers may be extensive. The investment of an asset might lead to transaction costs. The party who has invested in an asset will incur a loss if the other party who has not invested withdraws from the transaction. The issues lead to “hold-up” situations.

Williamson argues that three dimensions of a transaction affect the type of governance structure chosen for the company. These are: asset specificity, uncertainty, and production frequency. If asset specificity and uncertainty increases, the risk of opportunism would also increase. Therefore, it is more suitable to adapt a hierarchical governance structure. As an explanation, uncertainty of a market can lead to large transaction costs and result in total strategic restructure.

3.5.3 The Core Competence theory
The Core Competence Theory advocates that a firm should outsource the activities in which they do not possess core competences within. These competences may depend on the external environment and the production intensity within specific industries. The theory is connected to Smith’s, Ricardo’s, Heckscher and Ohlin’s traditional trade theories regarding competitive advantage and the implementation of specialization. A company can maximize its production efficiency by outsourcing the less production efficient activities. The outsourcing company can gain access to new natural resources and employees with key skills who can enhance the development of the firm (Hamel et al. 1990).

A company’s main reason to move operations abroad in accordance to the Core Competence approach is the renewal of new talent and the establishment of a new corporate environment where innovative and creative thinking can grow. The theory suggests that move of operations abroad can improve the quality of a product and enhance the firms market responsiveness (Hamel et al. 1990).

3.5.4 Networks and Alliances theory
The Network and Alliances theory describes abroad operations as an opportunity for a company to enhance its customer satisfaction through creating a face to face relationship with
other companies on new markets and by that abridge the penetration of these markets. By creating a business network in a foreign country a firm can gain better understanding of the new market and its consumers and thereby innovate and produce accordingly. The implementation of constant face to face communication is very important in countries like China where collectivism is highly retained (Hofstede 2003). This constant communication and strive for customer satisfaction is according to the Networks and Alliances Theory motivating factors to why companies choose to move operations to foreign countries. The opportunity to reach new consumers on new markets is highly attractive for many firms and according to the theory also a motivation driver for outsourcing (Sinha et al. 2011).

3.6 Theory analysis - developing a model

The internationalization theories described above (chapter 3.5) can be used as a tool in order to answer this dissertations research question: How do organizational features of Swedish SMEs influence the choice to move or not to move production to China? Each theory provides several drivers to consider for a company that is planning to enter a foreign country. Under this topic (chapter 3.6), each theory has been analyzed and made applicable to this research. The drivers of each theory have been extracted. These drivers listed below and later implemented in the model and survey.

3.6.1 Drivers of the Contract theory

In China contractual agreements do not carry the value they normally carry in western culture. The business affairs are instead based on strong relationships and trust (Hofstede 2003). The Contract theory presents an important driver which a company that is planning to move production to China should closely consider. The driver below, concerns all types of legal issues that arise when internationalizing.

- Legal issues
3.6.2 Drivers of the Core Competence theory

The Core Competence approach highlights the main concern regarding the firm’s competence strategy. This is to gain core competencies in ability lacking activities. Therefore, the theory explains the importance for a company to utilize external resources in order to strengthen its market position. The competence orientated drivers are listed below:

- Employees with key skills
- Renewal of talent
- Access location natural resources
- Enhance product quality

3.6.3 Drivers of the Networks and Alliances theory

The Network and Alliances theory explains the importance of creating networks in foreign markets, namely, to gain more knowledge of a new market in order to be able to accurately satisfy customers. The relationship orientated drivers that the theory reveals concerning internationalization are listed below:

- Constant communication with overseas suppliers
- Understand local consumers’ needs better
- Meet high competition pressure
- Enhance quality control
- Already familiar with the foreign market
- Enhance current customer satisfaction
- Penetrate new market
- Simplify logistics
- Trust
3.6.4 Drivers of the *Transaction Cost theory*

The Transaction Cost theory is developed in order to explain how different transaction costs occur. The theory can be used wherever transaction costs can arise. In this dissertation it has been analyzed in relation to the situation to move production abroad, more specifically to China. The economy orientated drivers that influence the choice of move are:

- Capital investment reduction
- Low labor cost
- Gain economies of scale
- Relative production cost reduction

3.6.5 Overview: *Key drivers to move/not to move production abroad*

The drivers are gathered in table 1 below. The internationalization theories from which the drivers are extracted can be found in the tables left column. The drivers have been divided and angled towards two groups; Drivers for companies to move and drivers for companies not to move. The drivers have exactly the same meaning but are slightly reformulated in order to clarify for the reader.
Table 1: Drivers

<table>
<thead>
<tr>
<th>Theories</th>
<th>Drivers to move</th>
<th>Drivers NOT to move</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract</strong></td>
<td>Legal issues</td>
<td>Legal issues</td>
</tr>
<tr>
<td><strong>Core Competence</strong></td>
<td>Need of employees with key skills</td>
<td>No need of new employees with key skills</td>
</tr>
<tr>
<td></td>
<td>Renewal of talent</td>
<td>Not in need of talent renewal</td>
</tr>
<tr>
<td></td>
<td>Access to natural resources</td>
<td>No interest in natural resources</td>
</tr>
<tr>
<td></td>
<td>Enhance product quality</td>
<td>Risk of degenerate product quality</td>
</tr>
<tr>
<td><strong>Networks and Alliances</strong></td>
<td>Constant communication with suppliers</td>
<td>Constant communication with suppliers</td>
</tr>
<tr>
<td></td>
<td>Understand local consumer needs better</td>
<td>No interest in any foreign market and its consumers</td>
</tr>
<tr>
<td></td>
<td>Meet high competition pressure</td>
<td>No pressure from current competitors</td>
</tr>
<tr>
<td></td>
<td>To enhance quality control</td>
<td>Lack of quality control</td>
</tr>
<tr>
<td></td>
<td>Already familiar with the foreign market</td>
<td>Unfamiliar with the foreign market</td>
</tr>
<tr>
<td></td>
<td>To enhance current customer satisfaction</td>
<td>Risk to degenerate customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>Penetrate new market</td>
<td>No need to penetrate new market</td>
</tr>
<tr>
<td></td>
<td>Simplified logistics</td>
<td>Complicated logistics</td>
</tr>
<tr>
<td></td>
<td>Trust</td>
<td>Trust</td>
</tr>
<tr>
<td><strong>Transaction Cost</strong></td>
<td>Capital investment reduction</td>
<td>Capital investment increase</td>
</tr>
<tr>
<td></td>
<td>Low labor cost</td>
<td>No profits in labor cost</td>
</tr>
<tr>
<td></td>
<td>To gain economies of scale</td>
<td>To gain economies of scale</td>
</tr>
<tr>
<td></td>
<td>Relative production cost reduction</td>
<td>No profitable relative production costs reductions</td>
</tr>
</tbody>
</table>

3.7 Organizational core strategies

The definition, strategy is very complex since, it can involve all kinds of activities performed by an organization in order to achieve its goals. (Chandler 1962 in Burke et al. 2004). Strategy is the effectiveness of organizational adaptation related to the awareness of environmental conditions (Slater et al. 1993).

Miles et al. (1978) have given their perspective of strategy and formed a strategic typology consisting of three organizational core strategies: Prospector, Defender and Analyzer strategy. They argue that an organization’s tactical decisions are significantly influenced by these
strategic types. The Miles and Snow typology is strengthened by Mayfield et al.’s. (2007) research, which emphasizes two main benefits; First, that the typology provides a logical, practical and reliable categorization that makes it possible to classify companies’ strategies. Second, the typology is grounded on observable characteristics and business activities, which facilitate the research due to in-depth going knowledge of an organization. The strategic typologies can be applied on this research in order to explore why some specific drivers influence a company’s decision to move or not to move production abroad.

Miles et al. (1978) have developed their typology through observing how companies respond to three different problems, entrepreneurial, engineering and administrative. Entrepreneurial issues describe how companies’ view their products and target market. Engineering issues describe the development of a solution in order to deliver the services of the firm. Finally, the administrative issues explain the structures and processes to direct and monitor operations.

The three core strategies are explained more in particular below. Characteristic behaviors, emphasized in each strategy are revealed in order to define the dominant core strategies of the participating Swedish SMEs.

3.7.1 Defender strategy
A company that emphasizes a Defender strategy focuses on developing products that are directed towards specific market segments. Their goal is to truly satisfy the customers within the segment through high quality products and services (Burnes 1997). The purpose is to create a close relationship with the customers and thereby secure constant sales. Companies which emphasize the defender strategy tend to be inflexible in adapting to external changes (Mayfield et al. 2007). They rather focus on few already penetrated markets instead to enter new ones. The aim is to enhance the product quality through high-speed recourse allocation and product manufacturing towards a narrow stable market. Defender companies are often functional in the organizational structure and highly centralized in the management control (Burnes 1997). These companies are defensive within their market territory, and aggressively try to keep competitors away. The characteristic behaviors for a company that emphasizes a Defender strategy are:

- Focusing on exclusive products towards a narrow customer group
- Focusing on vast investments within customer service
- Focusing on high quality rather than low production costs
- Exclusively focusing on core product

A modified version of the defender strategy is the Reactor strategy. Companies that emphasize a reactor strategy behave similar to those with Defender strategy. The reactor companies do not possess any clear strategic internationalization goals and do not internationalize because of this. These companies tend to react with caution to the external circumstances (Mayfield et al. 2007). Unclear strategy by the management and mismatch in company structure and strategy can lead to a reactor strategy. Not changing the company strategy according to external circumstances also leads to a reactor strategy (Burnes 1997). The characteristic behaviors concerning internationalization for a company that emphasizes the reactor strategy are very similar to those within the defender strategy.

3.7.2 Prospector strategy

The Prospector strategy is the opposite of the defender strategy. Companies which emphasize a prospector strategy are focusing on reaching new markets with new innovations. These companies are highly flexible and adapt well to external circumstances (Mayfield et al. 2007). Their primary focus is to follow current consumer demands and trends with vast investments within research and development. The first mover advantage is highly sought after by the prospector companies. Penetrating new markets and look for new opportunities are the objectives within their core strategy (Mayfield et al. 2007). These companies’ structure is decentralized since, they have to be able to adapt quickly to changes on different markets (Burnes 1997). They emphasize a multidivisional organizational structure. By acquisition of small companies that operates in foreign markets, the prospector company can quickly learn and adapt to new markets. The characteristic behaviors for a company that emphasizes the prospector strategy are:

- Focusing on to reach new markets
- Focusing on vast investments within research and development
- Focusing on low production costs
- Planning to internationalize in the future
3.7.3 Analyzer strategy

The Analyzer strategy is a combination of the prospector and defender strategies (Miles et al. 2003). Companies that are using the analyzer strategy are only moving new products toward new markets if the situation and timing is right. These companies are during long periods, closely analyzing every aspect of strategic advantages and disadvantages. The opportunities have to strictly overcome the risks in order for an analyzer company to even consider a move. These companies only choose to move their core activities to maximize the profit and minimize the risk (Mayfield et al. 2007). The activity control of existing processes is higher than the control of new processes. The organizational structure of the analyzer companies is centralized (Burnes 1997). The challenge for analyzer companies is to exploit new markets and at the same time maintain domestic consumers’ product satisfaction. To assess this challenge the analyzer companies emphasizes a matrix structure. These companies can grow through both existing market development and new market penetration.

3.8 Model

A model has been developed (Figure 2) in order to show an overview of the structure of this dissertation and to reveal how the framework is set for the research. The model is based on the established internationalization theories and organizational core strategies described above (see chapter 3.6; 3.7). The internationalization theories have been closely analyzed and converted into relevant drivers. These will determine the key-drivers that influence a company’s decision to move production abroad or not. In this dissertation the focus lies exclusively on; Swedish SMEs and China as a possible host for move of production. The dominant organizational strategies, combined with the most influential drivers are in this dissertation and in the model the SMEs’ features. The aim of the model is to obtain an understanding of how organizational features of Swedish SMEs influence the choice to enter or not to enter China. The model reveals two different perspectives; drivers which are influential for companies that have chosen to move and drivers that are influential for companies that have chosen not to move production to China. The quantitative study will reveal the key drivers for each group and the organizational strategy which drives Swedish companies in their decision making. The model is not particularly adjusted for companies collaborating with China and can be used in any other similar situation. This since, the drivers are developed from universal theories.
Figure 2: Dissertation Model
4. Empirical Method

In this chapter the research design and strategy, time horizon, data collection, sample selection, operationalization reliability and validity is discussed.

4.1 Research design and strategy

Mark Saunders, Lewis and Thornhill (2009) explain the research design’s importance through the research process onion. According to Saunders et al. (2009), there are three types of research designs; exploratory, descriptive and explanatory.

An Exploratory study can be utilized in order to define or understand an unclear issue. The exploratory study can be conducted in three different ways; by searching the literature, interviewing experts or by conducting focus group interviews. The advantages of the exploratory study are that it is flexible and adaptable to the chosen research field. It is useful when a research starts with a broad aim and progressively becomes more concentrated when additional knowledge is gained. A second approach to research design is the Explanatory study. It is mostly used to understand relationships between variables and to describe how they affect each other. The final approach is the descriptive research design. It can be used to accurately describe a person, situation or an event. The descriptive design can be explained as an extension to both, exploratory and explanatory designs (Saunders et al. 2009).

The purpose of this dissertation is not only to explore the organizational features that are most influential for Swedish SMEs that have moved to China; but also the important features for companies that have not moved. Since, this deeper understanding has rarely been discussed before; an Exploratory design is applied in this dissertation in order to reveal the influential drivers of an organization. Further, Saunders et al. (2009) explains the different approaches that exist within the explanatory, descriptive and exploratory research designs. There are seven approaches, experiment, survey, case study, action research, grounded theory, ethnography and archival research.
These approaches can be applied on any of the three research designs (Saunders et al. 2009). In this project two different approaches are used, the archival and the survey. The archival research approach is used to gather relevant data through scientific articles that concern the research field. The approach is used to gain a better understanding and explore drivers which concern move of production and offshore operations, both to China and other countries. However, these approaches alone cannot answer this dissertation’s research question. The precise data, to present an answer is hard to find but very useful as a support to narrow down the research aim and gain more understanding within the field.

The purpose of the archival approach in this project is to gather enough knowledge within the research field in order to create relevant questions in the survey. The questionnaire approach is used to provide precise information that can be used to answer the research question. The survey is applied on a large number of organizations in order to make the data generalizable (Saunders et al. 2009).

4.2 Time horizon

When performing a research study, there are two different types of time horizons: first, the longitudinal type, which is used to investigate an occurrence over a time period. This type provides the research with a view on development. The other time horizon type is the cross sectional. This is quite the opposite of the longitudinal. This type of time horizon shows a snapshot of the issue and it is used when performing interviews during a short time-period (Saunders et al. 2009). The cross sectional time horizon is used in this dissertation. The snapshot view is appropriate to the actual issue which has to be seen upon as a present time phenomenon. By showing present time data, the research can emphasize present preferences.

4.3 Data collection

The research question and objectives are the main factors to consider when deciding on the most fitting data collection method. The collection method should possess the vital features to answer the research question in the most accurate way possible. The data
collection can involve either primary or secondary data. Primary data is created through observations, questionnaires and focus interviews on a field which has not been investigated before. Secondary data, on the other hand, is already collected information, which is analyzed and presented in scientific articles and documentaries (Saunders et al. 2009). In order to answer the research question of this dissertation primary data was collected. The primary data was gathered from the questionnaire. The questionnaire is based on most influential drivers and strategies found in the scientific articles. The drivers and strategies are then used to collect primary data. This dissertation is contributing with new research in the business strategy field and it is thereby essential to collect the necessary primary data. The exploratory research design also makes it appropriate to use a primary data collection strategy (Saunders et al. 2009). Since, the aim is to generalize the result, a high frequency is necessary; hence, a questionnaire is chosen as a data collecting tool. The questionnaire was partly sent to Swedish SMEs with their head office located in China. This made the internet based questionnaire method preferred over face-to-face in depth interviews. The questionnaire was a self-administered delivery and collection questionnaire; this means that the questionnaires were distributed amongst the respondents and later collected once they had completed them. This type of questionnaire gives the respondents anonymity, which enhances the honesty in their answers (Saunders et al. 2009).

4.4 Sample selection
Occasionally, it is possible to collect and analyze data from every single case or group member, this is called a census. However, achieving census requires time, money and access to advanced tools (Saunders et al. 2009). Therefore, a narrow sample is expected in this research. As Henry (1990) in research methods for business students, points out that a narrow sample selection does not make the research less accurate or reliable. He states that detailed information can be achieved by a concentrated target group. In addition, more time can be spent on the analysis of data instead of collection of data (Henry 1990).
The sample selection can be done in various ways but they are either categorized as probability or non-probability samples (Bryman et al. 2007). The probability samples are mostly associated with survey based research where the chosen sample, provides the answer to the research question. Probability sampling involves simple random sampling, systematic sampling, stratified random and multi-stage cluster sampling. The non-probability samples are used when the possibility to specify your sample is very small and sampling techniques are quota, snowball, purposive, self-selection and convenience sampling.

Since this dissertation utilize a survey, it is important to select samples that can specify the research population. The population chosen in this dissertation is Swedish SMEs that have chosen to move and not to move production to China. These two sample groups are chosen because only organizations within these groups could most efficiently answer the research question. The selection of Swedish SMEs was a combination of self-selection and convenience sampling. Self-selection sampling was used because it is impossible to force organizations to participate in a survey; therefore, an email was sent to welcome the organizations’ participation. The convenience sampling, on the other hand, was used when picking out the organizations that fitted to the chosen sample group. This type of sampling can be influenced by factors beyond the researcher’s control (Saunders et al. 2009). However, this possibility was minimized, first, by keeping a small sample group and asking questions that easily reveal if the organization is within the chosen sample group.

4.5 Operationalization

In this deductive approach, operationalization is vital in order to quantitatively measure different components of the research (Saunders et al. 2009). Operationalization gives a proper understanding of the research questions asked in the research. It is used to enhance the research reliability and validity by thoroughly defining variables. In this dissertation, the operationalization is based on the chosen research method, which is a questionnaire survey. A questionnaire is a very easy and economical way of getting information but it is also insecure. The respondents might choose not to answer the questions. Being aware of this issue, the questionnaire was simplified, making it easy and
fast to answer. The survey is divided into two main parts; in order to define an organization’s demographics the first part of the survey consists of five demographic questions. The second part of the survey consists of questions concerning the influence of different variables. Respondents are asked to grade the influence of these different variables depending on their decision to move production or not. Each question from the survey is explained below. The complete survey can be found in appendix 1.

**Question 1: What is your gender?**
This question investigates if there are any differences in motivation factors between males and females. This is an interesting factor to discuss due to the different gender diversity situations between the Swedish and Chinese societies.

**Question 2: How many employees does your company have?**
This question is important since; the companies within the sample group should have a similar firm situation which reflects on their choice of strategy. This research aims to investigate the relationship within SMEs which have around 49-250 employees. The companies in the group have to be similar in order to reveal certain patterns and to be comparable. The companies chosen to conduct the research on were chosen out from a list of medium size enterprises provided by the Swedish Chamber of Commerce. The demographics of the companies were closely investigated before the survey hand-out. The companies with close to 250 employees were categorized as SMEs. The fact that all the participating companies are classified as SMEs increases the level of comparability and the ability to draw accurate conclusions.

**Question 3: How large is your company’s yearly turnover?**
The SMEs have €10-50 million in annual turnover according to empirical data (Hauser 2005). Question 3 supports question 2 and further specify the target group within this research. In order to answer this dissertation’s research question in an accurate way, the turnover should not separate the companies’ possibilities to make certain choices. The results of this question are helpful in order to further specify the sample group. However, the common definition of an SME is today no longer fully accurate (Hauser 2005). Today, SMEs are very successful due to the possession of advanced technology and skilled employees. This gives SMEs a large comparative advantage in the reduction of costs (Lau et al. 2006). Due to this, SMEs can have a turnover that exceeds 50€ million.
Therefore, turnover is a relative vague factor compared to number of employees, when companies are classified as SMEs. This dissertation follows these facts, and the conduct is relying more on number of employees.

**Question 4: Does your company produce in another country than Sweden?**
The respondents in this research are companies with a documented success on the market with relatively high revenues and many employees. The possibility of internationalization amongst these companies is high and the chance that they have already moved production abroad also high. This dissertation aims only to capture the Swedish SMEs that have moved or not moved production specifically to China. Question 7 reveals if the respondent has moved production to China. However, the question does not reveal if a company which has not moved to China has chosen to relocate production in another country. The answer to this question can be interesting from a strategic point of view. It will be revealed if the choice to move or not to move to China is based on their general expansion strategy or their apprehension towards China as a possible business collaboration country. This question is important in order to specify the research question’s answer, which should indicate a Swedish company’s view on China as an outsourcing recipient country.

**Question 5: Which industries does your company operate in?**
In this question the respondents are asked to fill in the industries which they operate in. Since, many companies tend to operate in more than one industry; a multiple choice answer-method is available. All the industries chosen are within the manufacturing sector. However, close pre investigations secure plastic and rubber production as a common industry. This makes the results comparable and reliable. It places all SMEs within the same manufacturing sector and by that under similar conditions. Thereby an accurate comparison and the ability to generalize the results to a certain extent are possible.
**Question 6:** To which extent does your company utilize the strategic behaviors below? Please grade from 1= not utilized to 7= highly utilized

This question is essential in order to answer this dissertation’s research question. The question reveals the respondent’s views on internationalization by asking to which extent the core-strategies are used. The strategic behaviors of a company are related to the drivers behind different strategic decisions. A company may be prospector or defender in its core strategy but the specific conditions of the Chinese market may affect their decision to move production or not. An offensive company may decide to move production to another country than China due to specific drivers and issues. This question strengthens the analysis and shows how influential the drivers are regarding the choice. The company’s core strategy supports its decision-taking and the specific drivers reveal how the decision is influenced by the location, China.

**Question 7: Have your company moved production to China?**

This question reveals which direction the responding companies’ has chosen in the internationalization process. The question is essential to the survey because it highlights the way question 8 and 6 should be interpreted. If a company has moved production to China, question 8 will show the most influential drivers in their decision to do so. If the company has not moved production to China, question 8 will reveal the most influential drivers on its decision to not move production to China. The result will through question 7 be divided into these two groups.

**Question 8: How substantially do you consider the factors below to affect your decision to move production to China?**

**Or if you have not moved; how substantially do you consider them to affect your decision not to move production to China?**

This question asks the respondents to signify on a 1-7 scale, the grade of influence of each driver concerning a company’s decision, whether to move production or not. The drivers can have high or low influence depending on the company’s strategy and demographics. This question is asked because it will explore the most influential drivers concerning the decision to move to China or not.
4.6 Reliability

According to Saunders et al. (2009), the reliability of a research is to which extent a material is applicable on different situations. If the result is the same under different circumstances, it can be considered as reliable. However, it has to be assumed that no real changes in the measurement variables are done in this case. This practice is often used to confirm the reliability of a quantitative research where the same survey is tested on different target groups. Saunders et al. (2009) states that there are four major issues that can possibly reduce the reliability of a research:

The first major issue is the possibility of participant errors. This can create different result on different occasions due to the fact that same question may be interpreted differently by the participants. Also, the time factor may also be an issue, which can create different answers on different occasions (Saunders et al. 2009). To neutralize these errors in this dissertation; the questionnaire has been designed with simplicity rather than comprehensiveness. This will be pursued with a deep answer analysis and interpretation. The time for the data collection is also during a short intense period, which will further reduce these types of errors.

The second major issue that can reduce the reliability of a research is the possibility of preconceived intenions by the participant. He/she may believe that the questions are expected to be answered in a certain way. This could mean that the participant is bias towards his/her own company or that the participant is influenced by the organizations’ authority (Saunders et al. 2009). To avoid this issue in this dissertation, the questions are designed to be neutral and there is no question in the survey that reveals the organizations’ identity. There is also clearly stated in the questionnaires introduction letter that the participant’s answers are totally anonymous.

The third major issue accordingly is the possibility of misdirection in some questions because of more than one survey constracter exists. The survey’s ultimate goal may be disconcerting due to different apprehensions amongst the survey designers. The research purpose may be understood differently by the designers, which will make them steer in different directions when designing their part of the survey (Saunders et al. 2009). To avoid this issue in this dissertation, the questionnaire has been designed by one person alone. This has created a clear framework and direction of the survey.

The fourth major issue, which can reduce the reliability of a research is the possibility of different interpretations of the result. The research designer may be bias toward his/her
personal interests and interpret the result accordingly. Trained research designers may be
necessary in order to gain an objective analysis on the result (Saunders et al. 2009).

Bryman and Bell (2007), has a similar view on how reliability can be achieved in a research. They discuss three major issues that have to be attended in order to make the result reliable; 1) Stability, meaning that the result should be consistent. 2) Internal reliability, which measures if the research’s internal components are logical and correlated to each other. 3) Inter – observer consistency where all issues would provide the same result regarding the same objective. The survey exercised in this dissertation is designed to handle these issues as closely as possible. As a conclusion from the discussion above, the reliability of this research is considerably high.

4.7 Validity

Validity reveals if the research variables measure the correct concepts (Saunders et al. 2009). This signifies the importance to make the outcome of the research relevant (Bryman et al. 2007). Bryman and Bell (2007) have explained the validity process through four categories; measurement, internal, external and ecological validity.

Measurement validity controls that the measured variables are relevant and correct. (Bryman et al. 2007). Internal validity is concerned with realizing the correlation between the measured variables whilst the third, external validity refers to the generalizability of the results. Fourth and final ecological validity, concerns with how well the results can be generalized to another group (Ibid).

Bryman and Bell (2007) also explains the number of ways to be valid in measurements. They divide the measurement validity into five sub-factors, which lead to measurement validity to a certain extent. The first one is called face validity; it is the least level of validity. It is motivated that this level of validity in measurement is appropriate to those who conduct new measures. Face validity can be achieved simply by asking other people if the research seems to reflect the concerned concept. Concurrent validity, which is the second sub-factor, is concerned with the use of criterion to cases where concepts are known to differ in order to describe a concept properly. Third, predictive validity uses a future criterion to describe a concept rather than a current one, as in the case of concurrent validity. The fourth is construct validity; here the researcher deduces
established theories to construct hypotheses that are connected to the concept. The final factor is convergent validity. This factor concerns with the measurement compared to other measures of the same concept developed in other methods (Ibid).

The concurrent validity approach is established in this dissertation. The hypothesis is created out of existing data, which also led to establishment of the research model. Face validity is also used in the project. The clarity of the research survey used in this project was verified by outsiders’ feedback. In order to make sure that correct variables were measured, a list of companies operating in China provided by the Swedish Chambers of Commerce was utilized during the research. Since, this research is based on the decision to move production to China or not, the list of organizations operating in China was helpful in increasing the research accuracy.

The model that was constructed for this dissertation played a centre role when the creation of the survey took place. Each component of the model was to be answered, which meant that the questions were required to reflect the components in the model in order to have a valid result. This required proper explanation of each question so that the respondents answered the questions by understanding the perspective of it.

4.8 Generalizability

Generalizability is a vital aspect when conducting a research. Most researches strive for generalizability of the results. Generalizability concerns the question of how applicable the findings of the research are to rest of the population, which in this case is Swedish SMEs (Saunders et al. 2009). Saunders states that generalization is a characteristic for a deductive research. However, Bryman and Bell (2007) explain that generalization is not possible to implement beyond the research population. In this dissertation it means that generalization is only possible to Swedish SMEs within the manufacturing sector.

The ability for this dissertation to be generalized is possible but limited. Since, this study is approached deductively the ability to apply the result to manufacturing companies in general is the purpose of this project (Saunders et al. 2009). However, certain limitations in this dissertation minimize the level of generalizability. One of these major limitations is the low level respondents of the survey. This degenerate the generalizability of the dissertation since the statistical analysis cannot be fully completed. Nevertheless, by analyzing the small group
of participants, connections of the factors can be deduced and strong indications can be drawn. In order to gather more data and increase the chances to higher generalizability, more time would be required.
5. Empirical Results and Analysis

This chapter presents the results from each question of the survey. The Key questions concerning the drivers and the strategy are more closely presented and analyzed. The conclusions of these topics are combined and presented at the end of the chapter.

5.1 Introduction

This chapter consists of the result presentation combined with an analysis and a deep discussion. In this research project, the questionnaire survey was sent to a population of Swedish Small and Medium sized companies. These were chosen from two different groups, those who have established production in China and those who have not.

The amount of participants in this research was 14. The aim of this research is to be able to generalize the results on other companies within the population.

The positive aspect of the 14 participants is that they are evenly matched with seven in each group. The even match provides this research with the possibility to assume connections between different variables, which can make the outcome an indication for Swedish SMEs. The research results are presented and closer discussed below.

5.2 Demographic result presentation

5.2.1 Type of data

There are two different types of data collected in this research, numerical and categorical.

5.2.2 Gender

According to the results of the questionnaire survey, all 14 participants of the survey were males.
5.2.3 Employees
The majority of the 14 participants of this research had between 49 – 250 employees. Some of the companies had very close to these numbers and are seen as SMEs.

5.2.4 Yearly turnover
The majority of the SMEs had a turnover around 50 € million. Two respondents had a deviate answer.

5.2.5 Production in other country than Sweden
According to the results, 80 per cent of the organizations have moved production abroad. (50 per cent have chosen China as their destination)

5.2.6 Industries
The respondents’ answers indicate that their firm operates within more than one industry. This fact was expected and therefore, pre investigations secured the plastic and rubber industry as common industry for all respondents.

5.2.7 Move of production to China
This question divides the participants into two groups, those who have moved production and those who have not. Fortunately, the 14 participants were evenly separated between the groups.
5.3 Drivers’ result presentation and analysis

5.3.1 Statistical presentation of drivers

The drivers, extracted from the internationalization theories are statistically presented below. In the right side of table, the mean and standard deviation value have been calculated. The standard deviation is used in order to see the reliability of the mean value, which the analysis is based on. This research involves 14 participants that are evenly matched into 7 in each group. These participants are asked to rank the drivers in a scale from 1 to 7. Due to the low level of participants and seven different alternatives to rank, the standard deviation has become a very sensitive value. The standard deviation for many of the drivers indicates a high spreading between the respondents’ answers. A standard deviation below 1 indicates on that most of the responses are identical whilst a deviation above 2 indicates on that all responses are spread (Burns 2000).

Statistical table 1: Driver statistics

<table>
<thead>
<tr>
<th>Group Statistics</th>
<th>Moved Production To China</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal issues</td>
<td>Yes</td>
<td>7</td>
<td>4.29</td>
<td>1.496</td>
<td>.565</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.14</td>
<td>1.215</td>
<td>.459</td>
</tr>
<tr>
<td>Trust</td>
<td>Yes</td>
<td>7</td>
<td>4.14</td>
<td>1.773</td>
<td>.670</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>4.29</td>
<td>1.604</td>
<td>.606</td>
</tr>
<tr>
<td>Access to natural resources</td>
<td>Yes</td>
<td>7</td>
<td>3.71</td>
<td>2.289</td>
<td>.865</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.14</td>
<td>2.035</td>
<td>.769</td>
</tr>
<tr>
<td>Need of employees with key skills</td>
<td>Yes</td>
<td>7</td>
<td>4.00</td>
<td>2.082</td>
<td>.787</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>4.00</td>
<td>1.633</td>
<td>.617</td>
</tr>
<tr>
<td>Renewal of talent</td>
<td>Yes</td>
<td>7</td>
<td>3.71</td>
<td>1.799</td>
<td>.680</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.29</td>
<td>1.380</td>
<td>.522</td>
</tr>
<tr>
<td>To enhance product quality</td>
<td>Yes</td>
<td>7</td>
<td>4.57</td>
<td>1.988</td>
<td>.751</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.14</td>
<td>1.864</td>
<td>.705</td>
</tr>
<tr>
<td>Penetrate new market</td>
<td>Yes</td>
<td>7</td>
<td>5.71</td>
<td>1.799</td>
<td>.680</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.43</td>
<td>1.512</td>
<td>.571</td>
</tr>
<tr>
<td>Constant communication with local suppliers</td>
<td>Yes</td>
<td>7</td>
<td>4.71</td>
<td>2.628</td>
<td>.993</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>6</td>
<td>3.00</td>
<td>2.168</td>
<td>.885</td>
</tr>
<tr>
<td>Understand local consumer needs better</td>
<td>Yes</td>
<td>7</td>
<td>4.71</td>
<td>2.138</td>
<td>.808</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.29</td>
<td>1.704</td>
<td>.644</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Mean</td>
<td>SD</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>------</td>
<td>-----</td>
<td></td>
</tr>
<tr>
<td>To enhance current customer satisfaction</td>
<td>7</td>
<td>7</td>
<td>6.14</td>
<td>1.069</td>
<td>0.404</td>
</tr>
<tr>
<td>Logistics</td>
<td>7</td>
<td>6</td>
<td>5.43</td>
<td>1.272</td>
<td>0.481</td>
</tr>
<tr>
<td>To gain economies of scale</td>
<td>7</td>
<td>6</td>
<td>5.43</td>
<td>1.718</td>
<td>0.649</td>
</tr>
<tr>
<td>Relative production cost reduction</td>
<td>7</td>
<td>7</td>
<td>5.43</td>
<td>1.902</td>
<td>0.719</td>
</tr>
<tr>
<td>Capital investment reduction</td>
<td>7</td>
<td>7</td>
<td>5.00</td>
<td>1.826</td>
<td>0.690</td>
</tr>
<tr>
<td>Low labor cost</td>
<td>7</td>
<td>7</td>
<td>5.14</td>
<td>1.952</td>
<td>0.738</td>
</tr>
<tr>
<td>Already familiar with the foreign market</td>
<td>7</td>
<td>7</td>
<td>5.71</td>
<td>1.113</td>
<td>0.421</td>
</tr>
<tr>
<td>Meet high competition pressure</td>
<td>7</td>
<td>7</td>
<td>4.71</td>
<td>1.272</td>
<td>0.481</td>
</tr>
<tr>
<td>To enhance quality control</td>
<td>7</td>
<td>7</td>
<td>5.00</td>
<td>2.082</td>
<td>0.787</td>
</tr>
</tbody>
</table>

The standard deviation of many drivers is quite high, which makes the result less generalizable. As mentioned earlier, the aim of this research was to have a broad sample group in order to make the results generalizable but since, this was not achieved, the possibility decreases. The reason for that the rankings are somewhat spread is due to the fact that only seven respondents exist. In a scale from 1-7, four is seemed as a neutral rank, however, there are three values over the neutral value that reveals the importance of the driver. In other words, even if the driver is ranked from four and above, it could result in a high standard deviation value. Therefore, a clear pattern would be revealed if most of the seven respondents ranked a driver with exactly the same grade.

In this case, a relatively low pattern could be revealed through a quantitative analysis. Therefore, this has directed the research towards a more in-depth going analysis. The in-depth analysis is based on the mean value of each driver, which highlights the highest ranked drivers.
The analysis reveals the reason for why these drivers are high ranked through a thorough explanation of the interdependency between them. This strengthens the reliability of the drivers’ high influence. However, it must not be forgotten that the standard deviation for most of the drivers is between 1 and 2, which does not make them totally unreliable. Therefore, the in-depth analysis is conducted as a support to confirm the ranking of the drivers.

The main purpose of this dissertation is to reveal the most influential drivers behind Swedish SMEs’ decision to move or not to move production to China. Through table 2 and table 3 below, this purpose is fulfilled. The drivers are ranked in the tables, and the most influential drivers are placed at the top of the list. These drivers are determined by the respondents to be the most influential in their decision. The bottom drivers do not have the same impact. First, the drivers of the companies that have moved are presented in table 2. This is followed by table 3 where the drivers of the companies that have not moved are presented and discussed. The final overall conclusion provides a comparison between both tables, which reveal the key-drivers.

5.3.2 Result: Most influential drivers behind the decision to move production to China

The companies in this group constitute 50 percent of the total number of respondents. This group has one factor in common which separates them from the other group: they have moved their production to China. The drivers behind their decision are ranked in table 2. The length of each bar indicates the mean of the respondents’ 1-7 scale choices. The means are relative to the group. It illustrates the importance of each driver and how much it influenced the respondents in their decision to move production to China.
Table 2: Drivers behind companies’ decision to move production to China

<table>
<thead>
<tr>
<th>Driver</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>To enhance current customer satisfaction</td>
<td>6.14</td>
</tr>
<tr>
<td>Already familiar with the foreign market</td>
<td>5.71</td>
</tr>
<tr>
<td>Penetrate new market</td>
<td>5.71</td>
</tr>
<tr>
<td>Simplified logistics</td>
<td>5.43</td>
</tr>
<tr>
<td>Relative production cost reduction</td>
<td>5.43</td>
</tr>
<tr>
<td>To gain economies of scale</td>
<td>5.43</td>
</tr>
<tr>
<td>Low labor cost</td>
<td>5.14</td>
</tr>
<tr>
<td>To enhance quality control</td>
<td>5.00</td>
</tr>
<tr>
<td>Capital investment reduction</td>
<td>5.00</td>
</tr>
<tr>
<td>Meet high competition pressure</td>
<td>4.71</td>
</tr>
<tr>
<td>Understand local consumer needs better</td>
<td>4.71</td>
</tr>
<tr>
<td>Constant communication with local suppliers</td>
<td>4.71</td>
</tr>
<tr>
<td>Enhance quality of product</td>
<td>4.57</td>
</tr>
<tr>
<td>Legal issues</td>
<td>4.29</td>
</tr>
<tr>
<td>Trust</td>
<td>4.14</td>
</tr>
<tr>
<td>Need of employees with key skills</td>
<td>4.00</td>
</tr>
<tr>
<td>Renewal of talent</td>
<td>3.71</td>
</tr>
<tr>
<td>Access to Natural resources</td>
<td>3.71</td>
</tr>
</tbody>
</table>

When analyzing the result in this group, conclusions can be drawn and the drivers can be connected to each other through internationalization theories. The drivers can be analyzed in a deeper contraction, which will closer explain why the companies have chosen to move the production to China. To conduct this observation, the five most influential drivers behind the decision to move are analyzed below:

The most influential driver behind the decision to move production to China was chosen by the responding companies to be: **To enhance current customer satisfaction.** The driver is emphasized in the Networks and Alliances Theory (see chapter 3.5.4) which highlights the importance for a company to create close relationships with other companies on the global market in order to recognize customers’ needs. Through recognizing these needs and to learn from different environments, a company can satisfy its current customers. The move of production to China may enhance a company’s current customer satisfaction in many ways. A company can discover innovations and products on the Chinese market and introduce these to their current customers. However, the greatest satisfaction for a company’s customers is low prices on products (Williams *et al.* 2011). By moving production to China, a company can
reduce its relative production costs which can lead to reduced product prices towards customers. By this, the main goal and the main driver behind the decision to move production abroad, which is to satisfy current customers, is realized. Higher customer satisfaction and loyalty leads to improved revenue, profitability and cash flows for the company. Customer satisfaction can be seen as a valuable intangible asset that generates positive returns for a company (Williams et al. 2011). This fact signifies why according to this research, the factor; *Enhance current customer satisfaction* is the most influential driver behind a Swedish SMEs decision to move production to China.

The second most influential driver behind the decision to move production to China was chosen by the responding companies to be: **Already familiar with the foreign market.** The driver is emphasized in the Transaction Cost Theory (see chapter 3.5.2) which highlights the importance for a company to reduce costs regarding all aspects of its business transactions. Transaction costs occur in association to different business situations which may be asset specific, uncertain, and frequency related (Williamson 1979). The uncertainty and unfamiliarity of a market can create transaction costs for a company that is in its establishing process. Uncertainty can arise from: difficulties or lack of communication between decision makers, differences in consumer preferences due to culture and differences in infrastructure and legalities (Williamson 1979). The process of moving production abroad can be tremendously less complicated for a company if it is already familiar with the new location. The familiarity reduces the uncertainty which also diminishes the associated transaction costs. This clarifies why familiarity with the foreign market is such a highly significant driver behind Swedish SMEs decision to move production to China, according to this research.

The third most influential driver behind the decision to move production to China was chosen by the responding companies to be: **Penetrate new market.** The driver is emphasized in the Networks and Alliances Theory (see chapter 3.5.4), which highlights the importance for a company to create networks in foreign markets; namely to gain more knowledge of the new market in order to reach new customers and increase revenues. The penetration of a new market through move of production does not only help the company to reach new consumers. It enhances the current customer satisfaction by creation of low product prices through low cost producing solutions. Economies of scale may be possible to achieve in the process as well (Lau et al. 2006). Low-cost labor and high-technology manufacturing makes China an attractive destination for production. Also, market shares on the Chinese market are highly sought after by foreign companies due to the large amount of potential customers (Lau et al.
These market shares can be captured by penetration of the Chinese market through creation of local business networks and alliances. The advantage of producing close to the Chinese consumers is according to this dissertation a highly influential driver behind Swedish SMEs decision to move production to China.

The fourth most influential driver behind the decision to move production to China was chosen by the responding companies to be: Simplify logistics. The driver is also emphasized in the Networks and Alliances Theory (see chapter 3.5.4), which highlights the importance for companies to form close alliances where advantages and simplifications in the logistic processes may be achieved. This type of networks enhances communication which simplifies the creation of an optimized supply chain. The importance to satisfy the customers is essential to a company’s economic situation and higher added value is greatly sought after. The relationships, both up and down the supply chain are a key to a successful delivering of high quality product to an appropriate price (Sandelands 1997). The constant increased pressure from competitors on the global market forces companies to streamline every aspect of their organizational configuration. The logistic aspect constitutes a big part of this configuration. Making this aspect relatively effective is a way to optimize a firm’s effort and increase its revenues (Sandelands 1997). As a conclusion; simplified logistics reduces transaction costs and optimize a company’s efficiency. Due to this fact and according to this dissertation, it can be confirmed that simplified logistics is a highly influential driver behind Swedish SMEs decision to move production to China.

The fifth most influential driver behind the decision to move production to China was chosen by the responding companies to be: Relative production cost reduction. The driver is emphasized in the Transaction Cost Theory (see chapter 3.5.2), which highlights the importance for a company to focus on its different transaction processes in order to reveal and reduce costs. The reduction of relative production costs is a fundamental motive for the majority of foreign companies when moving production to China (Lau et al. 2006). The driver is generally regarding all costs connected to production. However, in this conduct, the factor is strongly connected to China’s labor industry. This is revealed in table 2 where the low labor cost driver is highly ranked. China is an extremely labor intensive nation and its low production costs is highly utilized by foreign companies. The utilization of low labor costs creates a huge total relative production cost reduction for a firm (Lau et al. 2006). Other
factors mentioned in this dissertation such as economies of scale may reduce the production costs as well. A relative production cost reduction is directly connected to a company’s profits, which makes the driver highly considerable in the decision to move production to China. The driver is concerning general production cost. Some processes that are reducing costs are specifically higher ranked in table 2, such as simplified logistics. This indicates that these processes are highly important and leads to cost reductions.

5.3.3 Summary: Drivers behind the decision to move production to China

The five most influential drivers behind Swedish SMEs decision to move production to China reveal a strong connection between each other. Three out of these five are connected to the Network and Alliances theory and two to the Transaction Cost theory. This indicates that the main reason to move is either economic or relationship related, or a mixture of both. This may be explained through the SMEs demographics in this research. These SMEs do not possess the same resource capacity as the much larger MNEs. This forces them to closely consider the economic factors in their decision. In order to reduce the risk, these companies have to depend on strong alliances.

When analyzing the respondents’ answers in detail, it can be determined that the majority of all the companies are valuing the five most influential drivers high. Neither of the respondents gave any of the drivers a lower score than medium. All of the drivers are strong reasons for a company to move production to China and each of them is a dependent variable. For example: In order for a firm to achieve its main goal, which may be to enhance current customer satisfaction, the firm needs to reduce production costs to be able to add value to its product. **Enhanced customer satisfaction** is the main driver but it is highly dependent on the *relative production cost reduction* driver. Another great example can be seen in the connection between the drivers: **simplified logistics, already familiar with the foreign market and penetration of a new market.** A company may be planning to optimize its operation and recognize simplified logistics opportunities in China. The familiarity of the Chinese market simplifies the penetration of the new market. These combined are influential a driver behind the company’s decision to move its production to China. Several similar scenarios can be presented which can conclude that the top five drivers are all highly important in the decision to move. However, all drivers conducted in this research have some impact on the companies’
decision to move production to China. The bottom drivers are not strongly influential factors but they are taken into consideration. The driver *Access to natural recourses* is considered to be least influential. The interpretation of this is that China’s natural resources are not highly sought after amongst the companies within the industries in this research. This can also be explained through the top ranked drivers which all indicate that the main reason behind the move to China is to penetrate the market in order to utilize the nation’s labor intensity and satisfy current customers.

5.3.4 Result: Most influential drivers behind the decision to NOT move production to China

The companies in this group constitute of 50 percent of the total number of respondents. This group has one factor in common which separates them from the other group: they have not moved their production to China. The drivers behind their decision are ranked in table 3. The length of each bar indicates the mean of the respondents’ 1-7 scale choices. The means are relative to the group. It demonstrates the importance of each driver and how much it influenced the respondents in their decision to not move production to China.

Table 3: Drivers behind companies’ decision to not move production to China
The five most influential drivers behind the decision to not move are described below:

The most influential driver behind the decision to not move production to China was chosen by the responding companies to be: **Complicated logistics.** The driver is as before mentioned emphasized in the Networks and Alliances Theory (see chapter 3.5.4), which highlight the importance for a company to form close networks where advantages and simplifications in the logistic processes can be achieved. Today’s global market puts a tremendous pressure on companies to optimize all organization processes. The importance of a well-functioning logistic is recognized in order to produce a steady outflow of products to secure constant profits and customer satisfaction (Sandelands 1997). As a country still under development, China’s logistic industry is under rapid progress and plays a progressively important role in China’s global economic development. However, logistic practices in China are very expensive due to undeveloped infrastructure in many places within the country. These costs may be greater than the profits gained in reduced production costs for a foreign company (Wang et al. 2010). The number of English speaking people is relatively low in China and the cultural differences may complicate the communication between Swedish and Chinese companies. Communication is essential to an effective logistic system and Swedish companies may feel that these complications may cause further transaction costs (Sandelands 1997). These facts can explain why Swedish SMEs fear the risk of a complex logistic situation, if a move of production to China is executed.

The second most influential driver behind the decision to not move production to China was chosen by the responding companies to be: **No profitable relative production cost reduction.** The driver is emphasized in the Transaction Cost Theory (see chapter 3.5.2), which highlights the importance for a company to focus on cost cutting processes. The attempt for cost reductions are very high amongst companies in today’s globalizing market. The constant pressure from competitors forces companies to trim down all costs. Swedish companies may see opportunities to reduce their relative production costs in China but these may be very vague and non-profitable due to several reasons. The most considerable reason according to this research is the complicated logistic situation described above, which can occur for some Swedish SMEs. The situation can create transaction costs which may overrun the possible profits from the reduction in production. All the drivers in table 3 above may present similar complications, which possibly can inhibit production cost reductions. A company’s basic purpose is to generate profits. If no opportunities to do so through a move of
production to China is recognized, the obvious choice is to not move. This driver has a strong influence on the decision to not move and overshadow most of a company’s positive reasons to move.

The Third most influential driver: **No profits in labor cost;** which also is emphasized in the Transaction Cost Theory (see chapter 3.5.2), imply the same basic reasons as the former described driver. However; the Labor cost factor is more specific and reveals the most considerable aspect within the production cost reduction factor. Some companies’ operating efficiency may be inhibited if a move to China would be executed. Complicated logistics and lack of quality control are examples on operating processes that may become degenerated. This can outweigh the profit gained in labor costs reduction. This economic reason is a strong driver behind Swedish SMEs’ decision to not move the production to China.

The fourth most influential driver behind the decision to not move production to China was chosen by the responding companies to be: **Trust** (avoid moral hazard, trust building, monitoring). The driver is emphasized in the Networks and Alliances Theory (see chapter 3.5.4), which highlights the importance of collaboration and trust between companies and foreign suppliers. Trust is a big part of the organizational culture and an important factor in its path to success (Joseph *et al.*. 2005). The trust issue between managers and employees becomes more complicated when cultural differences within organizations occur. The work systems differ between nations therefore; closer monitoring is required to achieve a closer control over the production. These processes are very resource demanding and costly (Peterson 1998). Other trust issues are contract breaches which are common when countries are collaborating. China emphasizes a totally different approach towards contractual negotiations with western societies. A signed contract does not imply that an arrangement is sealed and the document does not have any significant meaning other than a symbolic value (Agarwal *et al.*. 2004). Another issue is the Chinese environmental work values and quality control processes which are very unlike the Swedish. What is noted as approved quality in Sweden may not behold the same standards in China. Not trusting the quality and environmental aspects of production may be an issue for Swedish companies, which emphasize higher standards in these areas. Trust within an organization is vital in many aspects. That makes it an influential driver behind Swedish SMEs to not move production to China (Agarwal *et al.*. 2004).
The fifth most influential driver behind the decision to not move production to China was chosen by the responding companies to be: **Not in need of employees with key skills.** The driver is emphasized in the Core competence Theory (see chapter 3.5.3), which highlights the importance for a company to concern competence strategy and gain core competencies in ability lacking activities. The importance of attracting employees with key skills is essential to a company’s development. Through new thinking and innovative activity a company can gain a competitive advantage (Hamel et al. 1990). China as a host for foreign companies is offering, as mentioned, low production costs and economies of scale opportunities. Employees with key skills are not the primary advantage of the highly labor intensive country. Sweden as a competitive nation is at the moment higher ranked than China according to the world economic forum’s global competitive index (Bowen et al. 2011). This indicates a higher development in technology and innovation in Sweden than China. These facts combined with the highly influential factor: no profit in labor costs concludes that the search for employees with key skills is not emphasized by Swedish SMEs in China. The SMEs are rather utilizing the Chinese labor force for low cost production than a source of innovation and development.

### 5.3.5 Summary: Drivers behind the decision NOT to move production to China

The five most influential drivers behind Swedish SMEs decision to not move production to China reveal an interesting connection. Two out of these five are connected to the Network and Alliances theory and two to the Transaction Cost theory. One is connected to the Core Competence theory. This indicates that the main reason to not move is either economic or relationship related, or a mixture of both. As mentioned, the demographics of the SMEs in this research are not allowing the SMEs to take big economic risks and relationships on the Chinese market are important in order to move production there.

The five most influential drivers in table 3 indicate risks of moving production to China. The risk of a situation with operating inefficiency through complications within organizational processes such as logistics and trust; forces Swedish SMEs to take the decision to not move production to China. These companies may strive for cost reductions but the logistic situation is essential to the outflow of products and revenues. Due to this it can be stated that the drivers combined are important drivers behind the decision to not move production to China. The bottom drivers in table 3 are not strongly influential drivers but they are taken into
consideration by the companies. The driver *Capital investment increase* may be of high concern to SMEs due to their demographics but it is not taken into as much consideration as to the operating efficiency process related issues. However, it can be stated that big investments are not a major concern. The risk of losing these investments through profit reduction is the main issue.

5.3.6 *Drivers overall conclusion/ Table 2 and 3 comparison*

Table 4 below is presenting the ranked drivers in comparison to each other. The most influential drivers are at the top.

**Table 4: Drivers Comparison**

<table>
<thead>
<tr>
<th>Drivers to move</th>
<th>Drivers not to move</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To enhance current customer satisfaction</td>
<td>1. Complicated logistics</td>
</tr>
<tr>
<td>2. Already familiar with the foreign market</td>
<td>2. No profitable relative production costs reductions</td>
</tr>
<tr>
<td>3. Penetrate new market</td>
<td>3. No profits in Labor Cost</td>
</tr>
<tr>
<td>4. Simplified logistics</td>
<td>4. Trust</td>
</tr>
<tr>
<td>5. Relative production cost reduction</td>
<td>5. No need of new employees with key skills</td>
</tr>
<tr>
<td>6. To gain economies of scale</td>
<td>6. Risk to degenerate customer satisfaction</td>
</tr>
<tr>
<td>7. Low labor cost</td>
<td>7. To gain economies of scale</td>
</tr>
<tr>
<td>8. To enhance quality control</td>
<td>8. No need to penetrate new market</td>
</tr>
<tr>
<td>10. Meet high competition pressure</td>
<td>10. No pressure from current competitors</td>
</tr>
<tr>
<td>11. Understand local consumer needs better</td>
<td>11. Not in need of talent renewal</td>
</tr>
<tr>
<td>12. Constant communication with local suppliers</td>
<td>12. Unfamiliarity of the foreign market</td>
</tr>
<tr>
<td>14. Legal issues</td>
<td>14. Legal issues</td>
</tr>
<tr>
<td>15. Trust</td>
<td>15. No interest in natural resources</td>
</tr>
<tr>
<td>17. Renewal of talent</td>
<td>17. Constant communication with overseas suppliers</td>
</tr>
<tr>
<td>18. Access to natural resources</td>
<td>18. Capital investment increase</td>
</tr>
</tbody>
</table>

Table 4 reveals some very interesting connections between the Swedish SMEs that have decided to move, and the SMEs that have not moved production to China. These variations can be explained through analyzing the drivers individually in order to reveal the reason behind the drivers’ grade of influence. Some of the most revealing relations are analyzed below:
The driver trust presents an interesting relation. It has a very low influence in the decision to move, since it is ranked as 15. However, trust issues are seen as a highly important driver for companies that have not moved where it is ranked as the fourth most influential driver. In other words, companies that have chosen to move specifically to China are not motivated to do so because of positive trust relationships. Companies that have chosen to not move to China are neither attracted by the trust relationships, since they see the trust issues as a highly motivating driver not to move. The major reason behind the low level of trust when dealing with China may exist due to unfamiliarity of the Chinese business environment. China and Sweden are both geographically and culturally, very far away from each other. China is a highly collectivistic country with a high level of long term orientation. Sweden is an individualistic short term orientated country. This creates a completely different behavior between Swedish and Chinese employees, which leads to uncertainty in the coordination. Chinese companies are also much more masculinity orientated than the Swedish. This may also create a confused situation when establishing operation in China. The power distance is also a factor which differs between the countries. Sweden is emphasizing a low power distance which is reflected in their equal society. China is emphasizing a high power distance where the power is unequally distributed and the work principles and outlook on tolerance is totally different than those in Sweden (Hofstede 2003). These cultural differences are strongly influencing the uncertainty and trust amongst Swedish SMEs towards business relationships with China. According to the Uppsala model (Hollensen 2007), other geographical and culturally closer low cost production locations may be a more logical choice for Swedish SMEs when a move of production is relevant. With these facts stated, it is understandable why trust is a highly noticeable driver for Swedish SMEs that choose to not move production to China, and not noticeable for companies that choose to move. The difference between the nations is too apparent.

A similar relationship can be seen in the driver employees with key skills. It has a very low influence in the decision to move since, it is ranked as 16. Chinese employees with key skills are neither seen as a highly important source for companies that have not moved, since it is ranked as 5. In other words, employees with key skills are not highly sought after in China by Swedish SMEs. As mentioned Sweden is a further developed country compared to China and low labor costs are much more sought after than employees with innovative and technological know-how.
A dissimilar pattern is revealed in the logistic driver. The driver is highly influential in both the decision to move and to not move; it is ranked 4 and 1 respectively. In other words, the driver is evaluated similar by companies that have moved and have not moved. The reason to this is the importance of the logistic process in organization. The risk of degenerate logistics through a move abroad, is something that a company is not willing to take due to its direct connection to product outflow and revenues. On the other hand, the possibility of gaining operating efficiency and increased revenues through optimized logistics may be a deciding factor for SMEs development and growth. An SME does not possess infinite amounts of resources and is thereby forced to emphasize an analyzer strategy in order to closely consider strategic decisions. A move of production may present huge risks for a firm within its logistic operation. This makes the logistic efficiency a very considerable and influential driver both behind the decision to move and not to move production to China.

A similar conclusion can be drawn by looking at the driver relative production cost, which is highly influential in both the decision to move and not to move. The driver is ranked 5 and 2 respectively. The driver is directly connected to a company’s most vital process, its profit extraction. By decreasing the production costs a company can as mentioned, notable increase its profit margins. The gained capital can be invested in new technology and innovations and help the Swedish SMEs to vastly develop and grow. Contra this, a move of production to China may not be totally profitable due to other process complications. This can lead to heavy losses in the profit margin, which directly affect the company’s economic situations and sends bad indications to investors. The process to reduce production costs does much like the logistic process, present risks which directly affect a company’s economic situation. This makes relative production cost a very considerable and influential driver behind Swedish SMEs decision to move or not to move production to China.

Similar connections as in the two most recent described examples can be seen in many drivers in table 4. These are the drivers which are ranked high by both companies that have moved and companies that have not moved. These key-drivers are in general highly important for Swedish SMEs organizational processes. These are:

- Customer Satisfaction
- Logistics
- Production Costs
- *Economies of Scale*
- *Labor Cost*

These five key-drivers are ranked within the top seven by both groups. These may be of high importance because of their direct effect on a company’s economic situation. Thereby they also present big risks.

These relations are further explained under the topic *Connection between Drivers and Core strategies* (chapter 5.5) where the Key-drivers are connected to the Core strategies which are explained below (chapter 5.4). This connection is done in order to reveal a characteristic strategic behavior of Swedish SMEs.

### 5.4 Core strategies result presentation

This research has as mentioned the purpose to reveal the key drivers that influenced a company’s decision to move or not to move production to China. It is also conducted in order to reveal the dominant core strategies for the organizations that moved to China and for those that did not. The core strategies are classified accordingly; *Prospector, Defender and Analyzer strategy* (see chapter 3.7). These core strategies are in this research translated into several strategic behaviors. Since, each strategy has its different aspects; the strategic behaviors make it possible to reveal, which the dominant strategy is, and also if a mixture between the Defender and Prospector strategy is used (analyzer strategy). The survey participants were asked how substantially they emphasize each strategic behavior Due to the small number of participants, no statistical analyzes have been conducted besides the mean variable. The result can be seen as strong indications.
5.4.1 Statistical presentation of strategies

Statistical table 2: Statistics of strategic behaviors

<table>
<thead>
<tr>
<th>Moved production to China</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on exclusive products towards a narrow customer group</td>
<td>Yes</td>
<td>7</td>
<td>4.14</td>
<td>1.864</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>5.29</td>
<td>2.289</td>
</tr>
<tr>
<td>Focus on vast investments within costumer service</td>
<td>Yes</td>
<td>7</td>
<td>4.86</td>
<td>2.410</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>4.14</td>
<td>2.116</td>
</tr>
<tr>
<td>Focus on high quality rather than low production costs</td>
<td>Yes</td>
<td>7</td>
<td>5.71</td>
<td>1.380</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>5.43</td>
<td>1.134</td>
</tr>
<tr>
<td>Focus on reaching new markets</td>
<td>Yes</td>
<td>7</td>
<td>5.86</td>
<td>1.069</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>5.14</td>
<td>1.676</td>
</tr>
<tr>
<td>Focus on vast investments within research and development</td>
<td>Yes</td>
<td>7</td>
<td>4.57</td>
<td>.787</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>4.14</td>
<td>2.116</td>
</tr>
<tr>
<td>Focus on low production costs</td>
<td>Yes</td>
<td>7</td>
<td>5.43</td>
<td>1.134</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>4.29</td>
<td>1.799</td>
</tr>
<tr>
<td>Planning to internationalize in the future</td>
<td>Yes</td>
<td>7</td>
<td>6.00</td>
<td>1.155</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>5.00</td>
<td>2.000</td>
</tr>
<tr>
<td>Exclusively focusing on core product</td>
<td>Yes</td>
<td>7</td>
<td>5.43</td>
<td>2.149</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>3.57</td>
<td>2.149</td>
</tr>
</tbody>
</table>

The table above describes the statistics of the strategic behaviors. As mentioned before, no quantitative analysis could be done. Therefore, the in-depth analysis below in this chapter has been conducted in order to strengthen the indication and tackle the high standard deviation value.

5.4.2 Core strategy: companies that have moved production to China

In this part the analysis is based on companies that have chosen to move production to China. There are eight different behaviors which describe the choice of core strategy amongst the companies in this research. The lengths of each bar indicate the mean of the respondents’ 1-7
scale choices. The means are relative to the group. It demonstrates the grade of utilization of each behavior.

Table 5: Ranking of strategic behaviors concerning companies that have moved production to China

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning to internationalize in the future</td>
<td>6.00</td>
</tr>
<tr>
<td>Focusing on to reach new markets</td>
<td>5.86</td>
</tr>
<tr>
<td>Focusing on high quality instead of low production costs</td>
<td>5.71</td>
</tr>
<tr>
<td>Focusing on core product exclusively</td>
<td>5.43</td>
</tr>
<tr>
<td>Focusing on low production costs</td>
<td>5.43</td>
</tr>
<tr>
<td>Focusing on vast investments within customer service</td>
<td>4.86</td>
</tr>
<tr>
<td>Focusing on vast investments in research and development</td>
<td>4.57</td>
</tr>
<tr>
<td>Focusing on exclusive products in a narrow customer group</td>
<td>4.14</td>
</tr>
</tbody>
</table>

Table 5 above reveals the most emphasized strategic behaviors chosen by the respondents. The top part constitutes the four most emphasized strategic behaviors. These reveal the dominant core strategy amongst the Swedish SMEs that have moved.

Figure 3 below shows which core strategy each of the four most emphasized strategic behaviors belongs to. In other words, it is revealed which the most dominant core strategy is.

Two of the strategic behaviors belong to Prospector strategy and the other two belong to Defender Strategy. This strategic mix reveals a use of Analyzer strategy amongst the companies that have moved production to China. The noteworthy aspect is that companies within this group already have moved production to China and they are also planning to
5.4.3 Core strategy: companies that have NOT moved production to China

In this part of the chapter, the common core-strategy of the companies that have decided not to move to China is revealed through analyzing their strategic behavior. The lengths of each bar indicate the mean of the respondents’ 1-7 scale choices. The means are relative to the group. It demonstrates the grade of utilization of each behavior.

Table 6: Ranking of strategic behaviors concerning companies that have not moved production to China

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focusing on high quality instead of low production costs</td>
<td>5.43</td>
</tr>
<tr>
<td>Focusing on exclusive products in a narrow customer group</td>
<td>5.29</td>
</tr>
<tr>
<td>Focusing on to reach new markets</td>
<td>5.14</td>
</tr>
<tr>
<td>Planning to internationalize in the future</td>
<td>5.00</td>
</tr>
<tr>
<td>Focusing on low production costs</td>
<td>4.29</td>
</tr>
<tr>
<td>Focusing on vast investments in research and development</td>
<td>4.14</td>
</tr>
<tr>
<td>Focusing on vast investments within customer service</td>
<td>4.14</td>
</tr>
<tr>
<td>Focusing on your core product exclusively</td>
<td>3.57</td>
</tr>
</tbody>
</table>

The upper part of Table 6 reveals the companies’ most emphasized strategic behaviors, which are used to define the most dominant core strategy. The four highest ranked strategic behaviors constitute the core strategy. Figure 4 below explains the connection:
Fig 4: Defining core strategy “Not moved”

As shown in fig 4, two of the most emphasized strategic behaviors are related to the Prospector strategy and two to Defender strategy. The pattern is the same as the one within the group previously described. However, the top ranked behaviors are connected to the defender strategy since; the companies in this group have not moved production to China. This indicates the use of a Defender orientated analyzer strategy.

5.4.4 Core strategies conclusion

The fact that companies from the both groups are using the Analyzer strategy could be explained by the fast globalizing market. The globalization makes it vital for companies to be constant ready for changes and to internationalize in order to meet global competition (Hofstede 2003). Another reason may be the demographics of an SME. As mentioned before, these companies do not possess as much resources as an MNE. The SMEs have to take more caution and closely analyze the risks and benefits before taking a decision.

Analyzers move into new markets only if it has proven to be successful by prospectors, which in this case could mostly be referred as the MNEs. SMEs’ internal arrangements are characterized by centralization with tight control over the current activities but flexibility over new developments (Burnes 1997). Analyzers’ aim is to maximize profits through minimal risks therefore; they can be seen as imitators. Regarding this subject the prospector orientated analyzers could be those who have seen benefits by similar companies located in China. Those that still hesitate to move, probably believes that since similar organizations are not
highly successful, the move might not be of value. It must be remembered that the move of production is a big step hence; analyzer organization must have clear indications to move. If uncertainty is involved then it is of more value to focus on your core activity. A good describing example is the brand reputation. Since China, as a location is well-known for the use of child labor, makes the move of production a highly considerable choice. Analyzers within a field that could be connected to the use of child labor would jeopardize the brand reputation and therefore lead to a decision to not move.

5.5 Connection between drivers and core strategies
The most influential drivers and the most emphasized strategy for the companies that have moved to China are previously presented (see chapter 5.3; 5.4). Figure 5 below reveal the most influential features behind Swedish SMEs decision to move production to China.

Figure 5: Features behind decision to move

Figure 6 below reveal the most influential features behind Swedish SMEs decision to NOT move production to China.
The analyzer strategy is revealed to be the overall dominant strategy amongst all Swedish SMEs in this dissertation. The result also reveals five common key drivers which are considered to be the most important processes to consider for both the companies that have moved and those that have not (explained in chapter 5.3.5). The key drivers and the overall dominant core strategy are connected to each other. The combination creates a general organizational feature for Swedish SMEs. See Figure 7 below.

Due to a relatively small resource capacity, SMEs have to closely consider the advantages and disadvantages of a move of production. According to this research, the most important
advantages and disadvantages generally arise within the key driver processes in figure 7 above. A Swedish SME has to emphasize an analyzer strategy in order to closely evaluate the key-drivers and to decide if the move of production to China is profitable or not. The Key-drivers and the analyzer strategy can in this conduct be presented as a general strategic organizational feature and a framework for a Swedish SMEs that stands in front of the decision to move production to China.

The key-drivers reveal that Swedish SMEs focus on to satisfy different needs and preferences within different markets, if opportunities arise. The Production cost, Labor cost and Economies of scale drivers indicate that the firms are facing cost pressures from the global market. The firms also recognize a pressure for local responsiveness which the Logistic and the Customer satisfaction drivers indicate. The companies are pressured from global competitors to streamline the five key-driver processes which complicate their strategic situation. This is due to the fact that pressure on local responsiveness tends to raise costs. This conflict is proved to be hard to solve, even for large MNEs. This conflict may be something that some SMEs cannot answer to which forces them to take a decision to not internationalize. The Swedish SMEs has to consider a Transnational Strategy in order to tackle the pressure from local responsiveness and costs (Bartlett et al. 1992). However, this strategy is emphasized by only a few very large MNEs which have the capacity to take economic risks. By this statement, SMEs may have difficulties to grow if they chose to not take similar risks, which in this case would imply a move of production to China. By analyzing MNEs internationalization strategies, the Global matrix structure seems to be an appropriate structure design to reflect on for Swedish MNEs. The structure design is also adjusted for large MNEs but by analyzing its processes, the SMEs can apply the same principals at a smaller scale. By using the global matrix structure, The SMEs can analyze and quickly respond to external changes and opportunities in order to gain economies of scale and low cost advantages; and at the same time achieve the overall planning and control of the domestic processes. The headquarters can retain the financial control of the company and be responsible for the overall development, which seems to be important for the SMEs in this research according to the key-drivers (Bartlett et al. 1992).
As mentioned, these processes concern large MNEs with multiple subsidiaries. The Transnational strategy and Global matrix structure is highly sought after by companies in order to tackle the pressure from today’s fast globalization. Swedish MNEs may not possess even close to the resources in order to fully achieve one of these processes but they can strive to apply some of its characteristics. By this they can progressively grow from a organizational U-form with a simple environment to a M-form or W-form with a differentiated product and market situation (Pihl 2003)
6. Conclusion

In this chapter the conclusion of the research is presented. A holistic picture of the research is explained.

6.1 Summary/ Contribution

To conclude this research project, a summary is carried out. The research aims to answer the question, *how do organizational features of Swedish SMEs influence the choice to move or not to move production to China?*

In order to answer this question, a model was conducted in Chapter 3. The model explains the research process and reveals the essential parts which eventually reveal the result. Figure 8 below show this model but with the research result incorporated.
The drivers behind the decision to move or not to move are revealed through existing internationalization theories. The influence of each driver is ranked through a survey sent to companies within the two different groups. The dominant core strategies where also exposed through the survey. The result revealed the Analyzer Strategy as the most emphasized in both groups. The choice of strategy indicates that Swedish SMEs analyze and carefully consider the advantages and disadvantages concerning a move to China. The most important organizational processes drive them to take a decision. There are some drivers that are influential in the decision to move and also in the decision to not move. These drivers can be considered as Key-Drivers. These drivers combined with the dominant strategy constitute vital processes that Swedish SMEs can see as a framework when considering a move to China. By emphasizing an analyzer strategy a SME can consider the vital organizational processes revealed in the Key-Drivers and thereby take the decision to move or not. The feature can be seen in figure 7: General feature model, in chapter 5.

This research aims to give an understanding of why Swedish SMEs choose to produce in China and why some choose not to produce in China. This has previously not been investigated. Therefore, this research is seen to be of academic value. The number of respondents in this research was unfortunately less than expected which limited the statistical analyzes. However, the findings can be seen as strong indications and a contribution to Swedish SMEs strategic planning processes regarding internationalization.

6.2 Critical review

The aim of the dissertation is to investigate how organizational features influence Swedish SMEs’ choice to move or not to move production to China. This subject was attractive because existing articles showed a vague interest concerning Swedish SMEs and the companies that did not move production to China. This investigation has to a certain extent, filled this gap. However, due to the fact that fewer organizations than expected participated in the research, weakens the reliability and the generalizability.

All companies had a part of their production in the plastics and rubber industry, which can have a positive influence on the generalizability. This since, the companies are operative in the same industry which makes the drivers applicable to companies within plastics and rubber industry. Henry (1990) argues that detailed information can be achieved by a concentrated
target group. In addition, more time can be spent on the analysis of data instead of collection of data. In order to increase the reliability and generalizability, other ways have also been emphasized. First, the questions asked in the survey are conducted to reveal precise information, which increases the comparability but it can also be a reason for companies denying the participation.

The results have shown a clear connection between the key-drivers and how they influence the companies’ core strategies. The pattern indicates that the results are reliable but this cannot be confirmed due to low level of respondents and the high standard deviation value. The pattern can be seen as an indication to what the outcome would be if a large number of organizations participated. The low level of participants was in this research hard to overcome due to time limitations. Therefore, it can be claimed that this research is generalizable but only as an indication of the processes Swedish SMEs needs to focus on, when deciding to move or not to move production to China. This is also strengthened by the cross-sectional method used in this research. It shows a snapshot of the situation carried in a short time period. However, the method could also be seen as a weakness to the generalizability since, companies might have different apprehension towards China depending on how they can benefit from the move, which changes over the time. Another aspect that could have a negative influence on the companies’ view on China is media. Accusations of bad morale due to use of child labor or other similar aspects can be a jeopardizing factor for Swedish companies, which are highly concerned with morale and ethics.

6.3 Practical implications
Earlier studies show a strong emphasis on the field of international business strategy but their focus regarding this subject has mainly been on US MNEs’ move to China (Lau et al. 2006). Even though there is a high focus on China, there has been a lack of emphasis on the subject investigated here. Existing studies have also indicated that the risks and benefits offered to MNEs’ might differ for SMEs (Sinha et al. 2011). This research aims to give an understanding of why Swedish SMEs choose to produce in China and why some choose not to produce in China. This has previously not been investigated. Therefore, this research is seen to be of academic value. The model created in this research is a framework that presents highly important processes that organizations base its decision on. The analysis provided in
chapter five strengthens the proposition and could possibly urge other Swedish SMEs to consider this research in order to facilitate their decision to internationalize.

However, this research cannot alone lay the grounds for an organization’s decision to move or not to move. Earlier studies must be taken into consideration and drivers concerning their specific organization must be explored. In other words, some of the key-drivers might have to be replaced. Therefore, this research might be applicable in order to direct the organization and to reveal the path an organization should follow when the decision-taking is appropriate.

6.4 Future research

Since there have been limitations in the process of this dissertation it would be appropriate to confirm the assumptions through a further research. First of all, the need to encourage more Swedish SMEs to contribute to the research is vital. A larger number of participants could confirm the indication revealed in this research. This would be possible since, a larger sample would clearly signify the importance of a driver, which would be possible to strengthen through a lower standard deviation value. The fact to involve a larger sample would contribute to increased reliability and generalisability.

This could further lead to a research based on, if the key-drivers are ranked differently depending on the industry in which a company operates.

When the key-drivers are confirmed and proven to be valid and reliable, a further research could be applied on SMEs from different parts of the world. This would reveal if there is any difference in the apprehension towards China. The research would probably signify different key-drivers and reveal if there is any connection between key-drivers from different countries. If similar key-drivers are pointed out then the research could be applicable to SMEs in general.

It would also be of high interest to apply a longitudinal method in order to see if the results change over long time periods. This would lead to an in-depth research, which would point out the reason for changes and developments within the progressively globalizing world.

Another interesting subject to research is which key-drivers MNE’s emphasize. This would give the possibility to make a comparison and lead to investigating, why there is a difference between their rankings and the SMEs.
Bibliography


Appendix 1

Survey:

QUESTION 1: What is your gender?

- Female
- Male

QUESTION 2: How many employees does your company have?

- 1-49
- 50-250
- >250

QUESTION 3: How large is your company’s yearly turnover?

- < € 10million
- < € 50million
- > € 50 million

QUESTION 4: Does your company produce in another country than Sweden?

- Yes
- No
QUESTION 5: Which industries does your company operate in?

☐ Electronic Components

☐ Packaging

☐ Chemicals and chemical products

☐ Food and Beverage

☐ Pulp, paper and paperboard

☐ Plastics and rubber

☐ Steel and metal

☐ Textiles, clothing, footwear and leather

☐ Wood products

☐ Motor vehicles and accessories

☐ Other: 

QUESTION 6:

To which extent does your company utilize the strategic features below? Please grade from 1= not utilized to 7= highly utilized

Focus on exclusive products towards a narrow customer group?

1 2 3 4 5 6 7
Not utilized ☐ ☐ ☐ ☐ ☐ ☐ ☐ Highly utilized

Focus on the domestic market instead to enter new ones?

1 2 3 4 5 6 7
Not utilized ☐ ☐ ☐ ☐ ☐ ☐ ☐ Highly utilized
Focus on vast investments within customer service?

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Focus on high quality instead of low production costs?

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Focus on reaching new markets?

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Focus on to follow international consumer trends and demands?

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Focus on vast investments within research and development?

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Is your company planning to enter a new market in the future?

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Focus on your core product exclusively?

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Have your company moved production between different countries more than one time?

- Yes
- No
QUESTION 7: Have your company moved production to China?

- Yes
- No

QUESTION 8:

How substantially do you consider the factors below to affect your decision to move production to China?

Or if you have not moved; how substantially do you consider them to affect your decision to not move production China?

**Legal issues**

1  2  3  4  5  6  7

Extremely low influence in your decision

Extremely high influence in your decision

**Need of Trust (to avoid Moral Hazard amongst your suppliers)**

1  2  3  4  5  6  7

Extremely low influence in your decision

Extremely high influence in your decision

**The need to access location specific advantages**

1  2  3  4  5  6  7

Extremely low influence in your decision

Extremely high influence in your decision

**Need of new employees with key skills**

1  2  3  4  5  6  7

Extremely low influence in your decision

Extremely high influence in your decision

**Renewal of talent**

1  2  3  4  5  6  7

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