



UNIVERSITY OF  
NORDLAND

BODØ GRADUATE SCHOOL OF BUSINESS

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# MASTER THESIS

## **SME Internationalization: Motivations to Internationalize and Influential Factors on Entry Mode Choice**

Case Study of Two Norwegian Ship Equipment  
Manufacturers that Have Entered Chinese  
Market

**Jiaping Wu**

BE309E-International Business and Marketing

November 2015



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### **SAMMENDRAG**

I de siste tiårene har små og mellomstore bedrifter (SMB) spilt en viktig rolle i den globale økonomien. Internasjonalisering av SMB blir et populært tema. Det finnes allerede mange studier om internasjonalisering av store, multinasjonale selskaper, men kun noen få studier konsentrerer seg om internasjonalisering av SMB. Formålet med denne oppgaven er å undersøke norske SMBs motivasjon for å etablere seg i det kinesiske markedet samt hvilke faktorer som påvirker deres etableringsmodus. I tillegg forsøker forfatteren også å drøfte hvilke internasjonaliseringsteorier som kan anvendes for å forklare norske SMBs etablering i det kinesiske markedet.

I tillegg til gjennomgang av litteratur om internasjonaliseringsteorier er det gjennomført en "within case study" av to norske SMB innen maritim industri i tillegg til en sammenligning av de to selskapene.

Gjennom analyse av informasjon innhentet i intervjuer ansikt-til-ansikt, støtter denne studien teorier om visse motivasjonsfaktorer for SMBs internasjonalisering samt visse faktorer som har innflytelse på deres etableringsmodus. Videre fant forfatteren i denne studien at størrelsen på fremmede markeder, forbindelser til organisasjoner i etableringslandet og forventninger om etableringslandets utvikling er motivasjonsfaktorer for etablering i fremmede markeder. I tillegg avdekker studien at etterspørsel og trender i markedet også er en motivasjonsfaktor. Uppsala-internasjonalsisering kan også til en viss grad forklare internasjonaliseringsprosessen for noen norske SMB.

**Nøkkelordet:** Internasjonalisering, SMB, markedsmotivasjon, etableringsmodus.

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## **PREFACE**

This master thesis is an obligatory part of the Master of Science in Business education in Bodø Graduate School of Business. This thesis is written for the specialization of International Business and Marketing and counts for 30 credit. The main task of this thesis is to demonstrate independent work with problem statements resulting in presentation of written report.

I would like to express my sincere thanks to my supervisor Dominique Thon for assistance, advice and comments. Besides, I have to express my gratitude to professor Odd Jarl Borch, who provided me with a lot of advice, comments and ideas. In addition, I really appreciate my course coordinator Tor Korneliussen's help in terms of assisting me to find a good master thesis topic and looking for a right supervisor for me.

In addition, I would like to thank Per Arne Haug, who is the previous Managing Director in Kumera, for his help of providing me a lot of information about Kumera AS in terms of internationalization and also kindly comments on some parts of my master thesis. And I would also like to express my sincere gratitude to Derek, the marketing executive in Restech Norway AS, for his help, efforts and spent time during the data collection process.

Special thanks also give to Bernhald Rikardsen and Atle Njøs, who gave me a lot of supports while I was writing my master thesis in Oslo. Also, I would like to thank both Universitetet I Nordland and Universitetet I Oslo to provide with good study environment for me to write my master thesis.

Finally, I am grateful for my parents, my two sisters and brother for their kindness in my life. Thank you for your love, help and encouragement. Without you, I would not have been the same person as I am now.

I take the full responsibility for the mistakes as the author of this master thesis.

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### **ABSTRACT**

For the last decades, small and medium size enterprises (SMEs) have played an important role in global economics. SMEs internationalization becomes a popular research topic. There are already a lot of studies related to internationalization of large multinational companies and only a few studies focus on SMEs internationalization. The purpose of this study is to find out Norwegian SMEs' motivations to enter the Chinese market and the influential factors on their entry mode choice. Besides, the author also tried to discuss which internationalization theories can be applied to explain Norwegian SMEs' internationalization process to the Chinese market.

In addition to the review of internationalization literature and theories, a within case study of two Norwegian small and medium sized companies in maritime industry is also conducted as well as a cross-case analysis between these two companies.

Through the analysis of collected information from face to face interviews, finally, this study supports theories of some certain factors (e.g. profit and growth, management urge and technology) that are the motivations for SMEs to internationalize and some certain factors (e.g. firm size, international experience and product differentiation advantages) that have impact on SMEs' entry mode choice. Besides, the author found from this study that foreign market size, connections with organizations from host country and prospective for future of the host country could also motivate SMEs to enter foreign market. In addition, this study also discovers that market demand and market trend could also influence SMEs' entry mode choice. And Uppsala internationalization model could, to some extent, explain some Norwegian SMEs' internationalization process.

**Key word:** Internationalization, SMEs, Motivations, Foreign Market Entry Mode.

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# **1. Introduction**

## **1.1 Master Thesis Background**

According to the traditional perspectives of internationalization of enterprises, internationalization is only the behavior of the large companies, which has scale economy. For the SMEs (i.e. small and medium sized enterprises), Internationalization is threat rather than opportunities (Zhao, 2005). SMEs are always considered as home market oriented (Lindmark, 1994) and early research on internationalization are mostly focused on the behavior of the large enterprises. Thus, the topic in terms of internationalization of the SMEs is explored relatively inadequate (Coviello & Munro, 1997; Holmlund & Kock, 1998). International business is always regarded as the arena for the large enterprises, which possess rich resources (Johanson & Vahlne, 1990). However, the SMEs' recently active behavior on the international stage challenges this traditional thinking pattern (Oviatt & McDongall, 1994). Because of the development of technology in information and communication, the strengthening of market globalization and the stimulation of some other factors, more and more SMEs start to explore business oversea (Zhao, 2005).

SMEs have been able to gain wider attention and increasingly playing an active role in the international market during recent years (Oviatt & McDongall, 1994). Unlike in pre modern era, today, SMEs is not confined within the national boundaries of the country; however, they are more and more internationally active today and have been contributing rapidly to the economic growth and prosperity of the nation (Reynolds, 1997). It has been expected to gain further momentum in the internationalization process of SMEs as there is an increasing tendency in the integration process of the world economy with continued declines in government imposed barriers and advancement in the technology (Lu & Beamish, 2001).

According to Lu and Beamish (2001), in addition to the growth and learning outcomes, internationalization of SMEs can strengthen the financial performance of companies. Besides, the internationalization of SMEs is important for the countries which want to cut unemployment level as SMEs generate more than two third of employment (OECD, 2005).



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Zhao (2005) stated that Internationalization is objective needs for SMEs when they develop to certain level and it is also the sign showing that the companies become mature. The increasingly globalization of world economy provides good conditions for SMEs to participate in the international competition. Besides, the strengthening of global multilateral trading system and reduction and elimination of tariff and non-tariff measures reduce barriers for SMEs to enter foreign markets. In addition, the development of information and communication, together with SMEs' inherent flexibility enable SMEs to use their fast reaction and innovation capability to achieve huge breakthrough in the international markets. What's more, global financial deregulation provides the SMEs more financing opportunities in the international market. Moreover, the propaganda from international media gives customers more choice. Last but no the least, the life cycle of product is shortened further (Zhao, 2005). All the factors mentioned above provide the SMEs good conditions to internationalize.

Small and medium sized enterprises (SMEs) are increasingly involved in international trade in Europe. According to European Commission (2010), there are more than 40% of European SMEs are involved in an international relationship-ranging from exporting, importing and foreign direct investment (FDI) to subcontracting activities. The trend of increased cross-border activity of SMEs (European Commission 2010) is important to the Norwegian economy, where 99.5% of the companies have fewer than 100 employees (NHD 2011) and 65% the value creation originates from companies with fewer than 250 employees (NHD 2011). Further, export activities - independent of firm size - constituted nearly a quarter of the Norwegian gross domestic product (GDP) in 2010 (SSB 2011). Successful internationalization of small firms is therefore an important part of a sustainable Norwegian economy (Karlsen and Dahl, 2012).

### **Ship Equipment Industry in Norway**

Norway is home to maritime equipment manufacturers in a wide variety of areas, including motors and engines, pump systems, navigation equipment, surface coatings, heating systems, ship furniture and positioning systems to name a few. Besides, Norway is also one of the world's leading maritime nations and the major power within the international maritime industry. Norwegian companies are in the leading

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position in a large number of fields including ship financing, building and developing ship and drilling equipment, shipping chemicals and dynamic positioning systems. Norwegian companies and knowledge-based players are responsible for a constant flow of innovations in ship design, propellers, equipment and services (SSB 2014). These innovations contribute to the improvement in terms of environment and climate.

Norwegian maritime equipment manufacturer supply about 7 percent of ships equipment purchased world-wide (SSB 2014). Norwegian ship's equipment manufacturers made sales valued at more than NOK 20 billion in 2012 with a turnover of 63 billion in 2012 (SSB 2014). Furthermore, exports of ship's equipment from Norway are remarkably high. Almost 90 percent of ship's equipment from Norwegian companies ends up as exports (SSB 2014). Taking the service into account, the total exporting value of Norwegian's ship equipment suppliers reached to over NOK 45 billion, which equals to 8 percent of Norway's exports of goods and services (excluding oil and gas). If the drilling equipment and specialist marine equipment are included, exports increase to NOK 75 billion or 12 percent of Norwegian exports and exceed seafood exports from Norway, which was equivalent to NOK 50 billion in 2012 (SSB 2014).

Norwegian ship's equipment exports largely go directly from Norwegian companies to customers abroad. Nearly 70 percent of the equipment is sold straightly to shipyards and shipping companies in other countries. The remaining 30 percent go through shipyards in Norway or the shipping companies that are also active abroad (SSB 2014).

### **Shipbuilding and Ship Equipment Industry in China**

China is an emerging shipbuilder that overtook South Korea during 2008 global financial crisis as it won new orders for medium and small-sized container ships (Wikipedia, 2014). China is now firmly the world's largest shipbuilder. According to data from Clarksons Research, from January to November in 2014, China's shipbuilding capacity ranked first with 3383 Million dwt, which takes up 39.6% share of global market and followed by South Korea and Japan with 28.1% share and 25.8% share respectively. As for new orders, China seizes 47.7% of world's new orders, calculated by Million dwt. While South Korea takes 27.9% and Japan with 19.6%. In

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terms of Hand held orders, China has 47% global share followed by South Korea with 25.9% and Japan with 18.7%. (See Table 1)

*Table 1: 2014.01~2014.11 Three Main Index in Global Shipbuilding Industry*

Index/Country		Global	China	South Korea	Japan
<b>2014.01~2014.11 Shipbuilding Capacity</b>	Million dwt	8554	3383	2404	2204
	Proportion	100	39.6	28.1	25.8
	Million compensated gross tons	3245	1073	1113	627
	Proportion	100	33.1	34.3	19.3
<b>2014.01~2014.11 New Orders</b>	Million dwt	10212	4868	2850	1997
	Proportion	1000	47.7	27.9	19.6
	Million compensated gross tons	3587	1458	1020	706
	Proportion	100	40.6	28.4	19.7
<b>2014.01~2014.11 Orderbook</b>	Million dwt	31587	15034	8183	5899
	Proportion	100	47.6	25.9	18.7
	Million compensated gross tons	11364	4577	3244	1944
	Proportion	100	40.3	28.5	17.1

*Source: The data in this table are from British Clarksons Research.*

According to Ministry of Commerce of the People's Republic of China, the shipbuilding industry in China has formed scale, professional, series and modern shipbuilding models with the capacity to build all types of ship excluding the luxury cruises (MCPRC 2014). China's shipbuilding quality and technology have improved very much.

The rapid development of shipbuilding industry in China brings huge opportunities for the supporting industries like ship equipment. However, the domestic ship equipment manufacturing industry is a recent development in China. With small scale of production and weak production capacity, more than 60% of ship equipment purchased in China depends heavily on import (Jiang and Strandenes, 2011). Compare the global main three shipbuilders, which are China, South Korea and Japan, we see the great potential in Chinese ship equipment market for foreign exporters. South Korea has a long period of development of ship equipment with strong production capacity and industrial economies of scale, which enables Korea has an 85 percent self-supplied rate in this field (Jiang and Strandenes, 2011). Japan has protectionism in their equipment industry, so it has been almost 100 percent self-

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supplied since late 1980s (Jiang and Strandenes, 2011). Therefore, China is a huge market for ship equipment suppliers from all over the world.

Demand in ship equipment is huge in China currently. According to National Bureau of Statistics of China, Ships and floating structures imports reached to 2,034.92 million dollars in 2013 compare to 1,783.59 million dollars in 2012 (NBSC 2013). As Chinese market opening process goes further (e.g. the new four free trade zones), together with better business and investment environment, China is the potential target market for many foreign companies, including Norwegian ship equipment manufacturers.

According to Ministry of Commerce of the People's Republic of China, the statistical data of Norway's main exports to China in 2013 shows that there are only 4 million dollars Ships and floating structures exported from Norway and takes up only 0.2 percent in all Norwegian exports to China. During the same period, Norway exported 796 million dollars Ships and floating structures abroad. That means this type of product exported to China only accounts for 0.5 percent of total amount. As mentioned above, China imported ships and floating structures by 2,034 million dollars and the amount from Norway only accounts for 1.97 percent in 2013. Norwegian companies' market share in terms of ship equipment in China is still small but with great potential.

### **1.2 Problem Statement**

The paper focuses on the issue of Norwegian small and medium ship equipment enterprises' Chinese market entry mode decisions. The main research question in this paper is:

### **How does Norwegian ship equipment SMEs enter into Chinese market?**

This master thesis follows two Norwegian SMEs within maritime industry (specifically ship equipment) in their ways of entering Chinese shipbuilding market. Enclosing the research problem statements and data collection from different fields,

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the thesis will illustrate and answer the questions in terms of Norwegian SMEs' internationalization process:

1. What are the motivations for Norwegian small and medium sized enterprises to explore Chinese market? (Why)
2. What are the main influential factors when they choose Chinese market entry modes? (What)
3. How do these motivations affect their Chinese market entry modes? (How)

In addition to the research questions mentioned above, this paper also identifies the similarities and difference of the answers to these research questions, between the two case companies. Besides, which theory of internationalization is applicable to explain Norwegian SMEs' internationalization to Chinese market would be also discussed.

### **1.3 The Purpose of This Study**

Since China has become the biggest shipbuilder all over the world and has rapid economic development at the same time, many companies, including Norwegian companies, within the maritime industry show great interest in doing business in Chinese market. Thus, knowing how to enter Chinese market properly and how to operate business there is of great importance. This paper provides some information about how Norwegian ship equipment SMEs choose market entry mode for Chinese market. The result could be useful for those who want to or have already run business in China.

This paper provides insight into what drives Norwegian ship equipment SMEs to explore Chinese market and what are the determinants for them on Chinese market entry mode choice through case study. Besides, it also describes how they enter Chinese market. In addition, how these SMEs penetrate into Chinese market would also be discussed in this paper.

This thesis, to some extent, contributes to the knowledge gap in the international market entry strategies concerning maritime industry and could be helpful for the future study in this field. Furthermore, the results of this research would also be helpful for the ship equipment companies which have interest in operating business in Chinese market. Last but not the least, the result of this paper could be helpful to the

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Chinese shipbuilders to know how Norwegian ship equipment exporters decide their entry strategy in some aspects so that they can decide or adjust their purchasing strategies.

In a word, this master thesis has both theoretical and empirical contributions to the existing literature and could be helpful for both companies and institutions.

### **1.4 Structure of This Master Thesis**

This master thesis consists of five chapters of main report. The first chapter is the introduction where I describe the background, research problems and purpose of this research. The second chapter is theories and literature related to the research problems, mainly concerning foreign market entry modes, motivations for internationalization, determinants on foreign market entry modes and internationalization models. Chapter 3 is research methodology and research design. Data and analysis come as followed in chapter 4. Finally, conclusion and limitation, is on the last chapter.

## **2. Theoretical Framework**

### **2.1 Introduction**

The previous chapter provides the overview of background, main research questions and structure on this study. This chapter reviews literature and theories that are related to the research questions. The theoretical part build a knowledge structure for studying the Norwegian ship equipment SMEs' internationalization in China. This theoretical framework consists of five parts: foreign market entry modes, motivations to internationalize, influential factors or determinants on foreign market entry modes decisions, internationalization models and how motivation interact with entry modes. Besides, analysis of Chinese market and business culture are also represented in this chapter.

The first part of the theoretical framework provides literature, which includes the definition of internationalization and variety of foreign market entry modes that are relevant to the study. These literatures are the basis of the research topic and they can also provide the general idea of what is going to be studied.

The second part of the theoretical framework considers motivations for companies to internationalize. It is important to take a look at what drive companies to explore foreign market when studying internationalization process since different motivations might cause different internationalization approaches. This part gives some ideas of what could be the main motivations for Norwegian ship equipment SMEs to enter Chinese market, which shorten the range of research and then makes the study easier.

The third part of the theoretical framework discusses the influential factors and determinants for the decision on foreign market entry modes. These influential factors can range from companies' internal factors, for example, capability and technology, to external factors such as market environment in both home country and host country. In addition to simply introduce those influential factors and determinants, the research development on this topic would be also discussed.

The fourth part of the theoretical framework is about the existing internationalization process model, for example Uppsala Model. Besides, entry mode perspectives such as

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transaction cost analysis and organizational capabilities perspective are also discussed in this part. These theories provide different theoretical perspectives of how and why enterprises go internationalized, which gives comprehensive knowledge for empirical study of Norwegian ship equipment SMEs' internationalization process in Chinese market.

The fifth part is concerning about how the firm's motivations to internationalize affect its foreign market entry modes. On the one hand, this part focus on how single motivation influence on the entry mode decision. For example, if the companies' main motivation to internationalize is just for short-term profits, it is likely for them to export. On the other hand, it also discusses how the multiple motivations affect the entry mode decision.

These literature and theories provide the fundamental knowledge and development on this research topic. They are of great significance for the author to process the study.

### **2.2 Internationalization and Entry Modes**

#### **2.2.1 Internationalization**

At the very outset it is difficult to discuss a 'theory of Internationalization' because even the term itself has not been clearly defined. Although widely used, the terms 'internationalization' needs clarification. It tends to be used roughly to describe the outward movement in an individual firm's or larger grouping's international operations. As a starting point this common usage could be broadened further to give the following definition: 'the process of increasing involvement in international operations.' An important reason for adopting a broader concept of internationalization is that both sides of the process, i.e. both inward and outward, have become more closely linked in the dynamics of international trade (Buckley and Ghauri, 1994).

#### **2.2.2 Entry Mode**

An entry mode is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years, which is generally the length of time it takes a firm to completely enter a foreign market (Root, 1994). The selection of an appropriate entry mode in a foreign market can have significant and far-reaching



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consequences on a firm's performance and survival (Gatignon and Anderson, 1988; Root, 1994).

The choice of entry mode to the foreign market is the major elements of entry strategy since it (entry mode) affects the various aspects of a firm's competitiveness in the host-country market (Sidoryuk, 2006). These competitiveness including possibility to control the sales of the products and efficiency of distribution, maintaining of product value that includes quality of the product, brand value and positioning, getting information about the foreign market, competitors and customers there and reacting to the protectionism actions from the host-country government.

There are three main categories of market entry modes for firms to choose when they decide to enter foreign markets. They are export modes (direct and indirect exporting), contractual modes (licensing and franchising) investment modes (Joint ventures, wholly-owned foreign country subsidiary), respectively.

### **Export modes**

Export is that firms manufacture their intermediate or/and final product outside the host-country and then transferred to there. It requires relative lower cost and with minimum risks compare to the other entry modes, which makes it probably the most wide-used mode for entering the foreign markets. Often companies use exporting to enter the markets, in which use of other entry modes is unfeasible due to some reasons, for example, unfavorable investment climate in the host country and lack of perspectives of working in the foreign market (Sidoryuk, 2006).

Generally speaking, there are two types of export modes, including direct exporting and indirect exporting. Direct exporting comprises exporting by agent, distributor, government agent and overseas subsidiary while indirect exporting consists of exporting through export trading company, exporting management company, piggyback and countertrade. The main difference between these two export modes is that direct exporting mainly use the host-country intermediaries such as agents and distributor while indirect exporting use the home-country intermediaries like exporting trading company and exporting management company, etc. Firms use indirect exporting mode to reduce own risk when they don't have enough information

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about target market or experience of doing business there.

Firms should evaluate the advantages and disadvantages of these two exporting modes before they decide which mode to use. The advantages and disadvantages of these two different export modes are shown in Table 2.1.

*Table 2.1 Advantage and disadvantages of the different export modes*

Export Mode	Advantages	Disadvantages
<b>Indirect Exporting (e.g. exporting buying agent, broker or export management company)</b>	<ul style="list-style-type: none"> <li>● Export intermediaries know the specific of foreign market.</li> <li>● Exporting firm is free from financing of export operations and credit risk.</li> <li>● Exporter is free from dealing with export documentation</li> <li>● There is the export opportunity without financial commitment and labor costs of personnel of exporting company.</li> </ul>	<ul style="list-style-type: none"> <li>● Absence of control over overseas operations.</li> <li>● There is no exporters' image in the target market.</li> <li>● Export intermediary can enter into transactions with many other companies in order to maintain big volume of operations (sometimes such behavior of local intermediary is harmful for the exporter).</li> <li>● Dependence on the intermediary that can show the opportunistic behavior.</li> <li>● Intermediaries can sell the products of direct competitors of a company.</li> </ul>
<b>Direct Exporting (e.g. distributor or agent)</b>	<ul style="list-style-type: none"> <li>● Access to local market and contacts with potential customers.</li> <li>● Shorter distribution chain (compared to indirect exporting).</li> <li>● Market knowledge acquired.</li> <li>● More control over marketing mix (especially with agents).</li> <li>● Local selling support and services available.</li> </ul>	<ul style="list-style-type: none"> <li>● Little control over market price because of tariffs and lack of distribution control (especially with distributors).</li> <li>● Some investment in sales organization required (contact from home base with distributors or agents).</li> <li>● Cultural differences, providing communication problems and information filtering (transaction costs occur).</li> <li>● Possible trade restrictions.</li> </ul>

Source: Svend Hollensen (2004). *Global Marketing*, Pearson Education, England, P324.

To sum up, both direct and indirect exporting has relative lower level of resource commitments, risks and control compare to the other modes. Through exporting, it is relatively easy for firms to enter into foreign market and withdraw if necessary. This provides firms with high flexibility. The export mode is often preferred by small-and medium-sized companies (SMEs) with relatively small capital resources.

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### **Contractual modes**

*Licensing* is defined as “ the method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor” (Hollensen, 2004). Licensing possesses the advantages and disadvantages summarized in the Table 2.2.

*Table 2.2 Advantages and disadvantages of licensing*

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>● Transferring license to the company in the target market, the firm avoids the risks related to investments into physical assets of the firms (equipment).</li> <li>● Give licensees opportunity to gain and develop valuable experience in marketing sphere and allows them establish long-term relationships with licensors.</li> <li>● Licensing is “advantages for the newly internationalized company, because the need for research of target market is reduced. Besides, it’s often possible to encourage the licensee to support the product in the host-country market.</li> </ul>	<ul style="list-style-type: none"> <li>● Licensee can misuse the transferred firm-specific assets of the licensor. To avoid such dissipation, it’s necessary to look for the local partner thoroughly and to pay big attention at the process of making contract.</li> <li>● There is long-term risk of creating the direct competitor for the licensor in the foreign market. This risk is stipulated by the ability of licensee to develop its own skills and knowledge on the basis of transferred technology.</li> <li>● Licensees can utilize transferred rights even after contract expires.</li> </ul>

Source: Johansson, J.K. (2006). *Global Marketing: Foreign Entry, Local Marketing and Global Management, 4 ed.*, Mcgraw-Hill, New York.

*Franchising* is one type of licensing modes. In this entry mode, the franchisor mainly provide “Product and trademark” or/and “Business format” to his franchisee. The franchisor provides the wide range of market services, for example, local advertising to maintain the image of the trademark, personnel trainees, help with production schedules (Johansson, 2006) and receive initial fees and royalty percentage from his franchisee. However, the risk of damaging the image of the licensor exists in this entry mode.

In service industry, there are many multinational companies, for instance, McDonald's and KFC succeed in Chinese market. However, there are many differences between

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service industry and manufacturing industry. For example, generally speaking, manufacturing industry requires much more investments than service industry. It requires the construction of plant and purchasing the manufacturing machines, etc. Whether franchising fits for Norwegian marine equipment manufacturers to enter Chinese market or not remain in doubt.

### **Direct investment modes**

Direct investment mode differs from the other alternatives by its high level of control, resources commitment and low technology risk. This entry mode includes joint ventures and wholly owned manufacturing subsidiary.

The factors that influence foreign direct investment (FDI) can be divided into two groups: institutional factors and facilities/location advantages (Sidoryuk, 2006). Institutional factors include governmental support for foreign investments, non-discriminative trade policy, good labor relations, established and well-functioning financial institutions, etc. While the facilities/location advantages comprise efficient banking/insurance systems, easy access to world market, high educational level of labor force, easy availability of raw materials and parts, good relationship with local suppliers, excellent shipping and cargo facilities, etc (Meyer, 2001). Host countries with these two factors are more likely to attract the FDI.

*Wholly owned manufacturing subsidiary* is the maximum level of the firm's internationalization to the foreign market (Sidoryuk, 2006). Companies invest in wholly owned manufacturing subsidiary through either acquisition or constructing of the own subsidiary (green field investments). This type of entry mode requires considerable investment.

Wholly owned manufacturing subsidiary has a number of inherent advantages for the mother company. The most important is that among all the entry modes, this one offers the highest level of control over operations and strategies. Moreover, foreign investors that opt for wholly owned manufacturing subsidiary can wholeheartedly pursue their own goals and objectives and avoid the conflicts of interest and objectives that occur in partnerships with local firms. The wholly owned manufacturing subsidiary allows multinationals to make fast decisions and act

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forcefully, thereby expanding as quickly as they want and where they want, without the burden of an uncooperative partner (Deng, 2001). Besides, it can also decrease the transaction costs and avoid the influence of protectionism instruments.

However, there are also disadvantages of this entry mode. The most important concern is related to the risk exposure (political, economic and cultural, etc), which is connected to the essential resource commitments (Sidoryuk, 2006). Moreover, compare with the other entry modes, it requires much more investment so that it is more difficult.

*Joint Venture (JVs)* engages two or more firms that share the ownership, risks, management and rewards of newly formed unit. Each partner makes contribution to the work of new body in the form either money and equipment or technology (Osland, Taylor & Zou, 2001). Companies which choose JVs as entry mode can share the risks with the partners. Besides, they can also take utilizes the already existing functioning distribution channels of the local companies to penetrate into the host market rapidly. However, possible conflicts of interests between partners are one of the disadvantages of the form of JVs. Moreover, the absence of compromise in the sphere of strategic and tactic decisions could lead to the emergency of inefficiency of joint venture functioning.

China is now the world's second largest FID recipient behind the United States. By the end of 2013, the FDI inflows into China has reached to 123,911£m (UNCTAD, 2013). Foreign investors are generally free to choose their mode of entry into the Chinese market from such forms as equity joint ventures (EJVs), wholly foreign-owned enterprises (WFOEs), contractual (or cooperative) joint ventures (including licensing and technology transfer agreements), joint exploration, and cooperative development (Deng, 2001). According to Deng (2001), since the late 1980s, EJVs and WFOEs have predominated over all other types of FDI, accounting for approximately 80 percent of the total foreign capital inflows into China. Until 1996, EJVs were the most popular entry vehicle and in 1997 WFOEs surpassed EJVs in popularity and became the most popular form of FDI in China. His research also explains the reasons why EFOEs replace EJVs as the most popular means of entering China in the late 1990s and the reasons are followed as: (1) the disappointing performance of too many

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EJVs, (2) the inherent advantages of WFOEs, (3) changes in government regulations and a less uncertain environment. It is the collective, simultaneous consideration of these factors that has determined MNEs' preference for WFOEs over the last decade (Deng, 2001).

There is some attractiveness for the Norwegian marine equipment exporters to operate WOMS (Wholly Owned Manufacturing Subsidiary) in China. Firstly, they can decrease the transaction fees (e.g. transportation fees) and avoid the host country's trade protectionism instruments like tariff and customs. Secondly, the manufacturing cost in China is much cheaper than that in Norway and that could stimulate the possibility of Norwegian companies to run WOMS in China. Thirdly, the full control for the whole business procedure is another attractiveness to have whole owned subsidiary in China.

There are some general disadvantages of FDI mentioned above. However, the diplomatic relations between Norway and China has changed since 2010. This political uncertainty might more or less affect the willingness of the Norwegian business to invest in China and then restrict their choice of Chinese market entry modes.

### **2.3 Motivations to Internationalization**

There are various motivations for SMEs to internationalize. The fundamental reasons for internationalization are proactive motives and reactive motives (Hollensen, 2004). Proactive motives represent stimuli to attempt strategy change, based on the firm's interest in exploiting unique competences (e.g. special technological knowledge) or market possibilities. While reactive motives indicate that the firm reacts to pressures or threats in its home market or in foreign markets and adjusts passively to them by changing its activities over time (Hollensen, 2004).

Table 2.3 provides the major internationalization motives, including proactive motives and reactive motives.

*Table 2.3 Major Motives for Starting Export*

<b>Proactive</b>	<b>Reactive</b>
Profit and growth goals	Competitive pressures

## **SME Internationalization: Motivations to Internationalize and Influential Factors on Entry Mode Choice**

Managerial urge Technology competence / unique product Foreign market opportunities / market information Economies of scale Tax benefits	Domestic market: small and saturated Overproduction / excess capacity Unsolicited foreign orders Extend sales of seasonal products Proximity to international customers /psychological distance
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Source: adapted from Albaum et al., 1994, p.31.

### **Proactive Perspective**

***Profits and Growth Goals.*** According to Hollensen (2004), the desire for short-term profit is especially important to SMEs if they are at a stage of initial interest in exporting. The motivation for growth may also be of particular importance for the firm's export start (Hollensen, 2004). Hollensen (2004) continued on his book of 'Global Marketing' that "the stronger the firm's motivation to grow, the greater will be the activities it generates, including search activity for new possibilities, in order to find means of fulfilling growth and profit ambitions".

***Managerial Urge.*** Besides, managerial urge is another proactive motivation for companies to internationalize. Managerial urge reflects the management's attitude towards global market. In SMEs internationalization decisions may be the province of a single decision-maker. Thus, the managerial attitudes play an important role in determining the exporting activities of the firms. Often, however, the managerial urge to internationalize is simply a reflection of general entrepreneurial motivation-of a desire for continuous growth and market expansion (Hollensen, 2004).

***Technology Competence and Unique Product.*** In addition, technology competence or unique product could also drive companies to internationalize. If the product or/and technologies are unique, they can certainly provide a sustainable competitive edge and result in major business success abroad (Hollensen, 2011). Firms which produce superior products are more likely to receive enquiries from foreign markets and firms which have developed unique competences in its domestic market have high possibility to explore the market overseas according to Hollensen (2011). As mentioned above, Norway is advanced in maritime technology, including technology of ship equipment. Thus, technology competence or unique product could be one of the motivations for Norwegian ship equipment SMEs to enter China's market.

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*Foreign Market Opportunity/Market Information.* Furthermore, it is evident that market opportunity is one of the stimuli only if the companies has or is able to securing those resources necessary to respond to the opportunities. Generally speaking, decision-makers prefer to focus on a limited number of foreign market opportunities and they also prefer these foreign market opportunities that are to some extent similar to the opportunities in their home market. Besides, having specialized marketing knowledge about certain countries or access to information is also the stimuli for firms to internationalize. China is currently the biggest shipbuilder in the world, which means the market opportunity for ship equipment is huge as well. The market opportunity, in terms of ship equipment industry in China, might motivate Norwegian ship equipment SMEs to explore the market.

*Economies of Scale.* Moreover, participating in global market may enable the firm to increase its output and then forming economies of scale, which help to reduce production cost and become more competitive.

*Tax Benefits.* What is more, tax benefits can also play a major motivating role since it allow the firms to offer products with lower cost and thus make higher profit, which is related to profit motivation.

### **Reactive motives**

*Competitive Pressures.* A prime form of reactive motivation is reaction to competitive pressures (Hollensen, 2011). Competition is one of the major external factors stimulating internationalization. Firms may face challenges of losing domestic market share to competitors who benefits from economies of scale gained through internationalization. They can also lose foreign market permanently to domestic competitors who initially explore these markets. Knowing that competitors are internationalizing provides a strong incentive for firms to internationalize.

*Domestic Market: Small and Saturated.* Small size of domestic market may also push companies to explore external markets since home market may be unable to sustain sufficient economies of scale and scope. A saturated domestic market has similar motivating effect as small domestic market. For example, some certain products maybe at the declining stage of the product life cycle in home market.



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However, they might be still in great demand in some other foreign markets, which provides the firms opportunities and options.

*Overproduction and Excess Capacity.* When supply exceeding demand in domestic market (i.e. overproduction), firms may look for some other opportunities in the foreign market. Also, excess capacity can be a powerful motivation. If equipment for production is not fully utilized firms may see expansion into the international market as an ideal possibility for achieving broader distribution of fixed costs (Hollensen, 2011).

*Unsolicited Foreign Order.* In addition, a large percentage of exporting firms' initial orders is unsolicited (Hollensen, 2011). Unsolicited foreign orders could also make the companies aware of the opportunities in foreign markets and motivate them to internationalize.

*Extend Sales of Seasonal Products.* Furthermore, the demand of seasonal products varies according to the seasons. Since some countries have different seasons at the same time, extend sales of seasonal products can act as a persistent stimulus for foreign market exploration that may result in a more stable demand over the year. However, ship equipment is not regarded as seasonal product, thus it is not necessary to put this reactive motivation into consideration when we process the study.

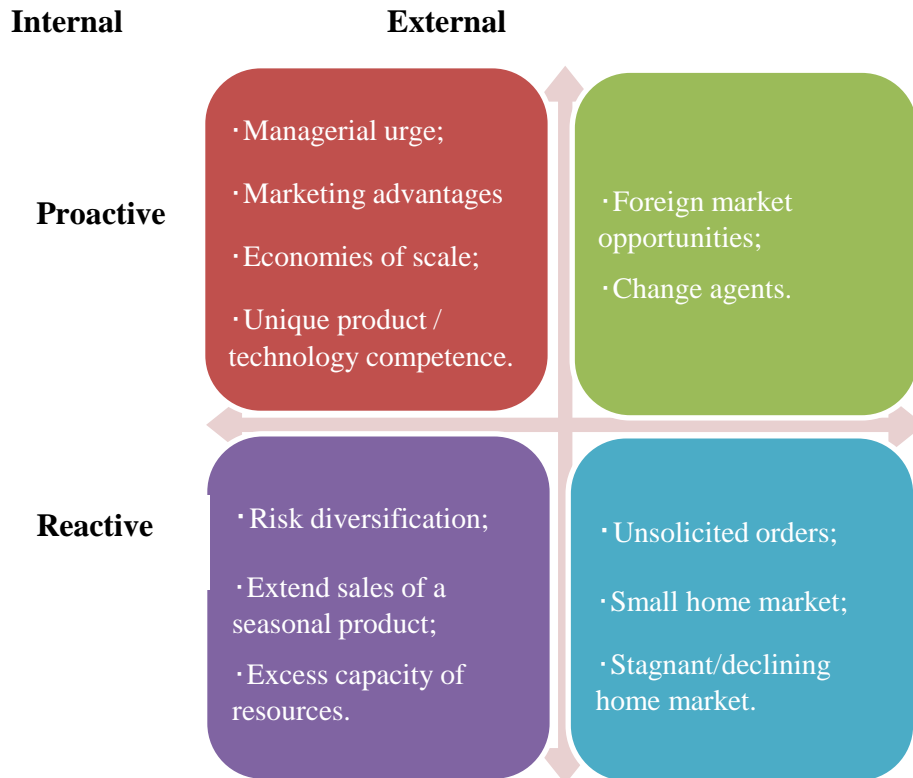
*Proximity to International Customers/Psychological Distance.* Physical and psychological closeness to the international market can often play a major role in the export activities of a firm (Hollensen, 2011). For example, countries in Europe are close to each other, thus, European firms are easier to explore foreign markets than firms in US. Physical closeness is certainly not the motivation for Norwegian ship equipment SMEs to enter Chinese market since geographic distance is far away. Besides, similar cultural variables, legal factors and other societal norms make countries psychological close and enable the firms within these countries easier to internationalize in the countries with similar background. This should not be the motivation for Norwegian SMEs to enter China's market, either.

Albaum, Strandkov and Duerr (2002) added one more criteria, which is whether the motivation is within the company (internal) or initiated from the firm's environment

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(external), on the classification of the motivation to export. Figure 2.1 shows the new motivation classification.

*Figure 2.1 Classification of export motives*



Source: Albaum, G., Strandskov, J. & Duerr, E. (2002). *International marketing and export management*. Pearson Education limited, England.

### **Studies Related to the Motivation to Internationalize**

Westhead et al. (2002) conducted a study of small UK firms' motives for going abroad and found that there are five main reasons for these firms to start exporting their products/service. These five main reasons are:

- Being contacted by foreign customers that place orders;
- One-off order (no continuous exporting);
- The availability of foreign market information;
- Part of growth objective of the firm;
- Export markets actively targeted by key founder/owner/manager.

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Westhead et al. (2002) also found that the bigger the firm the more likely that it would have cited proactive stimuli/motives. However, which type of motivation, proactive or reactive, is more important for SMEs, is needed to be studied.

Suárez-Ortega and Alamo-Vera (2005) suggested that the main driving forces motivating internationalization are found within the firm, and are therefore based on the management's strengths and weaknesses.

Albaum, Strandskov & Duerr (2002: 46) agree that initial driving force for a company's internationalization is the wish "to utilized and develop its resources in such a way that it's (company's) short-term and/or long-term economic objectives are served". They regard making profit is the only one primary incentive. According to Albaum, Strandskov & Duerr (2002), in addition to this overall objective, there can be the specific ambitions, which determine a company's commitment to enter the foreign market(s), which is relevant to the third research question.

The result of Solberg (2005) study shows that there are four most important motives driving the Norwegian companies to internationalize. These four motivations are as follows:

- Wish of a firm to utilize own unique competence in the bigger market;
- Foreign market offers opportunities for better profitability;
- Norway is perceived as too small market;
- Firms consider internationalization to be exciting.

OECD (2009) found that growth and knowledge-related motives are influential in driving SME Internationalization. Growth-related factors appear to be increasingly important to SMEs, reflecting their rising appreciation of the international pathways and associated opportunities for future business growth. SMEs' stock of knowledge resources and quest to leverage knowledge assets residing in external actors also seem to respectively push and pull them into international markets (OECD, 2009). Besides, external factors, including network and supply chain links, social ties, immigrant links, improved global trade infrastructure, and sector and region-of-origin factors seems to stimulate SMEs' internationalization.

## **SME Internationalization: Motivations to Internationalize and Influential Factors on Entry Mode Choice**

OECD (2009) also summarizes the recent research findings on SME Internationalization drives, which are outlined on the Table 2.4 below.

*Table 2.4 Recent Research Findings on SME Internationalization Drives*

<b>Country</b>	<b>Motive/Stimulus</b>	<b>Author</b>
Australia	Grow market; Control supply chain, reduce cost	EFIC, 2008
Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Spain, Sweden, and UK	Market position; knowledge and relationship search	Kocker and Buhl, 2007
Canada	Growth, management capacity factors, social capital, immigrant links, R&D investment, firm size/age/experience, limited domestic market	Orser et al., 2008
Ireland and India	Knowledge resources	Garvey and Brennan, 2006
Portugal (Azores Islands)	Social networks/ties	Camara and Simoes, 2008
Spain	Managers' previous international experience, firm size/age; regional location; country/regional image	Lopes, 2007
Spain (Catalan region)	Managers' previous international experience, growth and profit expectations, social and business networks, and domestic market saturation/stagnation	Stoian, 2006
Sweden	Growth, managers' previous international experience, unique product or technology, limited domestic market	Rundh 2007
UK	Growth, profits, market size	Barnes et al., 2006
UK	Growth, profit, to reduce dependence on a single or smaller number of markets	Reynolds, 2007
USA	Profits	UPS, 2007
USA	Weak dollar, immigrant links, Internet global each	Iwata, 2008, USA Today, 2008
USA	Global trade infrastructure	USA Today, 2008
Chile	Firm-specific factors (technology content and size) and sector	Milesi et al., 2007
Indonesia	Firm size/resource base, sector-level export intensity, presence of foreign buyers, and firm export orientation	Wengel and Rodriguez, 2006

*Source: adopted from OECD 2009, P.12-13.*

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These studies suggest the salience of a number of key motivating factors for SMEs internationalization, including growth motives; knowledge-related motives; network/social ties; and domestic/regional market factors (OECD, 2009). Since growth motives and market factors have been discussed above, it is desired to look at knowledge-related motives and network/social ties and supply chain links.

***Knowledge-related Motives.*** Recent research findings suggest that knowledge assets both push and pull SMEs into international markets (OECD, 2009). The push aspect is about managers' previous international experience and related management capacity factors. And pull dimension pertains that firms internationalize to obtain missing know-how required to maintain their lead in technological development (Kocker and Buhl, 2007).

***Network/Social Ties and Supply Chain Links.*** A number of recent studies have highlighted the importance of network/social ties and supply chain links in triggering SMEs's first internationalization step and extending internationalization processes (OECD, 2009). This is concerning about the managers' immigrant background and associated links. Kocker and Buhl observed that taking advantage of collaborative links is a common motive among the firms they investigated across ten OECD countries (OECD, 2009).

To sum up, there are mainly two types of motivations, namely proactive and reactive respectively, that drive SMEs to internationalize. Obviously, there are some motivations such as extend sales of seasonal products and proximity to international customers /psychological distance that are not likely the motivations for Norwegian ship equipment SMEs to explore Chinese market and should be excluded in the study. Besides, Albaum, Strandskov and Duerr (2002) take internal and external factors of the firms into consideration and improve the classification of firm's motivation to internationalize. In addition, some studies suggest the motivations of SMEs to export in different aspects. Previous studies also propose the main motivations for Norwegian SMEs to operate business abroad. And finally, according to the paper from OECD (2009), it is evident that the main motivations to internationalize vary from different countries, region, culture and level of economic development (i.e. developing economics or developed economics). Thus, recent research finding on SMEs internationalization drives, specifically those focusing on western European

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countries, for example, Sweden and UK, are of great value for this study. All information from this part provides the possible motivations for Norwegian ship equipment SMEs to enter China's market.

### **2.4 Influential Factors on Entry Mode Decision**

A firm's choice of its entry mode for a given product/target country is the net result of several, often conflicting forces. The need to anticipate the strength and direction of these forces makes the entry mode decision a complex process with numerous trade-offs among alternative entry modes (Hollensen, 2011). Previous research has addressed, in general, two main groups of factors impacting internationalization decisions and specifically entry modes, namely environmental (external) conditions and firms' internal aspects based on strategic characteristics and capabilities (Aaby and Slater, 1989). While external conditions could be cultural distance, political risk and language diversity (Duarte and Suarez, 2010).

There have already a lot of studies related to external factors, mainly focus on target market, target country and home country that influenced firm's choice of foreign market entry mode. Firms are more likely to invest in foreign market when the target market size is big, tariff/non-tariff barriers are high and the language similarity is high according to the research by Kwon and Konopa (1993). Besides, when a foreign market is favourably endowed with production factors, firms are likely to use foreign production over exporting as an entry mode (Kwon and Konopa, 1993). These product factors are labour, raw input materials, and local technology. What is more, it is imperative to use an aggressive market entry strategy when the level of competitiveness of indigenous firms is high. The aggressive foreign production direct entry strategy adopted when local firms represent a significant competitive entry barrier. The aggressive entry strategy provides greater access to the foreign market (Kwon and Konopa, 1993).

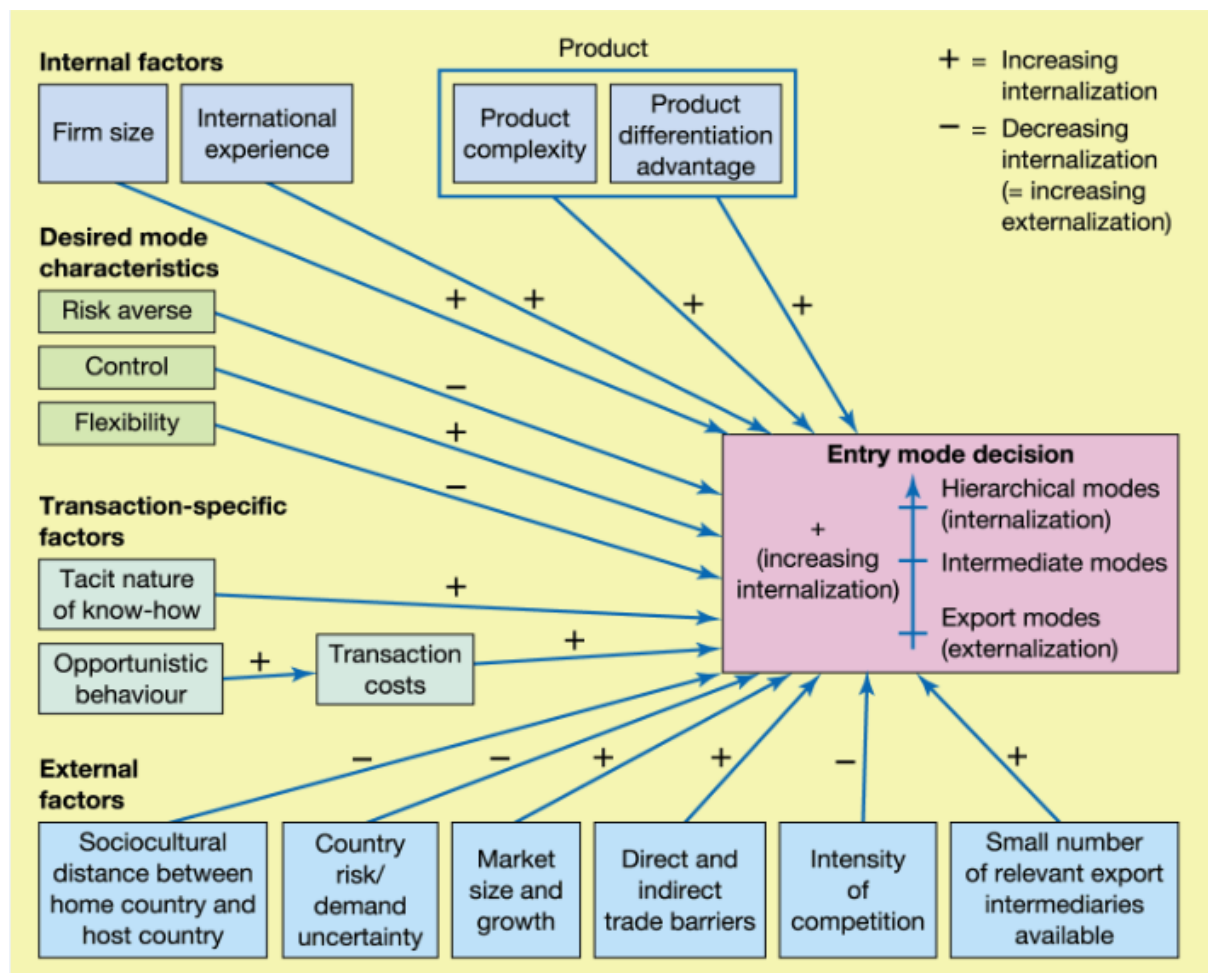
In addition to the external factors, firm's organizational capability could also affect its foreign market entry mode. According to Barney (1991), every firm is thought to be a bundle of resources and capabilities. Resources include all assets, organizational processes, firm attributes, information, and knowledge controlled by a firm that enables it to conceive and implement strategies efficiently and effectively.

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Capabilities refer to a combination of resources that creates higher order competencies (Madhok, 1997). According to the study of Erramilli, Agarwal and Dev (2002), organizational competence and quality competence cannot be transferred effectively through market modes. Imperfect imitability not only protects the firm from its competitors, it thwarts efforts to transfer the needed capabilities to associates and collaborators in the host market, “forcing” it to adopt internal modes (Erramilli, Agarwal and Dev 2002).

According to Hollensen (2004), four groups of factors, which are internal factors, external factors, desired mode characteristics and transaction-specific behaviour, are believed to influence the entry mode decision. Figure 2.2 illustrates these factors.

*Figure 2.2 Factors affecting the foreign market entry mode decision*



*Source: adopted from Global Marketing 2007, p. 298.*

### 2.4.1 Internal Factors

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*Firm Size.* According to Hollensen (2004), company's size is an indicator of its resources availability. The degree of international involvement in a firm heavily depends on how much resources it has. SMEs are more likely to enter foreign markets by export modes because they do not have the resources necessary to achieve a high degree of control or to make these resource commitments (Hollensen, 2011).

However, there is no consistency of firm size's influence on entry mode choice. Empirical results, which are from Leung et al. (2003), Erramilli and Rao (1993), Kogut and Singh (1988), Caves and Mehra (1986), support that firm size has positive relation with entry mode choice. While studies from Evans (2002), Reuber and Finsher (1997) found that firm size and entry mode choice are irrelevant. In this study, the author wants to find out how important do management of Norwegian ship equipment SMEs think of firm size when they decide the entry mode choice for Chinese market.

*International Experience.* Another firm-specific factor influencing mode choice is the international experience of managers and thus of the firm. International experience reduces the cost and uncertainty of serving a market, and in turn increases the probability of firms committing resources to foreign markets, which favours direct investment in form of wholly owned subsidiaries (Hollensen, 2011). Besides, Johanson and Vahlne (1997) assert that uncertainty in international market is reduced through actual operations in foreign markets (experiential knowledge) rather than through the acquisition of objective knowledge. In addition, Dow and Larimo (2009) concluded from their survey that not all form of experience are equal and International experience from similar countries (with low perceived psychic distance) is positively associated with the choice of a high control entry mode.

There are some conflicting theoretical interpretations and empirical results in terms of international experience's influence on entry mode choice shown on Table 2.5 below.

*Table 2.5 Conflicting Theoretical Interpretations and Empirical Results related to Relationship between International Experience and Entry Mode Choice*

	Positive Relation	Negative Relation	Irrelevant Relation
Theoretical	Anderson and	Weichmann and	



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<b>Interpretations</b>	Gatignon (1986), Davidson (1980, 1982)	Pringle (1979)	
<b>Empirical Results</b>	Evans (2002), Herrman and Datta (2002), King and Tucci (2002), Reuber and Fisher (1997), Agarwal (1994).	Chuang and Enderwick (2001)	Brouthers (2002)

*Source adapted from International Journal of Business and Economics, 2004, Vol. 3, 185.*

Same as firm size, the author would just look into how Norwegian ship equipment SMEs' management evaluate the importance of international experience on deciding entry mode choice.

**Product/Service.** The physical characteristics of the product or service, such as its value/weight ratio, perishability and composition, are important in determining where production is located (Hollensen, 2011). The technical nature of product (high complexity) may require both before and after sale service and the marketing intermediaries may not be able to handle such work. Thus, firms have to use hierarchical modes. The Norwegian ship equipment is this type of product. Whether the technical nature of ship equipment affects the Norwegian ship equipment SMEs' entry mode or not would be discussed later.

Besides, Blomstermo et al. (2006) conclude that there are significant differences between hard- and soft-service suppliers regarding choice of foreign market entry mode. Managers in soft services are much more likely to choose a high control entry mode (hierarchical mode) than hard services. In addition, product differentiation advantages represent a "natural monopoly", firms seek to protect their competitive advantages from dissemination through the use of hierarchical modes of entry (Hollensen, 2011).

### **2.4.2 External Factors**

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*Socio-cultural distance between home country and host country.* Socio-cultural differences, which include difference in terms of culture, economic systems, business practices and languages, can create internal uncertainty for the firm and then influence its foreign market entry mode. When the other factors being equal, the greater the perceived distance, the more likely it is that firm will shy away from direct investment in favour of joint venture agreements or even low-risk entry modes like agents or an importer (Hollensen, 2011). Besides, Dow and Larimo (2009) found that within Hofstede's cultural dimensions, language difference seems to be one of the least important factors, compared to other issues such as differences in religion, degree of democracy, industrial development, that have impact on entry mode choice.

Theoretical interpretations from Hymer (1960) and empirical results from Anand and Delios (1997), Padmanabhan and Cho (1996) support that cultural distance has positive relation on entry mode choice, which improve market commitment. Conversely, Erramilli and Rao (1993), Gatignon and Anderson (1988), Kogut and Singh (1988) on their theoretical interpretations, and empirical results from Leung et al. (2003), Cristina and Esteban (2002), Evans (2002), Treadgold (1988), Gatignon and Anderson (1988), Erramilli and Rao (1993), Kogut and Singh (1998) conclude that cultural distance has negative relation with entry mode choice.

As is known to all, there is relatively large social-cultural distance between China and Norway. Whether social-cultural distance is of great importance in entry mode decision or not for Norwegian ship equipment SMEs would be discussed later on this paper.

*Country Risk/Demand Uncertainty.* Unpredictability in the political and economic environment of the host market increases the perceived risk and demand uncertainty experienced by the firm, which make firms favour entry modes that involve relatively low resource commitment (export modes) and with high flexibility (Hollensen, 2011).

*Market Size and Growth.* Country size and rate of market growth are key parameters in determining the mode of entry (Hollensen, 2011). The larger the country and the size of its market, the higher the growth rate, the more likely that firms will use hierarchical mode, for example, wholly owned sales subsidiary and majority-owned joint venture, to enter this market. In this perspective, Norwegian ship equipment

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SMEs have high possibility to invest in Chinese market since China is now the biggest shipbuilder in the world and also the economic development rate is higher than most of the other countries.

Theo Eicher and Jong Woo Kang (2005) examined the relation between market size and entry mode choice. They found that large countries are more likely to attract acquisition investment, while intermediate sized countries may be served predominantly through trade, even in the presence of high tariffs and small countries are most likely to experience either FDI or no entry. However, according to the study of Chung, Henry and Enderwick (2001) about New Zealand firm's entry mode to Taiwan, they stated that market size is not a determinant of foreign market entry mode. Thus, there is, so far, no a consistency about market size's influence on entry mode choice.

China is currently the second largest economy and the biggest shipbuilding country. How important of market size, as well as market growth, for Norwegian ship equipment SMEs when they decide the entry mode for China's market would be discovered on this paper.

***Direct and Indirect Trade Barriers.*** Tariffs or quotas on the import foreign goods and components (i.e. direct trade barriers), as well as preferences for local suppliers (i.e. indirect trade barriers), have an impact on entry mode decision. Tariffs or quotas may cause firms to establish local production or assembly operations (hierarchical mode) while preferences for local supplier often encourages a company to consider joint venture or other contractual arrangements with local companies (intermediate modes).

Chen and Hnnart (2002) discovered from their study that Japanese investors facing high market barriers in the target industry are more likely to choose joint ventures. Ulrich, Hollensen and Boyd (2014) also concluded that, for Danish manufacturing SMEs trade barriers is one of the main external factors for the choice of entry mode into the BRIC market. They also discovered from their study that Danish companies entering the BRIC markets mainly prefer low commitment modes (Ulrich, Hollensen and Boyd, 2014).

***Intensity of Competition.*** When the intensity of competition is high, such markets

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tend to be less profitable. Hence, ignoring the other influential factors, the greater the intensity of competition in the host market, the more the firm will favour entry modes that involve low resource commitments (Hollensen, 2011).

Harrigan (1988) argued that any reduction in strategic flexibility may be unwise when competition is volatile, which requires quick responses from the firm. In such markets, firms tend to be less profitable and therefore do not justify a permanent organization which involves heavy resource commitment. Because resource commitments limit a MNE's ability to adapt to changing market circumstances without incurring substantial sunk costs, a MNE can be theorized to favour entry modes involving low resource commitments when competitive pressures in the host market are intense (Hill et al., 1990). However, Chen (2008) discovered that in international construction market, contractors are more likely to use permanent entry than mobile entry when competitive intensity is significant. Therefore, whether intensity of competition increases or prevents the market commitment is not set. In this paper, the author would only get to know the competition situation in Chinese ship equipment market base on the secondary data and knowledge of the management from the Norwegian ship equipment SMEs and also find out how the management value the intensity of competition in Chinese ship equipment market when they choose the entry mode.

*Small Number of Relevant Intermediaries Available.* When there are only a few relevant intermediaries available, the market is subject to the opportunistic behaviour of these intermediaries. In order to reduce the scope for opportunistic behaviour, the use of hierarchical modes would be favoured.

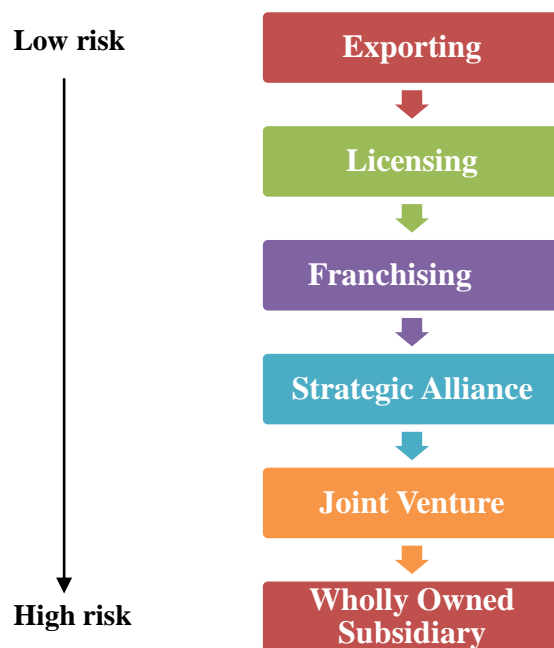
Ullrich, Hollensen and Boyd (2014) found that Danish companies would prefer to fully control their foreign operations, specifically BRIC market, which would result in choosing wholly owned subsidiary as the preferred mode of entry. The reasons from their article is that even after a distributor is selected, the Danish companies still needs to deal with challenges of negotiating, monitoring and enforcing contractual agreements with the distributor, and these challenge may result in relative high costs for the companies. Whether the Norwegian ship equipment SMEs face the same problems and have the same preference of entry mode would be discussed.

### **2.4.3 Desired Mode Characteristics**

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**Risk-averse.** If the firm wants to expose itself with less risk (i.e. sunk costs and irreversibility, etc), it would prefer export modes (e.g. indirect and direct exporting) or licensing (i.e. intermediate mode) because these modes require much less resources commitment than other entry modes. However, the entry modes that entail minimal levels of resource commitment and hence minimal risks are unlikely to foster the development of international operations and may result in significant loss of opportunity (Hollensen, 2011).

*Figure 2.3 Risk-averse degrees of different entry modes*



**Control.** Entry mode decisions also need to take the degree of control that management requires over operations in international markets into consideration. Generally speaking, higher control requires greater resources commitment in the international operation. The degrees of control of different entry modes are shown on the Table 2.6.

*Table 2.6 Control degree of different entry modes*

Entry Modes	Control Degree
Exporting (i.e. direct and indirect exporting)	Little or no control over the conditions under which the product or service is

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	marketed abroad.
Licensing and Contract Manufacturing	Management needs to ensure that production meets its quality standards.
Joint Ventures	Have limit degree of management control over international operations and can be a source of considerable conflict where the goal and objectives of partners diverge.
Wholly Owned Subsidiaries	Provide the most control, but also require most resource commitment.

*Source: adopted from Global Marketing (2011).*

**Flexibility.** Management must weigh up the flexibility associated with a given mode of entry (Hollensen, 2011). The higher flexibility the entry mode has, the greater the firm's ability to adapt or change strategy when market conditions are changing rapidly. Besides, the flexibility of a mode of entry follows the opposite direction as its resources commitment.

According to the research (i.e. about Danish companies' entry mode strategies into BRIC markets) of Ullrich, Hollensen and Boyd (2014), these traditional determining internal factors (control, flexibility and risk; Gatignon and Anderson, 1988; Hill et al., 1990) were evaluated less important than the other internal factors such as personnel and financial resources. Since both Norway and Denmark are Scandinavian countries and they share more similarities, the author wonder if these traditional determining internal factors are also relatively less important than the others for Norwegian ship equipment SMEs.

### **2.4.4 Transaction-specific Factors**

**Tacit Nature of Know-How.** Tacit, by definition, means difficult to articulate. According to Hollensen (1998), when the nature of the firm-specific know-how transferred is tacit, which causes a lot of difficulties and costs, firms are more likely to use hierarchical modes.

Madhok (1996) examined the influence of know-how on foreign market entry choice and found that exploitation of the know-how may create some pressures towards

internationalization, its tacit nature also shields the firm from opportunism, thereby mitigating apprehensions about collaborating (Madhok, 1996). Whether there is tacit nature of know-how in Norwegian ship equipment SMEs and how they affect the entry mode choice is one of the author's concerns.

*Opportunistic Behaviour.* Opportunistic behavior explains the friction between buyer and seller. Simply speaking, if the friction between buyer and seller is too high then the firm should rather internalize, in the form of its own subsidiaries (Hollensen, 2011).

Chang, Kao, Kuo and Chie (2012) hypothesized that if governance quality is satisfactory, the local partners' opportunistic behavior will be restricted, and MNEs then prefer JVs and their hypothesis is supported by the analysis of 2451 Taiwanese MNE into 13 countries. Here, the author would also investigate whether the situation of the opportunistic behavior in the host country (i.e. China) would affect the entry mode choice of Norwegian ship equipment SMEs.

## **2.5 Foreign Market Entry Mode Theories**

This part outlines the key theories, which consist of Resources Based View (RBV), Transactions Cost Analysis (TCA), Institutional Theory, Eclectic Framework and Uppsala Model. Brouthers and Hennart (2007) stress that the most generally functional theories, in terms of entry mode decision, are the Resource-based View (RBV), Transaction Cost Analysis (TCA), Institutional Theory and Dunning Eclectic Framework. In addition, Uppsala Model is also widely used in foreign market entry mode research.

### **Resource Based View (RBV)**

The Resource-Based View of the firm surfaced during the mid-nineteen eighties and the early nineties largely due to the works of Barney (1986, 1991), Conner (1991), Dierickx and Cool (1989), Grant (1991), Reed and DeFillippi (1990), and Wernerfelt (1984) among others (Sharma and Erramilli, 2004). Over the last decade, it has emerged as a major paradigm and is increasingly being applied across a variety of areas such as management, marketing, finance, and international business (Barney 2001; Barney, Wright, and Ketchen 2001; Eisenhardt and Schoonhoven 1996;

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Harrison, Hitt, Hoskisson, and Ireland 2001; Hoopers, Madsen, And Walker 2003; Hunt and Morgan 1995; Li, Lam, Karakowsky, and Qian 2003; Makhija 2003; Ozsomer and Gencturk 2003; Peng 2001; Srivastava, Shervani, and Fahey 1998, Srivastava, Fahey, and Christensen 2001).

RBV differs from other frameworks by not basing its argumentation on current market conditions (imperfection or failure). In its place it offers an opportunity to elucidate entry mode choices from the reference of a company's resources and capabilities alone (Sharma and Erramilli, 2004). According to the RBV, in order to generate competitive advantages, a firm's resources have to be valuable, rare, imperfectly inimitable and non-substitutable (Barney, 1991) and these characteristics make the firm become unique and competitive. These competitive advantages are not constrained to present since they may also help in the creation and transfer of future competitive advantages via selected modes of entry (Sharma and Erramilli, 2004).

The resource-based view of the firm explains the selection of entry mode via four major constructs according to likelihood of establishing or transferring competitive advantages to the host country (Sharma and Erramilli, 2004) and these four constructs are followed.

- Probability of establishing competitive advantages in production operations in a host country.
- Probability of establishing competitive advantage in marketing operations in a host country.
- Capability to transfer advantage generating resources in production operations to host country partners.
- Capability to transfer advantage generating resources in marketing operations to host country partners.

The first two constructs are related to the location decision of the production and/or marketing operations while the last two are associated with the ownership decision. The resource-based framework states that benefit required is the effective and/or efficient transfer of resources and capabilities to the foreign market with minimal erosion in their value (Sharma and Erramilli, 2004). Thus, RBV predicts that a



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company will choose countries where the likelihood of effectively and efficiently transferring its resources and capabilities is higher, to locate its foreign activities. However, home-specific resources and capabilities, which are not compatible with other host country factors as well as government limitation on amount of resources (e.g. human resources), might constrain internationalization.

To sum up, a company's capability to establish competitive advantage in a host country depends on the degree to which it can efficiently and/or effectively transfer its competitive advantage generating resources to the host country and the compatibility of transferred firm-specific resources with foreign country factors (Sharma and Erramilli, 2004). If the ability to transfer firm-specific resources to foreign partners is low, equity-based modes of entry will be favoured, whereas high transferability will promote the use of market and partnership transactions (Hernandez, 2011). Table 2.7 shows the RBV explain for entry mode choice.

*Table 2.7 The RBV Explain for Entry Mode Choice*

Production Activities		Marketing Activities		Entry Mode Favored by the RBV Framework
<i>Firm's Likelihood of Establishing Comparative Advantage in the Host Country</i>	<i>Firm's Ability to Transfer Advantage Generating Resources to Host Country Partners</i>	<i>Firm's Likelihood of Establishing Competitive Advantage in the Host Country</i>	<i>Firm's Ability to Transfer Advantage Generating Resources to Host Country Partners</i>	
<b>Low</b>	N.A*	Low	N.A.	Do not Enter; Indirect Exporting
<b>Low</b>	N.A.	High	High	Direct Exporting via Host Country Intermediaries
<b>Low</b>	N.A.	High	Low	Direct Exporting via Company Owned Channels
<b>High</b>	High	High	High	Contractual mode (Licensing,

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				Franchising)	
<b>High</b>	High	High	Low	Production Venture	Joint
<b>High</b>	Low	High	High	Marketing Venture	Joint
<b>High</b>	Low	High	Low	Wholly Subsidiary	Owned

\*N.A. stands for not applicable.

Sources: adopted from Sharma and Erramilli (2004).

**Transaction Cost Approach**

Applications of Transaction Cost Approach (TCA) have become fairly common in the general marketing literature (Anderson and Schmittlein 1984; Dwyer and Oh 1988; Heide and John 1988, 1992), especially in entry-mode investigations (Anderson and Gatignon 1986; Anderson and Coughlan 1987; Gatignon and Anderson 1988; Klein 1989; Klein, Frazier, and Roth 1990).

Governance structure is needed when deciding how to operate business in foreign markets. The particular governance structure that is actually utilized in a given situation depends on the comparative transaction costs, that is, the costs of running a system, including the *ex ante* costs of negotiating a contract and the *ex post* costs of monitoring the performance and enforcing the behavior of the parties to the contract (Williamson, 1985). In order to maximizing profit, the governance structure with less transaction costs would be favoured.

The TCA approach assumes that market is competitive with many potential suppliers, which minimizes the need for monitoring and enforcing supplier behavior (Henart, 1989). Under this assumption, low-control modes are favoured because the threat of replacement dampens opportunism and forces suppliers to perform efficiently (Anderson and Coughlan 1987; Anderson and Gatignon 1986). However, once the markets fail, the range of suppliers available to the firm is restricted (resulting in “small-numbers bargaining”), the supplier’s tendency to behave opportunistically is reduced only through stringent negotiation and supervision of contractual

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relationships (Dwyer and Oh, 1988), thereby increasing the transaction costs associated with low-control modes. In such circumstances, the firm can significantly reduce its transaction costs by replacing external suppliers with its own employees, whose behavior it can monitor and control more effectively (Hennart 1989; Klein 1989). Thus, market failure is the primary antecedent to the firm's decision to integrate and assume greater control (Erramilli and Rao, 1993). Furthermore, according to the transaction-cost perspective, the most important determinant of market failure is the presence of transaction-specific assets (Williamson 1986; Klein et al. 1990), which are non-redeployable, physical and human investments that are specialized and unique to a task (Williamson 1985, 1986).

Anderson and Gatignon (1986) postulate that, in choosing entry modes, firms make trade-offs between control and cost of resource commitments. Transaction-cost theory predicts that firms integrate when asset specificity is high, because the higher costs of vertical integration are more than offset by the benefits flowing from such an arrangement. When the specificity is low, firms refrain from integration because the benefits of control fall short of the costs of attaining it.

In summary, according to TCA theory, transaction-specific assets significantly determine the market effectiveness and then decide the governance structure, which, in internationalization, is market entry mode.

### **Institutional Theory**

The central premise of institutional theory is that organizations adopt structures and practices that are "isomorphic" to those of the other organizations as a result of their quest to attain legitimacy (Yiu and Makino, 2002).

According to Davis, Desai and Francis (2000), two sources of isomorphic pressures affect a strategic business unit's (SBU) entry-mode choice: (1) host country institutional environment, and (2) internal institutional environment (the parent organization). Their study results indicated that SBUs using wholly-owned entry-modes demonstrated high level of internal (parent) isomorphism; those using exporting, joint ventures, or licensing agreements demonstrated external isomorphism;

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and those using multiple or mixed entry-mode demonstrated low levels of isomorphic pressures (Davis, Desai and Francis, 2000).

Scott (1995), however, suggested that there are three pillars of the institutional environment. They are: (1) Regulative pillar refers to rules and laws that exist to ensure stability and order in societies; (2) Normative pillar refers to the domain of social values, cultures, and norms; (3) Cognitive pillar refers to the established cognitive structures in society that are taken for granted. According to DiMaggio and Powell (1983) and Meyer and Rowan (1977), organizations choose a particular form of structure and practice either because it would receive regulative and normative approbation as is necessary due to their reliance on resources from these environments, or because it is taken for granted that doing so is the proper way to organize. Yiu and Makino (2002) discovered on their study that the more restrictive the regulatory environment of the host country is, the more likely a joint venture will be chosen over a wholly owned subsidiary. Besides, the more restrictive the normative domain of the host country, the more likely the multinational enterprise will choose a JV over a WOS. Moreover, they discovered that companies will tend to choose the entry mode that has been used most frequently in the past by other companies in the same foreign country.

Institutional Theorists (Dacin 1997, DiMaggio and Powell 1983, Oliver 1991, Scott 1995) suggest that organization are motivated to enhance their legitimacy by conforming to other organizations in the environment, even in the absence of evidence that such action increase internal efficiency. The similarity makes it easier for them to transact with each other (DiMaggio and Powell 1983) and increases the likelihood of their founding success (Dacin 1997, Singh et al. 1986).

In sum, according to institution theory, entry mode choice is constrained by both internal isomorphism (parent company) and external isomorphism (host country). Foreign operations that are highly influenced by the parent company (e.g. the case of companies following a global strategy) will tend to favour equity-based entry modes like WOS while those more highly influenced by the local environment will prefer non-equity-based entry modes like exports or licensing.

### **Dunning Eclectic Framework**

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Dunning's Eclectic framework (Dunning, 1988, 1993, 1995) has been used in a number of studies (Agarwal and Ramaswami, 1992; Brouthers, Brouthers and Werner, 1996; Dunning and Kundu, 1995; Dunning and McQueen, 1982; Tatoglu and Glaister, 1998; Tse, Pan and Au, 1997) to investigate how companies select specific foreign market entry modes.

Dunning's eclectic OLI framework (1993) of foreign direct investment as applied to entry mode choice suggests that firms will select their entry mode structure by considering three sets of variables: Ownership advantages (which are concerned with the control issue, the costs and benefits (risk) of inter-firm relationships and transactions), Location advantages (which are concerned with the resource commitment issue, the availability and cost of resources) and Internalization advantages (which are primarily concerned with reducing transaction and coordination costs) (Dunning 1993, 1995; Dunning and McQueen, 1982). These three sets of variables influence a firm's entry mode decision by affecting management's perception of asset power (ownership advantage), market attractiveness (location specific advantage), and costs of integration (internalization advantages) (Agarwal and Ramaswami, 1992). Dunning's eclectic framework (1993) suggests that when OLI advantages are high, firm will prefer more integrated modes of entry.

There are many studies empirically examined the relationship between Dunning's OLI factors and entry mode selection. Brouthers, Brouthers and Werner (1996) found that as ownership and locational advantages increased firms tended to utilize more integrated (wholly owned) modes entry in U.S. computer software industry. Tse, Pan and Au (1997) also found that as OLI advantages increased, firms tended to utilize more wholly owned entry mode into China. Tatoglu and Glaister (1998) found that higher levels of OLI advantage were related to an increased use of wholly owned subsidiaries in Turkey.

### **Uppsala Model**

Uppsala Model describes the internationalization as a gradually evolving process, in which a firm goes through various stages when it internationalizes its operations. According to Uppsala Model (Johanson and Wiedersheim-Paul, 1975), firms are expected to follow the routines:

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1. No regular export activities;
2. Export via independent representatives (agent);
3. Sales subsidiary;
4. Local production/manufacturing.

Uppsala Model also states that firms are expected to enter first into nearby market with low psychic distance because of the low psychic distance, which is the sum of factors preventing the flow of information from and to the market, like language, education, business practices, culture, and industrial development (Johanson and Vahlne, 1997). Firms might enter countries with a greater psychic distance after they acquired more knowledge about how to operate internationally. This knowledge consists of general knowledge and market-specific knowledge.

According to Uppsala Model, market knowledge and market commitment at a certain point of time are assumed to affect the commitment decisions and how the activities are carried out in the subsequent period, which in turn will influence market knowledge and market commitment at later stages (Johanson and Vahlne, 1990). Thus, entry mode decision, according to Uppsala Model, depends on management's market knowledge and firm's market commitment in the host country.

To sum up, Uppsala internationalization model suggests that the choice of entry mode depends on a firm's experience on the international market (Arto and Tyrvaänen, 2006). The model presents that internationalization is a progressive model. Firms start to irregular exporting to the target market and over the time when the firms gain more experience, they start to export via representative, established sales subsidiary and finally start own production in the target market. The choice of entry mode is seen as a learning process and increasing commitment to the market (Arto and Tyrvaänen, 2006).

### **2.6 Theories Models and Studies Related to the Influential Factors on Entry Mode Decision**

Zhao and Decker (2004) divided the theories related to entry mode decision into two parts, namely quantitative entry mode choice models and qualitative entry mode

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choice models respectively.

The quantitative models dominating the existing literature are game theoretical (Decker and Zhao, 2004), which has two prominent branches. One branch is represented by Grossman and Hart (1986) and their followers, who motivate their models with the transaction cost theory of Coase (1937) and others (Decker and Zhao, 2004). The other one is represented by Buckley and Casson (1998) and followers and is based its models mainly on internalization theory. These two game theoretical models regard entry mode choice as an optimization problem and enlighten the players' strategic interactions during the decision-making process (Decker and Zhao, 2004). However, both the environment in which the firms are embedded and the decision maker's influence on entry mode choice are ignored in these two models.

Besides, there are some well-known qualitative models of entry mode choice, including the stage of development (SD) model (Johanson and Wiedersheim-Paul, 1975), the transaction cost analysis (TCA) model (Anderson and Gatignon, 1986), the Ownership, location, and internationalization (OLI) model (Dunning, 1977, 1980, 1988, 1995, 1998, 2000), and the organization capacity (OC) model (Madhok, 1998). These modes are primarily content-orientated and ignore the influence from the decision makers as well. Hierarchical (H) model (Kumar and Subramaniam, 1997), however, is a process-oriented model and compensates for the deficiency.

The stage of development (SD) model (Johanson and Wiedersheim-Paul, 1975) originally asserts that the internationalization of SME is a long, slow, and incremental process with two dimensions: the geographical or rather cultural expansion and the commitment. Brooke (1986) enhanced the SD model and stated that the entry mode decision is dependent on the stage of a firm's development. However, even the enhanced SD model does not illustrate the right entry mode for each stage and explain why a newly established firm starts entry with wholly owned venture but not export.

Anderson and Gatignon (1986) proposed transaction cost analysis (TCA) model and concluded that MNEs choose a specific mode of market entry which maximizes the long terms risk-adjusted efficiency. There are four constructs (i.e. transaction specific asset, external uncertainty, internal uncertainty and free riding potential) that determine the optimal degree of control, which affect the entry mode choice. However,

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TCA model has many shortcomings as followed.

- The transaction costs are ambiguous and difficult to measure;
- Neglects government regulations, which generally define the feasible set of entry modes, and production costs (Anderson and Gatignon 1986);
- Ignore the strategic and competitive context within which the firms are operating (Madhok 1998);
- Assume that profit maximization is the only objective of entry mode decision (Milgrom and Roberts 1992);
- Excludes non-transaction benefits (Anderson and Gatignon 1986).

Thus, Klein et al. (1990) and Gatignon and Anderson (1988) stated that TCA framework has only limited explanation to complex multinomial choices of market entry mode.

The OLI (ownership, location and internalization) theory stated that entry mode decision is determined by the composition of three sets of advantages as perceived by enterprises:

- Ownership advantages (i.e. advantages that are specific to the nature and the nationality of the owner);
- Location advantages (Arising from the fact that different locations feature different resources, institutions and regulations affecting the revenue and the cost of production), and
- Internalization advantages (i.e. advantages arising from transferring ownership advantages across national boundaries within own the organization).

The more OLI advantages a firm possesses, the greater the propensity of adopting an entry mode with a high control level such as wholly owned venture. However, the OLI model neglects the competition and the strategic factors, characteristics of and situational contingency surrounding the decision makers, it fails to explore all important factors impacting entry mode decisions (Zhao and Decker, 2004).

The organization capacity (OC) model (Aulakh and Kotabe, 1997) argues that entry



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mode decision, the firm's boundary issue, is a capacity related one, and it is made under a calculus governed by considerations related to the deployment and development of a firm's capabilities. This model neglects the organization efficiency and impact of the decision maker as well as of sociological and political factors, which are also important in determining entry mode choice (Zhao and Decker, 2004).

The study results of Madhok (1998) suggest that it is the considerations related to the efficient and effective development and deployment of a firm's capabilities, under the constraint of bounded rationality, rather than the level of transaction costs and efficiency of the transaction under the assumption of opportunism which is increasingly critical in determining the entry mode choice. ---Firm's Capabilities (Internal)

The decision making process (DMP) model, which was proposed by Root (1994) and developed by Young et al. (1989), Kumar and Subramaniam (1997), Pan and Tse (2000), Eicher and Kang (2002), emphasizes the importance of optimizing the process of decision making instead of exploring the influential factors and how they affect entry mode choice decision. However, this model ignores the role of the organization itself and that one of the decision maker within the decision making process (Zhao and Decker, 2004).

Both these quantitative models and qualitative models, to some extent, explain the influential factors on entry mode decision. Table 2.8 sums up these qualitative models.

*Table 2.8 Assessment of existing models and theories on market entry mode choice*

<i>Basic models</i>	<i>References</i>	<i>Theory applied</i>	<i>Main arguments</i>	<i>Limitations</i>
<b>SD Model</b>	Johanson and Paul (1975);  Brooke (1986);  Young et al. (1989)	Firm theory	Internationalization of SMEs is a long, slow and incremental process of cultural and geographical expansion and commitment.	Can not explain why some newly established firms start operation in foreign markets with high equity entry mode, such as foreign direct investment.
<b>TCA model and extensions</b>	Anderson and Gatignon (1986);	Transaction cost theory, institution theory, and	Efficiency maximizing firms adopt entry modes which minimize	Measurement proves to be difficult, and there is not connection with corporate governance.

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	Hill et al. (1990); Erramilli and Rao (1993)	some others.	transaction costs.	
<b>OLI model</b>	Dunning (1977, 1980, 1995, 1998, and 2000)	International production theory, organization theory, internalization theory, location theory, and some others	The choice of market entry mode is determined by three sets of advantages: ownership, location and internalization advantages. The more advantages a firm possesses, the more likely it adopts a high equity entry mode.	The static model ignores the impact of the firm objective, the decision maker, and the situational contingency surrounding the decision maker when the entry mode choice decision is made.
<b>OC model</b>	Aulakh and Kotabe (1997); Madhok (1998)	Organization theory	Entry mode decision depends on the deployment and development of firm capacity.	Firm capacity is not limited to ownership boundaries and it is not justifiable to ignore both the decision maker and the social and political environment.
<b>DMP model</b>	Root (1994); Young et al. (1989); Kumar and Subramaniam (1997).	Behavior theory contingency theory and some others.	Entry mode choice is regarded as a multistage decision making process taking into consideration some important factors.	Ignores the impact of the organization efficiency and the decision maker.

*Source: Adopted from Decker and Zhao, 2004.*

Besides, according to the research conducted by Aron, Liem and Nima, firms' product characteristics have a significant impact on the choice of firms' entry mode into China (Aron and Liem and Nima, 2012). Firms whose products possess differentiated characteristics are more likely to choose an equity mode entry strategy from Hongkong to mainland of China (Aron and Liem and Nima, 2012).

### Theory Related to Motivation's Influence on Entry Mode Choice

There are some studies investigating the influence from motivations of foreign operations on entry mode choice.

According to the study result of Tsai and Cheng (2002), the strategic investment motivations (i.e. motivation to expand the market outposts), as well as asset specificity, is one of the most important decision criteria for the ownership control entry mode choice for Taiwanese manufacturing firms in the US. They also concluded that the stronger the US strategic investment motivations and the higher the asset

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specificity, the higher the likelihood of Taiwanese manufacturing firm's entry through full-ownership control mode.

Mark and Robert (2013) find that foreign market entry strategies are shaped by prestige-seeking motivations and a culture of risk aversion from the case study of four Australian universities. Furthermore, they also conclude that entry mode is inter-dependent decision and university's motives have influence on the entry mode choice.

In order to find out how motivations of foreign operations affect the entry mode choice in the case of Norwegian ship equipment SMEs enter Chinese market, the motivations of these firms to exploit Chinese market should firstly be found. Through the study, the author would like to know how each individual motivation might affect the entry mode choice and also look into how these main determinants altogether influence the entry mode choice.

### **2.7 Analysis of Chinese Market and Business Culture**

With its rapidly growing economy and massive shipbuilding industry, China is likely to be one of the major targets for Norwegian ship equipment SMEs. Norway's business relationship with China is still recovering from the disagreement that took place in 2010, where the Nobel Peace Prize was awarded to a prominent Chinese dissident, Liu Xiaobo. As a result many Norwegian companies found it more difficult to do business in China after 2010 and that situation still exists to some degree. Nonetheless, there are still many Norwegian maritime companies, for example Wilhelmsen Technical Services and Norwegian tanker owner Odfjell, continuing to do business with, and in, China, even if it is not always as straightforward as they would like. Norwegian equipment products and maritime services are still preferred by some Chinese shipbuilders. Norwegian equipment suppliers still find favour among ship owners building vessels in China, despite competition from domestic suppliers that are often, though not always cheaper.

In the perspective of target country, China has a big market for the maritime equipment since he became the biggest shipbuilding country all over the world. Also, China has relatively low production factors like labor and raw input materials. He also has relatively higher manufacturing technology compare to the other developing

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country. Besides, China now is the biggest producers of maritime equipment (Wiki, 2014). The fierce competition from the Chinese local market could also force the foreign companies to use aggressive entry mode to enter into Chinese market. In addition, the tariff/non-tariff barrier on product or service in China is likely to be another reason that many foreign chose to directly invest in China instead of using other entry modes. However, the difference in language, culture and ideology between China and other countries, especially the western countries, are the main problems for the foreign companies to aggressively invest in China.

The market complexity is one of the main reasons that hinder Norwegian companies to operate in Chinese market. The complexity consists of language, culture, business regulations, legal issues, politics and the unique Chinese *guanxi* (Jayaraman, 2009). In addition, many layers of distributors in China would increase the product price, disturb the market and then theoretically decrease the demand even though that would not have big influence on ship equipment since it is not consume product.

Owing to the market complexity, there are many challenges for western companies which want to do business in China.

Firstly, the political challenges. Unlike western economies where the government promotes transparency for doing business; in China rules and regulations are not so transparent or absolute (Jayaraman, 2009). That cause many businesses can come under various regulations and bureaucracies. A social network called *guanxiwang*, which is the relationship between the individual and the entities of the network, can help companies avoid rape and bureaucracy. Understanding *guanxi* is of significance for companies and forming a *guanxiwang* is time consuming.

Secondly, legal challenges. China's legal system is loosely defined and has many loopholes. The wording of the Chinese law are often vague and can be interpreted in many ways, which makes it difficult for implementation of the laws and requires the laws on trade, intellectual property rights, labor and taxation to be refined sometimes, which cause unstable investment environment for companies, especially for the western companies.

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Thirdly, cultural challenges. Chinese historical transformations make Chinese people behave quite different from western. For example, more power centralization in organizations. Besides, face culture and *Junzi* Culture is also important integral parts of the Chinese business culture. Thus, building a form of cultural sensitivity to deal with unique Chinese business culture is very important for companies which plan to outsource their production or run a successful wholly owned outsourcing unit in China.

Fourthly, Challenges in negotiations with Chinese. Chinese tend to trust each other more so that intermediary is always required for negotiation with foreign business men. Also, Chinese are very indirect to refuse a business deal and it is impossible to expect a straight yes or no answer from Chinese business men. As for business relationships, the Chinese prefer stability, trust and harmony when they select cooperation partners. The Chinese like to build consensus or holistic thinking unlike their western counterparts who are often individualistic in their thinking during a negotiation (Jayaraman, 2009).

Fifthly, challenges related to market behavior. Chinese competitors have the tendency to compete head on with global players on price and win over the market. Hence western companies that think they could demand a high premium on their product in China would be in for a big surprise, a way to combat this threat is to have a low cost lean operation in China and compete on a reasonable price level against the Chinese competitors (Jayaraman, 2009). China has timely news about latest technologies even though it is an undeveloped country. Thus, entering Chinese market with products of old technology would be at a huge disadvantage.

Sixthly, economic instability & trade policy challenges. Chinese fiscal policy, monetary policy, trade policy and other macroeconomic factors might bring various risks for foreign companies. Labor cost increase and local policies favor local players are also challenges to foreign companies planning to operate in China. Have a good understanding of these challenges and cultural difference is important for Norwegian ship equipment exporters planning to run business in China and also help them choose suitable entering models.

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To sum up, this part of literature and theories provide not only influential factors and how they affect the entry modes choice decision, but also some theoretical models which combine some specific factors into consideration. The shortcomings of these models are also mentioned above, which means there is currently no a comprehensive and unified theory in terms of entry mode decision. In this paper, the author is not going to explore new possibility about the theory. Instead, based on the previous literature, theories and studies related to entry mode choice, the author wants to find out what do the Norwegian SMEs management think are the main motivations and determinants on entry mode choice into Chinese market, specifically those Norwegian ship equipment SMEs. Besides, among those five entry mode choice models mentioned above, which one, from the perspectives of the management, is most practical and empirical for Norwegian ship equipment SMEs, is also the concern. Finally, how these main motivations influence the entry mode choice would be discussed.

### **3. Research Methodology**

This chapter is to describe how the research being conducted as well as how the data are collected to answer the research questions. Before the research methodology, the philosophical concepts are firstly illustrated. The research methodology includes research purpose, research approach, research design, research strategy, data collection and data analysis. In addition, measuring quality of the research method, including validity and reliability, which is essential to obtain valid results, would be also discussed. All the methodology steps in this study are summarized in the figure below.

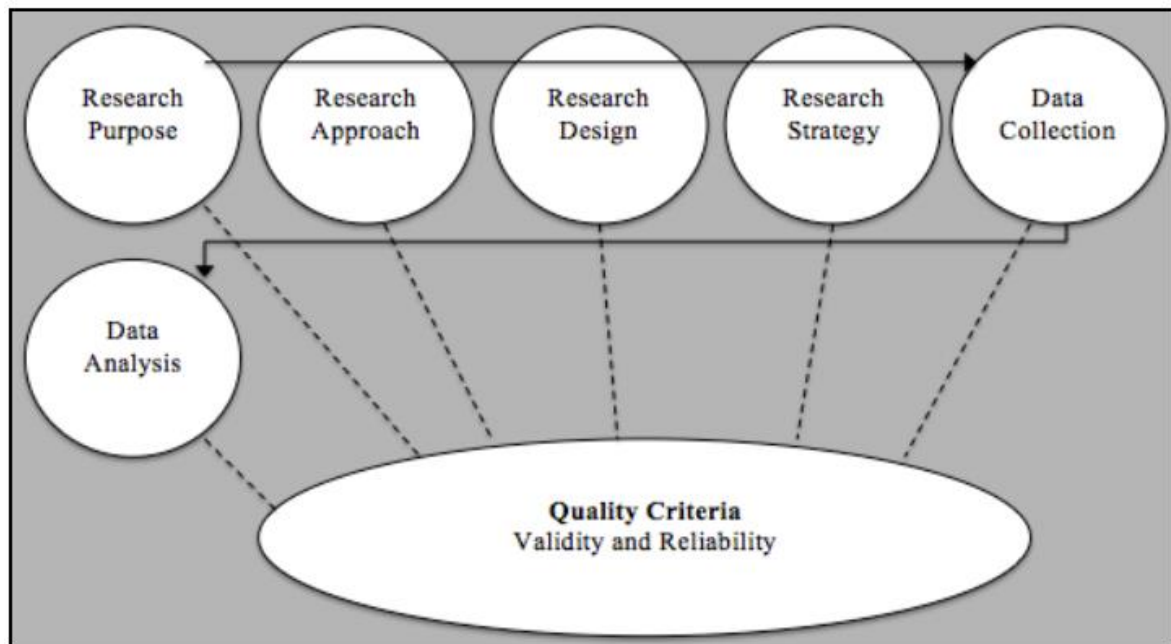


Figure 3.1: Schematic Presentation adopted from Foster (1998).

#### **3.1 The Underlying Philosophical Concepts**

Before making the decision of which research methods to use, we have to decide what philosophical assumption this research bases on. Failure to think through philosophical issues, while not necessarily fatal, can seriously affect the quality of management research, and they are central to the notion of research design (Easterby-Smith, Thorpe, and Jackson, 2012).

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Ontology and epistemology are the two main philosophical assumptions. Ontology is about the nature of reality and existence; epistemology is about the best ways of enquiring into the nature of the world. Scientists and social scientists generally draw from different ontological and epistemological assumptions when developing their methodologies for conducting research (Easterby-Smith, Thorpe, and Jackson, 2012).

Both of these two philosophical assumptions have different types. There are four different ontologies, which are realism, internal realism, relativism and nominalism. These four ontologies vary in terms of belief on the nature of reality and existence. Realism supports that there is single truth and facts exist and can be revealed while nominalism means there is no truth and facts are all human creations. Internal realism is about truth exists but is obscure and facts are concrete but cannot be accessed directly while relativism says there are many “truths” and facts depend on viewpoint of observers. Correspondingly, there are four different epistemologies, including strong positivism, positivism, constructionism and strong constructionism. Since the answers to the research questions might vary from different studied companies, this research should base on relativism (from ontological perspective) and constructionism (from epistemological perspective).

### **3.2 Research Purpose**

The purpose of this research is to find out the motivations of Norwegian ship equipment companies exploiting Chinese market, the determinants on entry mode choice and the interaction between these motivation and entry mode choice. Literature and theories about internationalization motivations, influential factors on entry mode choice and relationship between motivations and entry mode decision are mentioned on the last chapter. On this research, the author would use the existing literature and theories to study a certain case, which is Norwegian ship equipment SMEs, to examine the applicability and effectiveness of these literature and theories. According to Foster (1998), descriptive research is performed when studying problem with already existing theories and information.

Descriptive research is used when there are already a certain amount of knowledge existing that is beginning to be described in the form of models. The descriptions are thorough and detailed and it can be descriptions of each aspect or descriptions of



relations between several aspects (Patel & Davidsson, 2003). However, the limitations of descriptive research are that it can only research on a few aspects of the problem area. Compared to the other two research types, which are exploratory research and explanatory research, the descriptive research is most suitable for this study.

### **3.3 Research Approach**

There are two types of research methods, namely quantitative and qualitative methods. Some studies also used both research methods at the same time since these two methods are not exclusive. According to Denscombe (2010), the distinction between the two research methods are related to the treatment of data. Quantitative research methods transform the data to numbers and quantities and then statistical analysis is done on the gathered data while qualitative research methods, on the other hand, is the researchers' comprehension or interpretations of the data that stands in the foreground and this data can't be transformed to numbers or quantities (Holme & Solvang, 1997).

According to Stewart (2009), quantitative research method is numerically oriented and mainly based on measurements of phenomenon and most of the time the analysis conducted subsequent to the study involves statistics. Common approach to collect quantitative data is by experiments, surveys or analyzing secondary data and multiple methods of investigation is helpful to generate better findings.

Bryman & Bell (2011) stated that the term qualitative research most obviously emphasizes words rather than number. The research data for qualitative are often verbally described or narrated. Besides, the gathered material is analyzed in words rather than numerical operations (Devetak et al., 2010). These qualitative data could be collected through interviews (vis telephone or face-to-face), observations as well as document in natural settings (Creswell, 2009).

Qualitative research is often used in relation with case studies where the aim is to obtain a better understanding of the stated research problem through gaining thorough information about the subject (Yin, 2003). Since the purpose of this study is to gain a better understanding of what are the internationalization motivations for Norwegian SMEs, what are determinants when deciding entry modes, how these determinants influence the entry mode choice and the interaction between motivations and entry

mode choice, qualitative approach, compared with quantitative approach, is a more suitable research method to find out the answers to these research questions.

### **3.4 Research Design**

According to Ghauri and Gronhaug (2005), the data for research could be either primary or secondary, or both can be used. Malhotra (2010), Ghauri and Gronhaug (2005) argued that secondary data collected is mainly used to explain and to better understand the research problems rather than for the problem. In some cases, the secondary data is not enough to answer the research questions and primary data is required (Christensen et al., 2001).

As mentioned on last chapter, there are a lot of literature and theories concerning the research questions. However, most of them are for general used and there are few information about this specific case of Norwegian SMEs exploiting Chinese market. Thus, primary data is necessary for this study and these primary data is mainly collected by interview with the management of some Norwegian ship equipment SMEs. In addition, some secondary data from investigated companies and old research works would also be used for this research.

### **3.5 Research Strategy**

Since this study is going to answer what are the main motivations for Norwegian ship equipment SMEs to internationalize into China and why they are the most important, how determining influential factors affect Norwegian SMEs' entry mode choice and how motivations to internationalize into China interact with entry mode choice, it is necessary for the research to get deep insight in the investigated firms. By doing a case study, the research can go deeper into the firms, ask questions specific and answer the question of why and how (Yin, 2009). Thus, in order to collect special data from the firms, the case studies would be conducted in this study on a small sample of Norwegian ship equipment SMEs. Bryman and Bell (2011) stated that case study strategies are useful for intensive analysis of one unit. For this study, I choose two representative Norwegian ship equipment SMEs as my sampling to do research.

There are different applications about case study. According to Yin (2003), the most important is to explain the presumed causal links in real-life interventions that are to

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complex for the survey or experimental strategies. A second application is to describe an intervention and the real-life context in which it occurred. Third, case studies can illustrate certain topics within an evaluation, again in a descriptive mode. Fourth, the case study strategy may be used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes. Fifth, the case study may be an evaluation—a study of an evaluation study.

### 3.6 Data Collection

According to Yin (2003), there are six different data collecting methods. They are documentation, archival records, interviews, direct observations, participant observations, and physical artifacts. Table 3.1 shows the strengths and weaknesses of these six methods.

*Table 3.1 Six Sources of Evidence*

Source of Evidence	Strengths	Weaknesses
<b><i>Documentation</i></b>	<ul style="list-style-type: none"> <li>● Stable: can be reviewed repeatedly;</li> <li>● Unobtrusive: not created as a result of the case;</li> <li>● Exact: contains exact names references and details of an event;</li> <li>● Broad coverage: long span of time, many events and many setting.</li> </ul>	<ul style="list-style-type: none"> <li>● Retrievability: can be low;</li> <li>● Biased selectivity: if collection is incomplete;</li> <li>● Reporting bias: reflects (unknown) bias of author; Access: may be deliberately blocked.</li> </ul>
<b><i>Archival Records</i></b>	<ul style="list-style-type: none"> <li>● (Same as above for documentation);</li> <li>● Precise and quantitative.</li> </ul>	<ul style="list-style-type: none"> <li>● (Same as above for documentation);</li> <li>● Accessibility due to privacy reasons.</li> </ul>
<b><i>Interviews</i></b>	<ul style="list-style-type: none"> <li>● Targeted: Focuses directly on case study topic;</li> <li>● Insightful: provides perceived casual inferences.</li> </ul>	<ul style="list-style-type: none"> <li>● Bias due to poorly constructed questionnaires;</li> <li>● Response bias</li> <li>● Inaccuracies due to poor recall;</li> </ul>

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		<ul style="list-style-type: none"> <li>● Reflexivity: the interviewee gives what the interviewer wants.</li> </ul>
<i>Direct Observations</i>	<ul style="list-style-type: none"> <li>● Reality: covers events in real time;</li> <li>● Contextual: cover context of events.</li> </ul>	<ul style="list-style-type: none"> <li>● Time consuming;</li> <li>● Selectivity: unless broad coverage;</li> <li>● Reflexivity: event may proceed differently because it is being observed;</li> <li>● Cost: hours needed by human observers.</li> </ul>
<i>Participant Observations</i>	<ul style="list-style-type: none"> <li>● (Same as for direct observations);</li> <li>● Insightful into inter-personal behavior and motives.</li> </ul>	<ul style="list-style-type: none"> <li>● (Same as for direct observations);</li> <li>● Bias due to investigator's manipulation of events.</li> </ul>
<i>Physical Artifacts</i>	<ul style="list-style-type: none"> <li>● Insightful into cultural features;</li> <li>● Insightful into technical operations</li> </ul>	<ul style="list-style-type: none"> <li>● Selectivity;</li> <li>● Availability.</li> </ul>

Source: Adapted from Yin, 2003, p. 86.

According to Denscombe (2010), using more than one data collection method enables the researcher to see the gathered data from different angles, understand the topic of the study better and also compare the data.

According to Bryman and Bell (2005), interviews probably the most frequently used method when it comes to qualitative research. The interview can be conducted by face-to-face or over telephone (Bryman & Bell, 2011). Telephone interview has lower risk for interviewer bias while for face-to-face interview, the respondent's behavior can be observed.

Since this study mentions many "How" and "Why" questions, in order to collect more related information from the company and better explain the research problems, the face-to-face interview and documentation are chose as data collection methods for this study. The documentation consists of company's web page, administrative

records and some other documents about the case companies. An interview guide is needed to function as a guideline for the interviews. Senior executives were key informants in this study, because they are knowledgeable about the business operation and characteristics of the organization, its strategy and performance (Snow and Hrebnick, 1980; Zahra and Covin, 1993).

### **3.7 Sample Selection**

It is crucial to find relevant and manageable samples to collect empirical data (Yin, 2003). This study used a sample of 2 Norwegian maritime SMEs doing business in China. There is no specific list of Norwegian maritime SMEs doing business in China. These two sample companies are firstly found on the web page of Norwegian Maritime Experts. Later, the author checked their website to see whether they meet the sample selection criteria or not. The selected companies for this study based on the selection criteria followed:

- Norwegian firm.
- A small and medium sized company (under 250 employees).
- Manufacturing ship equipment.
- Currently operating business in China.

The reasons to set up first selection criteria - Norwegian companies - are followed: Firstly, the author studies in Norway and it is easier to make contact with Norwegian firms and conduct face-to-face interview. Secondly, more Norwegian companies plan to enter Chinese market, research on Norwegian firms would be, to some extent, beneficial to them. Thirdly, most of the Norwegian firms are small and medium size and they are suitable research objects for this research topic. Meanwhile, the reason to focus on these SMEs is because there are already a lot of studies related to large multinational companies, studies of SMEs are relative fewer and the issue about SMEs attracts more attention. Besides, most Norwegian companies are small and medium. Thus choosing SMEs makes it much easier to access to sample companies. Setting the criteria of “Manufacturing ship equipment” is because maritime industry is one of the main supportive industry in Norway. There are many companies

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manufacturing maritime equipment (specifically ship equipment) in Norway and most of these companies have business oversea. Another reason for setting these criteria is because Norwegian maritime industry is globally advanced and focus on this industry makes the master thesis more interesting. Finally, since the author has Chinese background, the author prefer to research on cooperation between Norway and China, which lead to the fourth selection criteria.

There are a lot of companies meeting these criteria in Norway. The reason why we finally choose these two companies is that both of them are in line with the selection criteria and are willing to participate in this study.

### **3.8 Data Analysis**

According to Yin (2003), there are three analytical strategies that a researcher can use when analyzing collected data. These three analytical strategies are:

- *Relying on theoretical propositions*: The researcher develops research question from previous studies about the subject. The data that the researcher collects about the subject are then compare with the previous theories.
- *Thinking about rival explanations*: The strategy is appropriate for case studies since it tries to define and test rival explanations.
- *Developing a case description*: This analytical strategy states that the researcher should develop a descriptive framework in order to organize the framework.

As mentioned on last chapter, many studies have already discussed about the motivations to internationalize, influential factors on foreign market entry mode choice and interaction between internationalized motivations and entry mode decision. Even though the study object are different, there are already many studies similar to this master thesis, in terms of topic, and various findings about this topic are illustrated, which provides with comparable basis for this study. Thus, theoretical propositions are more suitable, compared with the other two analytical strategies, to analyze the collected data for this study.

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In addition to analytical strategy, the specific analytical process should also be stated clearly for this master thesis. Mile and Huberman (1994) have constructed an analyzing process, which consists of three stages as flowed.

- *Data reduction*: In this first stage to make it possible for the research to verify and draw conclusions, the data are reduced, focused, and organized. According to Miles and Huberman (1994), data reduction is not something separate from analysis. The researcher's decision-which data chunks to code and which to pull out, which evolving story to tell- are all analytic choice. Data reduction is a form of analysis that sharps, sorts, focuses, discards, and organizes data in such a way that "final" conclusions can be drawn and verified.
- *Data display*: In the second stage, the research displays the reduced data to be able to draw conclusions and verify them.
- *Conclusion drawing and verification*: In this final stage the researcher should be able to detect patterns, explanations, similarities etc. to be able to draw the conclusion.

This master thesis follows this analyzing process. Besides, the author also conducts the two within-case analyses to compare the collected data with previous theories. In addition, cross-case analysis is also performed in order to summarize conclusion for this study.

### **3.9 Validity and Reliability**

In this master thesis, the data and information collected to answer the research questions, are mainly opinions and own feelings of the interviewee. These data and information collected mainly depends on their recognitions. However, Hopper and Powell (1985) stated that the approach is to focusing on the individuals' perceptions of the 'reality', and too subjective. Thus, it is inevitable to check the quality of the data and information collected.

Jerome Kirk (1986) stated that the quality of the data is to the objectivity of these data. Also, the main components of the objectivity are validity and reliability. According to Bryman and Bell (2011), validity and reliability are the most important quality criteria while establishing and judging the quality of a qualitative study. Jerome Kirk (1986),

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stated that loosely speaking, “reliability” is the extent to which a measurement procedure yields the same answer however and whenever it is carried out; “validity” is the extent to which it gives the correct answer. Yin (2003) explains the reliability similarly to Jerome. According to Yin (2003), Reliability means that if a researcher conducts a study with the same method and procedure as an earlier researcher, they should reach the same conclusions as the first one and the goal of reliability is to minimize errors and biases. However, Yin (2003) stated that validity should consist of three components, which are followed.

- Construct validity: this means to construct the correct measures for the topic that being studied;
- Internal validity: this means to establish a casual relationship, where certain relationships leads to other conditions;
- External validity: this means to establish a domain where the findings of a study can be generalized.

Easter Smith (2012) explains the internal validity and external validity in a more simple way. According to Smith (2012), internal validity is the assurance that results are true and conclusions are correct through elimination of systematic sources of potential bias. As for external validity, Smith (2012) takes it as the issue of whether the results of the research can be generalized to other research settings or contexts.

Yin (2003) suggested that using multiple sources of evidence and comparing the data collected with each other, which is called triangulation, as the way to ensure construct validity. For this study, in order to improve the construct validity, the author used previous theories, information and data from interviews and also documentation from the companies being studied. Besides, the sample, which is the companies being studied, should be representative. In this study, the author chooses the companies, which have long experience of international business and also operating in Chinese market for many years, as the case companies. These companies, to some extent, have adequate knowledge about international business and strategy management and also are more familiar with research questions of this study. In addition, the author asked a professional researcher to read the interview guide prior to the interview in



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order to make sure that the questions were easy to understand and no misunderstanding would occur.

To increase the internal validity, the author compared the empirical data, which are collected from the interviews, with the previous theories and studies. Furthermore, the author performed multiple case studies in order to increase the external validity.

According to Yin (2003), reliability is enhanced by the triangulation of data collection and multiple analysis methods. In order to increase the reliability of this research, the author use all kinds of different materials, which includes data from the interviews, information from companies' formal and official website and other documentation from the studied companies. This helps to eliminate the bias from the individual and gives the author opportunity to evaluate the problem from different points of view. In addition, the author used open questions in the interview guide so that the previous knowledge would not influence the respondents, which also helps to increase the reliability of this research.

## **4. Empirical Data**

### **4.1 Introduction**

In this chapter the data gathered through face to face interview at Kumera AS and Restech Norway AS will be presented. The two following sections begin with a brief presentation of the companies, followed by the data presentation.

The data gathered for these two case studies were collected through face to face interviews, which were conducted by Skype. At Kumera AS, we interviewed the previous managing director Per Arne Haug, and at Restech Norway AS we interviewed Derek Song, who works as Marketing Executive. Both of the two interviewees have worked for their company for some years. Besides, they also have good understanding of the Chinese market and have experiences of their companies' business operation in China. They are the right persons to interview for collecting data, which are related to the research questions of this paper.

### **4.2 Kumera AS (Norgear AS)**

Kumera AS was called Norgear AS before 1979 and was originally founded in 1965. It has delivered high quality mechanical transmissions for all marine and certain specialist industrial applications for over 80 years. The company has been a member of the Finnish multinational company Kumera Corporation since 1979.

Kumera Corporation is a worldwide marketer of manufactured products and engineering services. The corporation currently consists of three major operating divisions, including mechanical power transmissions for the industrial market, process equipment for metallurgical and environmental industries, and all types of steel and iron castings. Today, Kumera Corporation has about 600 employees.

Kumera AS is the leading supplier of marine hybrid gearboxes, marine gearboxes and hydraulic clutch units for Fi-Fi 1, 2 and 3 installations. Kumera AS has a wide range of marine applications: speed increasing drives for fire-fighting pumps, electrical and hydraulic power supplies and speed reducing drives for thruster propellers. The main products of Kumera AS are step-up and reduction gear units, multi-shaft PTO gear units, right angle gear units, propulsion gear units and hydraulic clutch units. In

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addition to mechanical transmissions, Kumera AS also provides technical service, which consists of maintenance instruction, planned inspections, repair facilities and service engineers / spare parts. One of the main strengths in Kumera AS is the ability to adapt an existing product or to develop a new design to meet the client's particular specification.

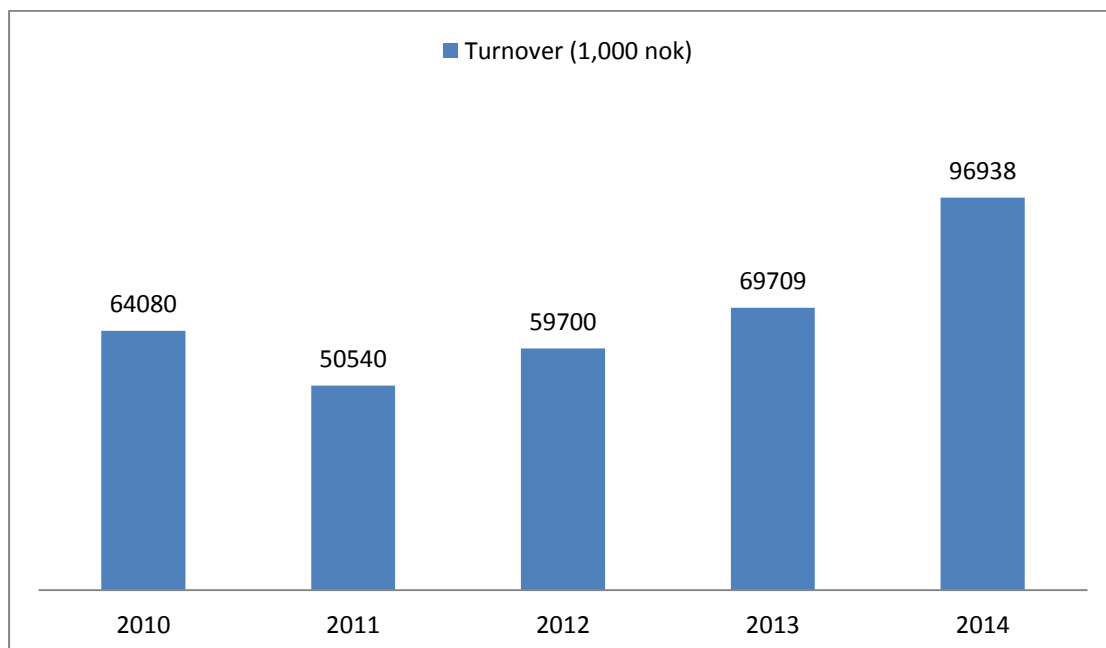
According to Proff.no, Kumera AS today has 34 employees. The company's total annual sales from 2012 to 2014 are shown on table 4.1 below. Most of the sales come from foreign market. There is almost no market for Kumera AS in Norway because the global shipbuilding industry concentrates in Far East Asia (i.e. China, Japan and South Korea, etc). In addition, according to Per Arne Haug, approximately 50% of the sales finally end up in China. Kumera AS doesn't have a lot of direct exports to China. Instead, it exports the gearbox to the ship equipment package builders, and the package builders will end up exporting the gearboxes to China.

Table 4.1 Kumera AS Annual Turnovers between 2010 and 2014

Year	2010	2011	2012	2013	2014
Turnover (In 1,000 nok)	64,080	50,540	59,700	69,709	96,938

Source: <http://www.proff.no/selskap/kumera-as/sandefjord/hydraulisk-utstyr/Z001BGG1/>

Figure 4.1 Kumera AS Annual Turnovers between 2010 and 2014



Source: <http://www.proff.no/selskap/kumera-as/sandefjord/hydraulisk-utstyr/Z001BGG1/>

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According to Per Arne Haug, the main competitors for the company depend on the product area. In terms of gearbox for the fire-fighting system, the biggest competitors are the fire-fighting system manufacturers. These manufacturers acquired the technical know-how and have started to produce the gearbox themselves. As for the main propulsion area where the gearboxes are used to propel the ships, the main competitors are the big multinational companies, for example, Reintjes, Man and ZF from Germany.

Concerning the competitive advantages, according to Per Arne Haug, the marine industry is sort of special. There are still a lot of traditions and relationship on this industry. The biggest competitive advantage of Kumera AS is that it is placed in the deliver trade out of Norway on this kind of systems. Besides, in terms of the gearbox for fire-fighting system, Kumera AS has a competitive advantage of being pricewise, and this competitive advantage is only towards western competitors, not to Chinese competitors.

### ***Kumera AS Approaches to Chinese Market***

Kumera AS has many different entry modes to Chinese market. Firstly, as mentioned above, mostly Kumera exports the gearboxes to ship equipment package builders, and then the package builders sell the whole package (i.e. propulsion system), which includes the gearboxes, to China. Secondly, according to Per Arne Haug, Kumera AS also exports his products via agents. On the one hand, Kumera AS sends the gearboxes to the agents and the agents buy out the products and then sell to the yards. On the other hand, Kumera AS sends the gearboxes directly to the yards, but the agents are the sales personnel. In this case, the agents are intermediary, preparing the business for Kumera AS and then earning commission. Thirdly, Kumera AS also has cooperation with its sister company, Kumera China (Kumera AS and Kumera China are both members of Kumera Corporation). According to Per Arne, Kumera China, to some extent, bought the licenses from Kumera AS and then produced propulsion gearboxes in China. Then the sales are done in China from Kumera China directly to the customers.

### ***Kumera AS Motivations to Develop the Chinese Market***

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According to Per Arne Haug, ship equipment market in China is a bit down currently. However, the Chinese market is still very important for Kumera AS since about 40% of the ships all over the world are built in China. China is the biggest ship equipment market in the world. However, for the Chinese shipbuilders, it is still quite limited in terms of the ship equipment. The ship equipment needed for shipbuilding could either be made in the domestic factories in China or be exported from the western part of the world.

According to Per Arne Haug, there are a lot of motivations for Kumera AS to enter China's ship equipment market. These motivations include competitive pressure, profits and growth goals. Beside, foreign market opportunity (i.e. Chinese market opportunity) is another motivation. As mentioned above, about 40% ships world-wide are built in China. China is a big market for ship equipment. As Per Arne stated, *"In a way we are losing out if we are not there. I would say it is reactive because we are losing our market share if we are not present in China."*

When being asked whether Kumera AS received orders regularly from Chinese market or just receive some irregular orders, Per Arne answered that it is something between. He continued that the sales persons in Kumera China have already identified various opportunities. However, Kumera AS has not been able to secure the business because of a little dragging in between should it be produced in China and should it be produced in Norway. It should have been irregular orders from Chinese customers. *"I think we have noticed the market in China that we are there. But we are at the moment not fully able to answer on the prices and where to produce the gearboxes"*, Per Arne said.

When it comes to Norwegian market, according to Per Arne, the products from Kumera AS almost have no market in Norway anymore. The small number ships made in Norway are made without the type of Kumera AS's products. These ships built domestically in Norway are electrified. They use electric motors instead of using the mechanical drives that Kumera AS offers. Therefore, Kumera AS doesn't have a home market anymore. Furthermore, the main market for Kumera AS now is the package builders, and the main markets for these package builders are divided equally by China and the western part of the world.

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In terms of the main motivations for Kumera AS to start business in China, Per Arne gave three answers. Firstly, from the corporate level, it is very important that Kumera Corporation has a plan in China. Secondly, the Chinese domestic market, in terms of shipbuilding or ship equipment, is big. Thirdly, the market is growing quite rapidly. Per Arne added that in his own perspective, currently, some areas of the shipbuilding market are growing more quickly than areas like offshore.

When being asked to rank these motivations according to their importance, after consideration, Per Arne answered in the way as followed. The first one is the very fact that Chinese domestic market is very big and growing. And the second one is the price pressure. And the third one is the very fact that about 40% of the ships in the international market are built in China. And a lot of ship equipment in China is still imported from the rest of the world. Per Arne also thinks that Kumera AS entering into the Chinese market is more reactively motivated.

### ***Influential Factors and Kumera AS entry mode selection***

10 to 15 years ago, Kumera AS exported a lot of gearboxes to all shipbuilding markets all over the world. At that time the shipyards bought the gearboxes as separate units and built the propulsion systems themselves. Later, the mega trend of packaging (i.e. package builders buy ship engines, propulsion gearbox and propellers from manufacturers and then use them to build propulsion systems, and finally sell to the end users) started. As a result, Kumera AS started to shrank in the area markets all over the world where he sold the products before. From then on, Kumera AS did not sell the products directly to the yards anymore. Instead, Kumera AS started to sell the products to the package builders. Thus, in that sense, Kumera AS was down to probably a handful of markets like in Europe. So Singapore is some of penetrated and the Kumera AS started business in China.

In terms of how Kumera AS started business in the countries or areas like Europe, Singapore and China, Per Arne felt a little difficult to answer in a strategic way since he has already left the company before the interview. However, he stated that how Kumera AS started business in these areas is not up to Kumera AS as an independent entity. Kumera AS is now part of the Finnish corporation Kumera Corporation. The strategic decisions (e.g. how to penetrate these markets) for Kumera AS are made

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there in Finland. For the Chinese market, for example, the decision is not made on the need of penetrating the market of marine gearbox. Instead, the decision is made for penetrating the market for the paper machine and paper industry, which are the main business for Kumera Corporation. Even being the managing director in Kumera AS, Per Arne said that he had not been able to get the corporation to make up the decisions on how to penetrate these markets based on the needs of the marine gearbox.

Besides, according to Per Arne, a corporation that has both capacity and resources can do an entry in a structural way. The big company and small companies work in different way when entering into new foreign markets. For example, Wärtsilä from Finland would probably prefer structural decision model to make a sound decision of how to enter. However, Kumera AS is simply too small to put an organization in the other country to enter that way or to build a plant there and so on. It is left to the small entities like Kumera AS to do their best to send their resources out of Norway to the local agents, trying to capture the market share or to capture the projects.

In addition, Kumera AS mainly exports his products to China via package builders instead of directly exporting the products of gearboxes to the Chinese yards. The package builders purchase all the needed components and then build the propulsion systems, and finally sell the whole package (i.e. propulsion system) to the shipbuilders. That is the market demand, and most markets world-wide are operating in this way because nowadays the shipbuilders like to buy the whole package (i.e. propulsion system) from the package builders. Most shipyards don't have the know-how of how to build the propulsion systems so that they prefer to buy the whole package (i.e. propulsion system) from the package builders.

Concerning the question of whether it is still possible for Kumera AS to contact with the shipbuilders directly to sell his product or not, or through the package builders is the only way to do business, Per Arne answered that it depends on the product. In terms of fire-fighting system, it seems almost impossible since the shipyards don't want it. The shipyards don't want to buy them in pieces. Instead, they want to buy the packages. The same as the main propulsion since most shipyards in China don't have the know-how to split out the package (i.e. propulsion system) and buy the gearboxes from the rest components of the main propulsion. Thus, they want to buy the whole

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package as well. However, there might be a perceptible that it could be an opportunity because some ship owners want to build a new concept. They also want to go into the know-how capability of breaking up the packages. In this case, Kumera AS has the opportunity to come with its gearbox. In fact, if the shipyards or the ship owners have the efficient know-how, it is cheaper to buy the parts and build the systems themselves than buying the packages (i.e. propulsion system). On that perspective, the shipyards or the ship owners play an important role to decide the market trend.

Thus, how Kumera AS operates business in the Chinese market mainly depends on the shipbuilders. When the shipbuilders have know-how of how to build the system themselves, there would be some opportunities for Kumera AS to sell the gearbox directly to the shipyards. However, if they don't have this know-how, it is impossible for the shipbuilders to buy the parts and then build the systems themselves and also impossible for Kumera AS to trade directly with the shipyards.

When it comes to the factors that affect the company's Chinese market entry mode, Per Arne firstly mentioned the firm size. As mentioned above, Kumera AS is a small corporation so that it is difficult to make a scientific strategy of how to enter. He continued that for small size corporations, company size is the key determinant of how they operate business there. Small companies, like Kumera AS, always have to go in project by project and create success in this way to build business path. While in the big corporations, they have adequate resources and just by doing big action to enter. The big companies can catch the market by going there to establish a company, set up organizations and build a plant. By taking this kind of actions, they are able to capture market share. However, for the small companies and corporations, they have to operate business there through sale by sale. Per Arne added that it is common for Norwegian companies to do business by the latter method since most of them are small size. Even some big companies, he said, have to go into the market and build the business there firstly before starting the big investment.

In addition, Per Arne stated that technical service also influences the entry mode for Kumera AS. He continued that it is very crucial that the company has means of doing service and after service business for the products. In the case of Kumera AS, he has a sister company, Kumera China, by which Kumera AS can use the after service



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personal there for projects instead of setting up an organization there by themselves. These service personals include merchants and gear technicians and Kumera AS utilizes them very successfully when he has issues in China. It is a big benefit for the company because he can reduce the operation business. Per Arne Emphasizes again that it is a crucial thing that the company is able to support his products with after sales services by after service organization. The customers would not do business with Kumera AS if he couldn't provide after sales service.

Furthermore, to some extent, the high quality and the perception of very high quality are the main product advantages for Kumera AS. As Per Arne said, the ship owners and the package builders, yards, to certain extent, still believe that the better quality comes from the west.

Finally, Per Arne said that the Kumera AS would continue to develop business in China and maybe also cover the marine business at some point of time in the future.

### **4.3 Restech Norway AS**

Restech Norway AS was established in 1989 and its main office is located in Bodø, a small city above the Arctic Circle in Norway. Restech Norway AS is the manufacturer of the Pneumatic Line Thrower (PLT®), which is a line-throwing tool working as both a rescue tool and a working tool in maritime and offshore industry. The development of the PLT started long before 1989, when a SAR Captain decided that he wanted a more reliable, safe and precise line thrower oppose to the gunpowder rockets. Restech Norway AS supplies the whole world with Pneumatic Line Thrower both on land and at sea through a network of distributors.

According to Proff.no, Restech Norway AS has only 7 employees at the moment. The annual turnovers of Restech Norway AS from 2011 to 2014 are shown on table 4.2 below. According to Derek, in 2013, the company's sale to China is about 1.03 million NOK, and the number reached to 2 million in 2014. The company's ratios of export to China in 2013 and 2014 are shown on table 4.3.

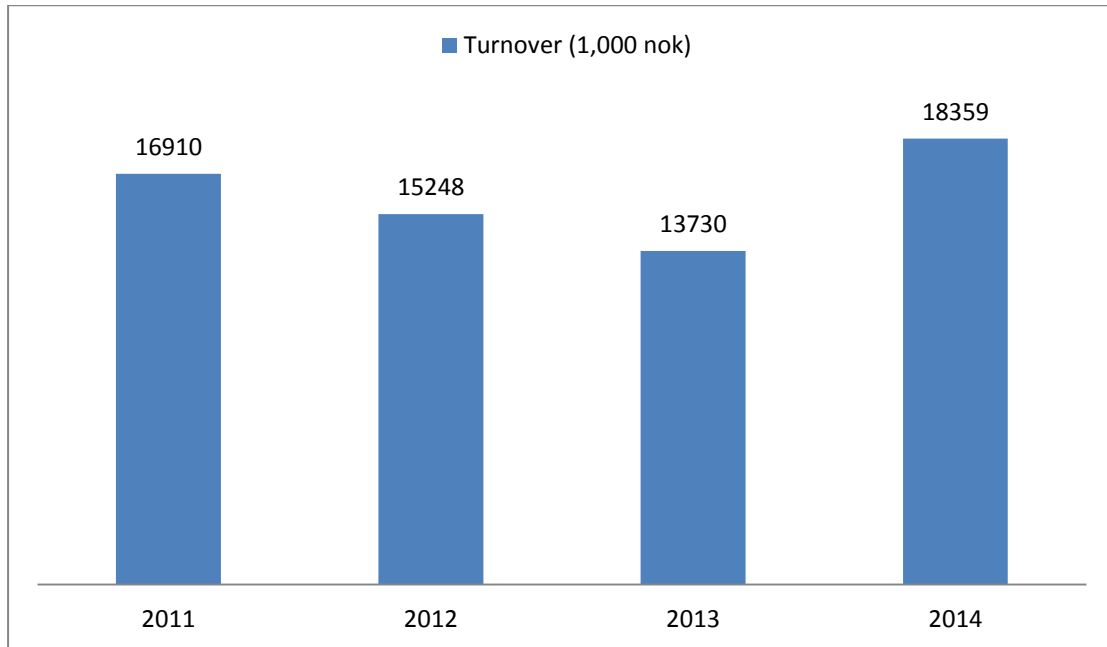
*Table 4.2 Restech Norway AS's Turnovers between 2011 and 2014*

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Year	2011	2012	2013	2014
Turnover (1,000 nok)	16,910	15,248	13,730	18,359

Source: <http://www.proff.no/selskap/restech-norway-as/bod%C3%B8/skipsutstyr/Z0IK7SKA/>

*Figure 4.2 Restech Norway AS's Turnovers Between 2011 and 2014*



*Table 4.3 Restech Norway AS's Ratios of Export to China between 2013 and 2014*

Year	2014	2013
Ratio	10,89%	7,50%

*Source: from the interview with Marketing Executive in Restech Norway AS*

According to Derek, the main competitors for Restech Norway AS are Chinese gunpowder rocket manufacturers. Derek continued that Chinese pneumatic line thrower replica manufacturers are also competitors.

When it comes to company's competitive advantages, Derek described as followed, *"The main competitive advantages of our company are the high quality of our products and the fact that we have obtained international certification. However, we don't have any price advantage towards our Chinese competitors. We can only use the high quality of our products, good customer service and the international certification we have obtained to compete against them. The international certification we have obtained makes our products stand out. According to*

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*international regulation, the ship equipment could not being used before certified. The ship equipment without certification can't even go on board.”* Derek continued that the products from Restech Norway AS also have technical advantages.

### ***Restech Norway AS Approaches to Chinese Market***

Restech Norway AS sells its products mainly through the dealers, according to Derek. Specifically, the company sells products to the dealers and then the dealers sell these products to the end users. *“It is a buyout contract. The Chinese dealers are better to market locally. Thus, we are not going to get involved in the marketing activities”*, Derek said. He also explained that the main reason why Restech Norway AS entered Chinese market by dealers is that the company doesn't want to get involved in the specific business operations in China because of different business culture. In addition, the company also actively participates in international exhibitions and the participation is in the purpose of promoting the company's products instead of selling the products there, according to Derek. *“We don't sell our products directly to the end customers in China. That is very important because we cooperate with our dealers there, and we have agreements with them. Therefore, the dealers are the only sales persons for our products”*, said Derek.

### ***Restech Norway AS Motivations to Enter Chinese Market***

According to Derek, the ship equipment market in China is quite chaotic. And the downturn of Chinese ship equipment market is mainly because it is closely related with Chinese commercial trade. As a result, once the Chinese commercial trade falls, the ship equipment market in China would receive huge negative impact.

The main reason why Restech Norway AS entered Chinese market, according to Derek, is because it has recognized the big scale of Chinese market in terms of Pneumatic Line Thrower, which provides an opportunity for Restech Norway AS to increase production. The results of increased production are better economic scale and more profits. Besides, another reason is that the products, which are manufactured by Restech Norway AS, are unique and they are not available in China before. Thus, unique products and economies of scale are the main motivations of Restech Norway AS to penetrate Chinese ship equipment market, and both these two motivations are proactive.

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However, in terms of reactive perspectives, Derek doesn't think there are any reactive motivations for Restech Norway AS to penetrate Chinese market. *"We enter Chinese market is not because the competitive pressure, which means there are already similar products in Chinese market there. We enter Chinese market is not because that we want to compete against the competitors there. Instead, we go there is because we recognized the big scale of the market there"*, said Derek. When being asked whether 'domestic market: small and saturated' is also the motivation for Restech Norway AS to enter Chinese market, Derek said that he doesn't think so. He continued that in addition to domestic market, the company also has European market. Restech Norway AS goes to Chinese market is not because of the small scale and the saturated situation of the domestic market. Instead, the company goes there is because the market in China is very big. That is to say, once the company got 10% market share in China, the sales there would be very big. Thus, he stated that Restech Norway AS entered Chinese market is not because of the situation in domestic market.

In addition to the motivations mentioned above, Derek supplemented that the prospective about the future should also be added as Restech Norway AS's motivation to Chinese market. Specifically, Restech Norway AS forecast that the economic situation in China would get better and better and the company would like to exploit a market with high potentials. In another word, the company has a good expectation towards Chinese market and this is also a proactive motivation.

When being asked to rank all the motivations mentioned above, according to their importance, Derek answered as followed. *"The most important motivation is the big scale of the Chinese market. The second one is that our company has a good prospective for Chinese market. And the final one is that our product is unique."* Derek continued that Pneumatic Line Thrower has a relatively cheap substitute, which is gunpowder rocket. Gunpowder rocket is relatively cheap in China. However, compared to gunpowder rocket, Pneumatic Line Thrower is more expensive in China. And the price of Restech Norway AS's product is about 10 times more expensive than that of the gunpowder rocket.

Besides, Derek concluded that Restech Norway AS definitely entered Chinese market proactively and the two competitors mentioned before are the result of the Restech

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Norway AS's entry. These two companies don't manufacture similar products before Restech Norway AS entered Chinese market.

In terms of market share for Restech Norway AS in China, Derek said that it depends on the product. When it comes to similar product, which means line throw appliance, Restech Norway AS has quite low market share there and the number could be less than 1 %. However, as for pneumatic line thrower, the company has quite high market share in China and the number could reach to more than 75%. Derek explained that the PLTs produced by Chinese manufacturers can't be certified. As a result, these Pneumatic Line Throwers without certifications can't go on board. Thus, Restech Norway AS has pretty high market share, in terms of Pneumatic line thrower, in China.

### ***Influential Factors and Restech Norway AS Entry Mode Selection***

Restech Norway AS has markets in all coastal countries in Europe and the company has markets in whole Western Europe except for Austria and Hungary. Besides, the company also has markets in USA, Canada, Brazil, India, Singapore and the other countries in Southeast Asia. In addition, it also has markets in China, Japan and South Korea. And also South Africa, but the markets in Africa is relatively small. There are only a few developed countries in Africa and the number of countries that attach importance to human life in Africa is relatively small. Thus, the market for life-saving products there is quite small. What's more, Restech Norway AS also has distributors in Australia and New Zealand selling its products.

Restech Norway AS exploited all these markets proactively and seldom entered markets in order to react to its competitors' behavior to compete against them. The company cooperates with its dealers through buyout contracts in most of its markets except for Norway, Brazil, France and Singapore. Since Restech Norway AS is based in Norway, it can sell products directly to the customers in Norway. In Brazil, the company has an agent there and it also has an agent in France. Besides, Restech Norway AS has a wholly owned subsidiary in Singapore and the company there is able to sell products directly to the customers who transit in the port of Singapore. In general, Restech Norway AS uses certified dealers in most of its markets.

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Furthermore, the agents in Brazil and France earn commissions from the company when they successfully sell products in their local markets. Thus, the company has idea of how much the agents earn. However, Restech Norway AS cooperates with dealers through buyout contract, which means the company sells products to dealers and gives freedom to the dealers on price the products.

In addition, the reason why Restech Norway AS chooses different entry modes for different countries (or markets) is because of the different restrictions, legal systems and business systems from different countries. For example, according to Derek, in China, the company should avoid getting involved in Chinese marketing pattern such as entertaining the customers and forming close private relationship with the customers responsible. And Brazil has the similar situations. However, in European countries, the markets there are more mature

According to what Derek said, the product (i.e. pneumatic line thrower) from Restech Norway AS is a component of a big package. This package is called Marine Life-Saving Equipment, which consists of a lot of products and pneumatic line thrower is one of them. When the ships need to purchase life-saving equipment, they often want to buy the whole package instead of separate components. In this case, it is very difficult for Restech Norway AS to sell its product directly to the end customers. As a result, it seems inevitable for Restech Norway AS to cooperate with the dealers or distributors because they are the package builders, who buy components from different manufacturers and then use these components to build a package and sell to the end customers such as ship owners and ship yards. When the package builders successfully sell one package, they sell one Pneumatic line thrower product.

However, Singapore is different. Singapore is a transit port, and many ships would stop there for supplies the lacking material. Gunpowder line throwers have an expiry date and staffs onboard should replace them before the expiry date. Therefore, when the ships stop in Singapore, they can buy this line thrower individually there and that provides Restech Norway AS an opportunity to sell its pneumatic line thrower products directly to the end users.

When being asked whether the experience of operating in the other foreign markets is helpful when the company exploits the Chinese market, Derek's answer is positive.

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He continued that such experience makes Restech Norway AS know better about its products' advantages and disadvantages. Besides, Derek said

*“If we didn't sell our products in European markets, we couldn't know that the ship owners prefer to buy the life-saving equipment in packages. Because of the experience in European markets, we know what kind of enterprises (e.g. suppliers, ship owners or ship yards) we should cooperate with. Specifically, we discovered that we should contact with these dealers who are the suppliers to the ship yards. Therefore, when we exploit the new market, we should use this business operation mode.”*

In addition, according to Derek, many functions of the products from Restech Norway AS were discovered by the customer in Europe as well. After these functions being specialized and properly processed, the company can go to Chinese market and look for customers who need these functions and sell its products to them, especially those within maritime industry. For example, Derek continued, in the very beginning, pneumatic line thrower is one of the life-saving equipment onboard. Later, the customers of Restech Norway AS discovered that pneumatic line throwers also have the function of daily operation. Some maritime enterprises, for example, within marine engineering and marine oil industries, they would use pneumatic line throwers products to conduct many different operations. After receiving feedbacks from these customers, Restech Norway AS is able to develop new functions for its products. Afterwards, when the company promotes its products to Chinese marine engineering oil companies, it can mention these new functions and reference from European customers.

Concerning the influential factors on Restech Norway AS's entry mode choice for Chinese market, according to Derek, the most important factor is that the company only has 7 persons. That mean the firm size of Restech Norway AS is very small and it is impossible for the firm to travel to China from Norway to visit its customers very frequently and maintain the relationship with these customers. Thus, the firm size is a very important influential factor. Besides, the second influential factor, according to Derek, is a PLT's product feature, which is the fact that PLT is a small part of a big package of marine rescue equipment. Generally speaking, marine rescue equipment packages include life-rafts, lifejackets, immersion suits, fire suits, work suits, pilot suits, and transportation suits, man overboard (MOB) boats, davits and other life-

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saving appliances. Specifically speaking, it is very difficult to sell a component product alone to the end customers because they want to buy the whole packages instead of components. Thus, this package trend is another influential factor. Thirdly, according to Derek, Restech Norway AS prefers not to get involved in the marketing activities when exploiting the Chinese markets because the dealers know better Chinese business culture and how to distribute products in China. This is risk averse. Derek continued that once the company got involved in the issues such as violations and bribery, it would cause a big trouble to the company. In addition, as Derek said, the Chinese personnel in Chinese companies should have better understanding of the situation in China. That means selling Restech Norway AS's products through the Chinese dealers is much better compared to emerging the company's personnel there in Chinese market. What's more, there would be cultural barriers when foreign companies enter Chinese market on their own since it is difficult for them to communicate with local people and get to know the local market on their own.

When being asked to rank these influential factors according to their importance, Derek gave the answer as followed. Firstly, firm size is the most important influential factor. Secondly, the feature of the PLT product follows and is followed by the third important influential factor, risk averse which means Restech Norway AS doesn't want to get involved in any legal and moral troubles. The final one is the perspectives of cultural difference.



## **5. Data Analysis**

### **5.1 Introduction**

According to Miles and Huberman (1994), the data analysis consists of three parts, which are data reduction, data display and conclusion. In this chapter, the data analysis is presented and the analysis is divided into three parts. The first part is Within Case Analysis. Specifically, the author uses within case analysis to reduce the collected data and compares it to prior theories and studies mentioned on the third chapter of theoretical framework. The second part is Cross Case Analysis. On this part, the author compares the data between the two case companies. In order to simplify the data collected from case companies, the author displays it in a table and shows the comparison with the theories stated in conceptual framework. The final part is a summary of the analysis made.

### **5.2 Within Case Analysis**

#### **5.2.1 Kumera AS**

##### ***Motivations to Exploit Chinese Market***

Globalization seems now not exclusively the issue for multi-national or big firms. Small and medium size enterprises also look to expand their market places internationally. During the last decades, small and medium size enterprises have gained opportunities to enter foreign markets through globalization (Nummela & Bell, 2006). However, Hollensen (1998) stated that before a company enters the international market, it has to have something or someone inside or outside the company to initiate the implementation of the internationalization process. These factors could be large market size, growth rate, profits, market share, low cost, international experience, unique products, resources competence, as well as someone inside or outside the company that take initiative to put in practice the process of entering into foreign market (Hollensen, 1998).

The main reason why Kumera AS entered the Chinese market is because Chinese market opportunity is quite big. It is a fact that Chinese domestic market is very big and growing rapidly. Nearly 40% of the ships in the international market are built in China. Besides, a lot of ship equipment in China is still imported from abroad.

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Another reason is the competitive pressure (i.e. competitors' Chinese market behavior). The competition, in terms of Gearbox, in China is fierce. If Kumera didn't enter Chinese market, it would lose out finally. Besides, the profits and growth goals also motive Kumera AS to enter the Chinese market.

According to Hollensen (1998), perceptive managers have to be aware of the possible business opportunities that internationalization can bring to the company. In the case of Kumera AS, managerial urge is not an important motivation driving Kumera AS to enter the Chinese market. Kumera AS is a member of Kumera Corporation in Finland. The company's (i.e. Kumera AS) decisions, including these associated with Chinese market entry mode, were made in the head quarter in Finland. Furthermore, the management in Kumera AS can't get involved in the decision making process. Thus, the managerial urge is not a motivation for Kumera AS to enter the Chinese market.

Theoretically speaking, technology competence or unique product could also drive companies to internationalize since they can certainly provide a sustainable competitive edge and result in major business success abroad (Hollensen, 2011). The products from Kumera AS don't have technology competence and they are not unique products at all since the Chinese companies are making exactly the same products. Therefore, neither technology competence nor unique product is a motivation for Kumera AS to exploit Chinese market.

From the perspective of literature, pursuing economies of scale could also motivate companies to go abroad since it helps to reduce the production costs and makes the companies become more competitive. Tax benefit has the same functions as well. However, they are not motivations for Kumera AS to enter the Chinese market.

Another factor that could possibly influence companies' decision to internationalize is the situation of domestic market. Small or / and saturated domestic market may force the companies to look for other markets since it restricts the development of the companies. Kumera AS almost has no market in Norway anymore since a small number of ships that are manufactured in Norway are made without the type of equipment produced by Kumera AS. These ships are electrified and they use electric motors instead of having mechanical drives that Kumera AS offers. As a result, Kumera AS doesn't have home market anymore. Thus, small and saturated domestic

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is also a motivation for Kumera AS to enter Chinese market since a big amount of mechanical drive ships are built in China.

Besides, according to Hollensen (1998), overproduction / excess capacity, unsolicited foreign orders, extend sales of seasonal products and proximity to international customers / psychological distance are also the motivations that could initiate companies to internationalize. However, in the case of Kumera AS, these factors are not the motivations for the company to enter the Chinese market.

In addition to the possible motivations summarized by Hollensen (1998), there is an exceptional motivation driving Kumera AS to enter the Chinese market. This exceptional motivation is the fact the Kumera AS has a sister company called Kumera China in Kunshan, China. Both Kumera AS and Kumera China are the members of Kumera Corporation. In this case, it is much easier for Kumera AS to enter the Chinese market and more likely to succeed there since it would receive a lot of supports from Kumera China.

To sum up, the motivations that Kumera AS goes to Chinese market are: Chinese market opportunity is big, competitive pressure, profits and growth goals, small and saturated domestic market and Kumera AS has a sister company, Kumera China. Even some of them are proactive motivations, according to Per Arne Haug, Kumera AS penetrates Chinese market relatively reactively and there are more external factors that motivate Kumera AS to enter Chinese market than internal factors.

### ***Approaches to Enter Chinese Market***

For international companies, to choose a most effective entry mode is one of the most complex decisions they have to make. There are both advantages and disadvantages with each type of entry mode and this makes the selection of strategy highly influenced by a range of sometimes conflicting forces. Under such conditions, companies might be forced to do certain trade-offs between, for example, cost, risk and extent of control (Young, Hamill, Wheeler & Davies, 1989).

However, in the case of Kumera AS, it is complicated. According to Per Arne, how Kumera AS started business abroad is not up to Kumera AS as a separate entity. Since Kumera AS is part of the Finnish corporation Kumera Corporation, the decisions are made there in Finland of how to penetrate into foreign markets. For example, the

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entry mode decision made for Chinese market is not made on the need of penetrating the market of marine gearbox. Instead, the decision is made for penetrating the market for the paper machine and paper industry, which are the main business for Kumera Corporation. Thus, the decision of how to enter Chinese market is made by the mother company, Kumera Corporation and in accordance with the need of Kumera Corporation. Kumera AS couldn't make such decision on its own.

Even so, Kumera AS uses multiple entry modes to Chinese market and these entry modes include exporting and licensing.

In terms of exporting, Kumera AS mainly exports its gearboxes to the package builders, which could be Chinese package builders or package builders from other countries. The package builders then sell the whole propulsion package, including engines, propulsion gearbox and propeller, to the shipbuilders or ship yards. The main reason why Kumera AS sells its products to package builders instead of selling directly to the shipbuilders or ship yards is because nowadays the end customers (i.e. ship yards and shipbuilder) prefer to purchase the propulsion system in a whole package. Most of these end customers don't have know-how of how to build the systems themselves as before. As a result, it becomes difficult for these component manufacturers to sell their products directly to the shipbuilders and ship yards and package builders became their customers.

Besides, Kumera AS also exports its products via agents. On the one hand, Kumera AS sends the gearboxes to the agents and the agents buy the products themselves and then sell to the yards or package builders. On the other hand, Kumera AS sends the gearbox directly to the yards or package builders and the agents are the sales person looking for business opportunities for the company.

As for licensing, Kumera AS has cooperation with its sister company, Kumera China, which to some extent buys the license for producing Kumera AS's products in China. And the sales are done in China from Kumera China directly to the customers.

To sum up, Kumera AS uses exporting (exporting to package builders and via agents) and contractual mode (Licensing) to enter Chinese market and Kumera AS doesn't have direct investment in China.

### ***Influential Factors on Entry Mode Choice***

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Root (1994) stated that a company's entry mode choice is influenced by a number of different factors, which could be either internal or external to the company. The internal factors influencing a company's choice of foreign entry mode is derived from the company and management characteristics (Burca, Fletcher & Brown, 2004). These internal factors, according to Hollensen (1998), include firm size, international experience, product complexity and product differentiation advantage.

### **Firm Size**

According to Hollensen (1998), a company's size is an indicator of its resources. The more resources a company owns, the more its market commitment will increase. Kumera AS is a small company with limited capacity and resources. That means it is difficult for the company to set up organizations in the other countries or build plants there. According to Per Arne Haug, Kumera as small entity is left to do its best way to send its resources out of Norway to the local agents, trying to capture the market share or to capture the projects on the target market. On the basis of these facts, firm size has great influence on Kumera AS's entry mode choice to Chinese market.

### **International Experience**

Hollensen (1998) stated that the previous international experience a company has could also influence how the company acts when it is going to enter new foreign markets and these international experience mainly comes from either operations in the general environment or operations in a specific country. About 10-15 years ago, Kumera AS mainly exported its products to all shipbuilding markets in the world since the ship yards at that time know how to build the propulsion systems themselves. Later, the mega trend of packaging came to these markets and had big influence on Kumera AS. Thus, previous business operation experience in Europe and Singapore makes Kumera AS discover that the ship yards nowadays prefer to buy the whole propulsion systems instead of the separate components and this discovery, to some extent, affects Kumera AS's entry mode choice to Chinese market.

### **Product Complexity / Technical Service**

According to Hollensen (1998), the technical nature of product (high complexity) may require both before and after sale service and the marketing intermediaries may not be able to handle such work. Thus, firms have to use hierarchical modes. In the case of

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Kumera AS, it is complex. It is very crucial that the manufacturers such as Kumera AS have means of providing service and after service because the customers would not buy products from Kumera AS if it couldn't provide after sales service. However, even though, Kumera AS doesn't use hierarchical mode for Chinese market because it has a sister company call Kumera China, by which Kumera AS can use the after service personal there for projects instead of setting up an organization on its own. Thus, being able to provide technical service is important for Kumera AS but that doesn't have a direct impact on the company's entry mode choice for Chinese market.

### **Product Differentiation Advantages**

According to Root (1994), a company, which has a highly differentiated product, has an advantage over the other products and receives a high degree of pricing discretion over its competitors. Furthermore, Hollensen (1998) stated that the companies with differentiated products can also satisfy their customer better, create entry barriers towards their competitors and strengthen their competitive positions. Empirically, companies that have high differentiated products favors export as an entry mode into new foreign markets more compared with those don't have. Although the products manufactured by Kumera AS are exactly the same as those made in China, these products from Kumera AS to some extent have better quality and good reputation and they are the differentiators. The ship owners and package builders, to certain extent, still by facts and by opinions believing in the better quality comes from the west. From this perspective, product differentiation also influences Kumera AS's entry mode choice to China.

Thus, in terms of internal factors, firm size, international experience and product differentiation advantage have impact on Kumera AS's entry mode choice to Chinese market. Furthermore, firm size decreases Kumera AS's market commitment to Chinese market and international experience enables the company to recognize the market demand and the market trend, which help to find out suitable ways to enter Chinese market. The firm size and international experience are the main influential factors in the case of Kumera AS. As for product differentiation advantage, it is also an influential factor on Kumera AS's entry mode choice to Chinese market. But it is less important compared to the other two.

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What's more, according to Hollensen (1998), international experience could increase a company's internationalization degree, which means the company would invest more in the host country. However, international experience helps Kumera AS discover that the end customers of shipbuilder and ship yards prefer to buy the propulsion system by a whole package instead of separate components, which makes the company to focus on these packages builders and try to obtain opportunities to cooperate with them. Since these package builders are from different countries, it seems unnecessary for Kumera AS to increase internationalization degree in China. Thus, international experience within Kumera AS didn't increase its market commitment in Chinese market but help to find out the suitable to enter the market and this is something different from what Hollensen (1998) stated.

Product differentiation advantage, according to Hollensen (1998), could also increase a company's internationalization. The product differentiation of the products from Kumera AS is the fact that they are of higher quality as well as better reputation compared to those manufactured in China. Besides, the customer's belief of good quality comes from the west also make Kumera AS's products stand out. However, these differentiators don't help the company increase market commitment in China. This is also different from Hollensen (1998)'s theory.

In addition to internal factors, there are also some external factors that are likely to influence companies' foreign market entry mode choice. And these external factors, according to Hollensen (1998), include socio-cultural distance between home country and host country, country risk / demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition and small number of relevant export intermediaries available.

However, for Kumera AS, the main external factor is none of those mentioned above. According to Per Arne Haug, it is important to recognize the market demand and the market trend. And these two factors have great impact on how Kumera AS penetrates into Chinese market. As discussed before, nowadays, the shipbuilders and ship yards prefer to buy the whole propulsion system more than the separate components like propulsion gearbox. And the commercial mechanism for the propulsion systems has changed last decades. Previously, the shipbuilders and ship yards bought the engines, propulsion gearbox and propeller themselves and then built the propulsion systems on

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their own. However, at the moment, the package builders take over this job of purchasing components and building the systems since these shipbuilder and ship yards no longer have know-how of how to build system. The change of the market trend decides that those components (i.e. engines, propulsion gearbox and propellers, etc) should cooperate with package builders or transform themselves as package builders because it is hard or even impossible for them to sell their products directly to the end customers. Therefore, the market demand and market trend are the main external factors that influence Kumera AS's entry mode choice to Chinese market.

To sum up, internal factors of firm size, international experience, product differentiation advantage and external factors of market demand and market trend are the influential factors that have impact on Kumera AS's entry mode choice to Chinese market. Furthermore, firm size, international experience, market demand and market trend are the main influential factors.

### ***Internationalization Process***

As discussed on Chapter 2, there are mainly five internationalization theories at the moment and they are Resource Based Theory (RBV), Transaction Cost Analysis Theory (TCA), Institutional Theory (IT), Dunning Eclectic Framework (OLI) and Uppsala Internationalization theory.

The Resource Base Theory (RBV) explains that the selection of companies' foreign market entry mode depends on four major constructs according to likelihood of establishing or transferring competitive advantages, in terms of production operations and marketing operations, to the host country (Sharma and Erramilli, 2004). While the Transaction Costs Analysis Theory (TCA) focus on the trade-off between control and cost of resources commitments (Anderson and Gatignon, 1986). The central premise of institutional theory is that organizations adopt structures and practices that are "isomorphic" to those of the other organizations as a result of their quest to attain legitimacy (Yiu and Makino, 2002). And Dunning's eclectic OLI framework (1993) of foreign direct investment as applied to entry mode choice suggests that firms will select their entry mode structures by considering three sets of variables: Ownership advantages (which are concerned with the control issues), Location advantages (which are concerned with the resource commitment issue, the availability and cost of resources) and Internalization advantages (which are primarily concerned with



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reducing transaction and coordination costs) (Dunning 1993, 1995; Dunning and McQueen, 1982). And Uppsala Model describes that internationalization is a gradually evolving process, in which a firm goes through various stages when it internationalizes its operations.

In the case of Kumera AS, the company exported a lot of gearboxes to shipbuilding market in China 10 to 15 years ago and the products were directly sold from Kumera AS to the end customers of shipbuilders and ship yards. At that time, the shipbuilders and ship yards had know-how of how to build propulsion systems themselves. This is no regular export activities. Later, Kumera AS used agents and these agents are either buying out the products from Kumera AS and then sell them to the ship yards or looking for business for the company and get paid by commissions. This is so called export via independent representatives (agent). Afterwards, the mega trend of packaging came and this forced the components manufacturers to cooperate with package builders, which is a new business operation mode. Besides, as Kumera China emerged, the company was able to go to Chinese market by licensing.

In general, among the five internationalization theories mentioned above, Uppsala model could relatively explain Kumera AS's internationalization process in China better. As for the other internationalization theories, since the Chinese market entry mode decision was made in Kumera Corporation in Finland and the decision was made more in favor of the products of Kumera Corporation. That means Kumera AS couldn't make a strategic entry mode decision of how to penetrate its own products into Chinese market. Since the other four theories only fit for the companies that could make strategic decisions, they are not suitable to explain Kumera AS's entry mode choice to Chinese market.

### ***Motivations and Entry Mode Choice***

As for whether motivations affect company's Chinese market entry mode(s), in Kumera AS, the existence of Kumera China is one of the motivations that drive the company to enter Chinese market. It also makes it possible for Kumera AS to use licensing mode there. In that perspective, the motivation does affect the company's Chinese market entry mode. However, in general, it is the firm size, international experience, market demand and market trend that influence Kumera AS's entry mode choice to Chinese market.

### **5.2.2 Restech Norway AS**

In line with Hollensen (1998), a company has to have something inside or outside the company to start the initiation of the internationalization process. The main reason why Restech Norway AS entered Chinese market is because that the company has recognized the big scale of the Chinese market, which means big market opportunity. Besides, to achieve economies of scale is also a motivation for the company to go there. If Restech Norway AS can manufacture its products in big scale, it can earn more profits. In addition, another motivation is that the products manufactured by Restech Norway AS are unique and they were not available in China before the company's entry.

According to Hollensen (2004), the desire for short-term profit is especially important to SMEs if they are in a stage of initial interest in exporting. Although profit is not an obvious motivation for Restech Norway AS to enter Chinese market, the purpose of achieving economies of scale is to earn more profits. In this respect, profit is a motivation driving Restech Norway AS to enter Chinese market.

Besides, according to Hollensen (2004), managerial urge is a proactive motivation for companies to internationalize. Having perceptive managers that are able to see the possible opportunities that internationalization can bring to a company is highly significant (Hollensen, 1998). In the case of Restech Norway AS, the management in the company recognized the big scale of Chinese market and decided to operate business there. Thus, from this perspective, managerial urge is also a motivation that triggers Restech Norway AS to start business in China.

Technology competence and unique products could also drive companies to internationalize. Unique products and technology competence makes it easier for companies to enter new foreign markets since companies with these products often get direct inquiry from a foreign market to enter that market (Albaum, Strandkov & Duerr, 1998). The Pneumatic Line Thrower (PLT) from Restech Norway AS is an unique product in Chinese market. PLT was not available there before Restech Norway entered Chinese market. Besides, PLT has technology competences of being more reliable, safer and more precise compared to traditional gunpowder rockets.

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Thus, according to Derek, technology competence and unique product are also motivations for Restech Norway AS to enter Chinese market.

In addition, competition is one of the major external factors stimulating internationalization (Hollensen, 2011). Firms may face challenges of losing domestic market share to competitors who benefits from economies of scale gained through internationalization. In the case of Restech Norway AS, according to Derek, the company entered Chinese market is not because of the competitive pressure. There were not Pneumatic Line Thrower (PLT) manufacturers or companies selling PLT in China before Restech Norway went there. Restech Norway AS entered Chinese market is not because that the company wanted to compete against the competitors there. Thus, competitive pressure is not a motivation for Restech Norway AS to exploit the Chinese market.

Theoretically speaking, small and saturated domestic market could also stimulate companies to look for potential markets abroad. For Restech Norway AS, that is not a motivation to enter Chinese market at all. Restech Norway AS has many markets all over the world, even the domestic market is still in good condition. As Derek said, Restech Norway AS went to Chinese market is not because of the small scale and the saturated situation of the domestic market. Instead, the company entered Chinese market mainly because the market in China is very big. Thus, small and saturated domestic market is not a trigger driving Restech Norway AS to go to Chinese market.

According to Hollensen (1998), growth goals, tax benefits, overproduction / excess capacity, unsolicited foreign orders, extend sales of seasonal products and proximity to international customers / psychological distance are also motivations to internationalize. However, there are not motivations for Restech Norway to exploit Chinese market.

In addition to these motivations summarized by Hollensen, in the case of Restech Norway AS, prospective for the future also motives the company to enter Chinese market. Restech Norway AS forecast that the economic situation is China would get better and better and the company would like to exploit a market with high potentials. In another word, the company has a good expectation towards Chinese market.

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To sum up, the motivations that Restech Norway goes to Chinese market are: Chinese market is big, profits, managerial urge, technology competence / unique product, economies of scale and prospective for future. The main motivations, according to Derek, are Chinese market is big, economies of scale and unique product. What's more, Restech Norway AS entered Chinese market proactively.

### ***Approaches to Enter Chinese Market***

Firms deciding to enter a foreign market face a critical decision in choosing the best market entry mode to service the market. This decision is crucial because it can have an ongoing impact on a firm's international business performance (Anderson and Coughlan, 1987; Klein and Roth, 1990).

Exporting allows a firm to internationalize without major investment in a foreign market (Mahoney et al., 1998). It is a low resource commitment and a low risk entry mode. However, it is also associated with a low profits return and provides little control to the firm (Agarwal and Ramaswami, 1992).

Restech Norway AS uses exporting mode to enter Chinese market. The company sells its products mainly through its dealers in China. Specifically, the company sells products to its dealers by buyout contracts and then these dealers sell these products to the shipbuilders or ship yards. Since Restech Norway AS signs buyout contracts with its dealers, it has no control over how the dealers marketing its products in China. The main reason why Restech Norway AS entered Chinese market by dealers with buyout contracts, according to Derek, is that the company doesn't want to get involved in the specific business operations in China since it is pretty risky.

In addition, Restech Norway AS also actively participates in international maritime exhibitions held in China. These participations are in the purpose of promoting the company's products instead of selling the products there.

Besides, Restech Norway AS doesn't sell its products directly to the end customers in China. The dealers who were certified by the company are the only sales persons for PLT products manufactured by Restech Norway AS.

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To sum up, Restech Norway AS entered Chinese market by exporting and also participates international maritime exhibitions held in China to promote its products of PLT.

### ***Influential Factors on Entry Mode Choice***

Foreign market entry mode is the means of linking a company's product(s) to foreign market(s). Thus, a firm's entry mode choice depends on not only the characteristics of a company and its (s) products but also on a foreign market's characteristics (Kwon and Konopa, 1993). Goodnow (1985) and Root (1987) viewed company and product characteristics as internal factors and foreign market's characteristics as external factors. Goodnow specifically identified corporate strength, competitive position, corporate policy, and a product's characteristics as internal factors. He regarded the foreign market's opportunity, its economic development / performance, political environment, geo-cultural environment, comparative host country costs, and a firm's home government's policies as external factors. However, Root viewed the characteristics of a company's products and its resource/commitment factors as internal elements. He considered the target country's market factors, environment factors, production factors, and the firm's home country's factors as external elements.

According to Hollensen (1998), the internal factors that could have impact on company's foreign market entry mode are firm size, international experience, product complexity and product differentiation advantage.

### **Firm Size**

According to Hollensen (2004), firm size is an indicator of its resource availability and the degree of international involvement in a firm heavily depends on how much resources it has. Some empirical studies support that firm size has positive relation with entry mode choice while some studies found that firm size and entry mode choice are irrelevant.

In the case of Restech Norway AS, firm's size is the most important factor on the company's entry mode choice. The company only has 7 persons and this factor of limited resources makes it impossible for the company's personnel to travel to China from Norway to visit customers regularly and maintain the relationship with these

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customers. Thus, exporting is the most suitable way, at the moment, for the company to enter Chinese market.

### **International Experience**

Firm's international experience, mainly refers to the international experience of managers, could also influence firm's entry mode choice to foreign market, according to Hollensen (2004). Hollensen (2011) continued that international experience reduces the costs and uncertainty of serving a market, and in turn increase the probability of firms committing resources to foreign market, which favors direct investment in form of wholly owned subsidiaries. However, there are some conflicting theoretical interpretations and empirical results in terms of international experience's influence on entry mode choice.

Restech Norway AS had already entered many foreign markets and gained international experience before Chinese market. This experience makes the company know better about the advantages and disadvantages of its products. Besides, the experience from European market makes the company recognize that nowadays the ship owners prefer to buy the marine life-saving equipment in package and then the company chose to cooperate with the dealers who are package builders and also suppliers to the ship yards and shipbuilders. Therefore, when the company exploited Chinese market, it used the business operation mode of cooperation with package builders. The international experience did help Restech Norway AS find the suitable entry mode to Chinese market. However, owning international experience doesn't increase the company's market commitment in Chinese market.

### **Product / Service**

According to Hollensen, the technical nature of product (high complexity) may require both before and after sale service and the marketing intermediaries may not be able to handle such work. As a result, firms have to use hierarchical mode. However, this doesn't work when Restech Norway AS decided entry mode to Chinese market. The marine life-saving equipment is always on board and the technical support service is always through telephone. Thus, for Restech Norway AS, product / service is not an influential factor on entry mode choice for Chinese market.

### **Production Differentiation Advantage**

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A product with high differentiation and advantage can also function as an internal factor since it gives the company a high degree of pricing discretion over their competitors. Export as an entry mode is often preferred when companies have high differentiated products (Root, 1994). The product of PLT from Restech Norway has production differentiation advantage. PLT is more reliable, safer and more precise compared with traditional gunpowder rockets. Besides, Restech Norway AS's product of PLT has international certification compared with similar products made in China. These production differentiation advantages to some extent have impact on the company choosing exporting as entry mode to Chinese market.

### **Risk Averse**

In addition to those internal factors mentioned above, another factor that influences Restech Norway AS's entry mode choice to Chinese market is risk averse. Restech Norway AS doesn't want to get involved in any irregularities occurred when exploiting the Chinese markets. As Derek said, once the company got involved in the issues such as violations and bribery, it would cause a big trouble to the company. Thus, risk averse is another influential that prevents the company from entering Chinese market with high degree of market commitment.

In addition to the internal factors, there are also many external factors that are likely to have impact on Restech Norway AS's entry mode choice to Chinese market. According to Hollensen (1998), these external factors are socio-cultural distance between home country and host country, country risk/demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition and small number of relevant export intermediaries available.

### **Socio-Cultural Distance between Home Country and Host Country**

Socio-cultural differences, which include difference in terms of culture, economic systems, business practices and languages, can create internal uncertainty for the firm and then influence its foreign market entry mode. The socio-cultural difference has influence on Restech Norway AS's entry mode choice to Chinese market. The company only had Norwegian personnel when it entered Chinese market and they didn't have good understanding of culture, economic system, business practices and language of China. That makes it extremely difficult for the company to exploit the

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market on their own. Thus, exporting is a suitable way for company like Restech Norway AS to enter Chinese market.

### **Market demand and Market Trend**

Same as the propulsion systems, nowadays, the ship owners, shipbuilder and ship yards prefer to buy the marine life-saving equipment in packages, which consists of many separate components and PLT from Restech Norway is one of them. This market demand of marine life-saving equipment package and market trend of that end customers prefer to purchase by packages have great impact on Restech Norway AS's entry mode choice to Chinese market. Restech Norway AS had to cooperate with package builders instead of cooperating with other intermediaries or exporting its products directly to the shipbuilders and ship yards. However, this market demand and market trend doesn't have evident influence on the company's market commitment degree in China.

To sum up, firm size, international experience, product differentiation advantage, risk averse, socio-cultural distance between host country and home country and market demand and market trend have influence on Restech Norway AS's entry mode to Chinese market. Firm size is the most important influential factor and market demand and market trend is ranked at second place, followed by risk averse, socio-cultural difference, international experience and product differentiation advantage. Furthermore, only firm size, risk averse and socio-cultural distance between host country and home country have influence on the company's Chinese market commitment degree. International experience, product differentiation advantage and market demand and market trend don't have that particular effect.

### ***Internationalization Process in China***

As discussed before, the Resource Base Theory (RBV), Transaction Costs Analysis theory (TCA), Institutional theory and Duinning's eclectic OLI framework are suitable to explain the internationalization process of the companies which could make strategic decision in terms of entry mode choice. Small size companies don't have enough resources and capacities to choose foreign market entry mode strategically. However, Uppsala Internationalization theory is the only theory that could possibly explain the internationalization process of small size companies.



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Uppsala Model describes the internationalization as a gradually evolving process, in which a firm goes through various stages when it internationalizes its operations. According to Uppsala Model (Johanson and Wiedersheim-Paul, 1975), firms are expected to follow the routines: first stage, no regular export activities; second stage, export via independent representatives (agent); third stage, sales subsidiary; and final stage, local production/manufacturing.

The reason why Restech Norway AS initially exported its products to the Chinese market is because of the inquiry from the customers there. And that is so called no regular export activities. Later, the company recognized the big scale of Chinese market and decided to proactively enter Chinese market. As a result, it started to export via intermediaries of dealers by buyout contracts and now this is still the only entry mode the company uses to operate in Chinese market. Although Restech Norway AS hasn't experienced the latter two stages of sales subsidiary and local production/manufacturing because of internal and external factors, the first two stages Restech Norway AS has experience are exact the same as the first two stages of Uppsala Model.

Thus, Restech Norway AS's internationalization process in Chinese market is a progressive development and could be explained by Uppsala Model to some extent.

### ***Motivations and Entry Mode Choice***

The technology competence and unique product are also motivations that drive Restech Norway AS to enter Chinese market. Because of the technology competence and being unique, the PLT products from Restech Norway AS have product differentiation advantage. According to Root (1994), export as an entry mode is often preferred when companies have high differentiated products. Thus, the motivation of technology competence / unique product to some extent indirectly influences Restech Norway AS's entry mode choice to Chinese market.

### **5.3 Cross- Case Analysis**

In this section the two case studies will be compared against each other. In order to provide an overview of the case studies, the author would construct a number of tables as well as a brief discussion to further explain the tables.

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### 5.3.1 Motivations

*Table 5.1 Cross-case Analysis: Motivations to enter Chinese Market*

Motivations / Company	Kumera AS	Restech Norway AS
<b>Proactive Motivations</b>	-	-
Profit and Growth Goals	<b>Yes</b>	<b>Yes (only Profit)</b>
Management Urge	<b>No</b>	<b>Yes</b>
Technology competence / Unique Product	<b>No</b>	<b>Yes</b>
Foreign Market Opportunity / Market Information	<b>Yes</b>	<b>Yes</b>
Economies of Scale	<b>No</b>	<b>Yes</b>
Tax Benefits	<b>No</b>	<b>No</b>
<b>Reactive Motivations</b>	-	-
Competitive Pressure (Competitors' Chinese Market Behavior)	<b>Yes</b>	<b>NO</b>
Domestic Market: Small and Saturated	<b>Yes</b>	<b>NO</b>
Overproduction / Excess Capacity	<b>No</b>	<b>NO</b>
Unsolicited Foreign Orders	<b>No</b>	<b>NO</b>
Extend Sales of Seasonal Products	<b>No</b>	<b>NO</b>
Proximity to International Customers / Psychological distance	<b>No</b>	<b>NO</b>
Others	Has sister company, Kumera China	Prospective about future

Table 5.1 shows the motivations of the two case companies to enter Chinese market. Both companies agree that profit and foreign market opportunity are main motivations to enter Chinese market. And tax benefits, overproduction/excess capacity, unsolicited foreign orders, extend sales of seasonal products, proximity to international customers/psychological distance is not such motivation. Besides, management urge, technology competence/unique product and economies of scale motivate Restech

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Norway AS, not Kumera AS, to exploit Chinese market while competitive pressure and domestic market: small and saturated stimulate Kumera AS, not Restech Norway AS to enter Chinese market. In addition, each case company has one additional motivation. For Kumera AS is to have a sister company, which is Kumera China and for Restech Norway AS is the prospective about future, which means the company has a good expectation about the Chinese market in the future.

### **5.3.2 Approaches to Chinese Market**

*Table 5.2 Cross-case Analysis: Approaches to enter Chinese market*

<b>Entry Mode/Company</b>	<b>Kumera AS</b>	<b>Restech Norway AS</b>
Exporting to Package Builders	<b>Yes</b>	<b>Yes</b>
Exporting via Agents	<b>Yes</b>	<b>No</b>
Licensing	<b>Yes</b>	<b>No</b>

Table 5.2 illustrates the case companies' entry mode choice to Chinese market. According to the table, both case companies use exporting to package builders to enter Chinese market. The reason why they both chose this approach is because of the market trend that shipbuilders, ship yards and ship owners nowadays prefer to buy both propulsion systems and marine life-saving equipment by packages. This market trend makes it necessary for both case companies to cooperate with the package builders. Restech Norway AS has only one approach to enter Chinese market while Kumera AS also uses agents to export its products and licensing its sister company Kumera China to produce some of its products in China. Thus, Kumera AS uses more approaches to enter Chinese market compared to Restech Norway AS.

### **5.3.3 Influential Factor on Entry Mode Choice to Chinese Market**

*Table 5.3 Cross-case Analysis: factors that influence entry mode choice to Chinese market*

<b>Factor/Company</b>	<b>Kumera AS</b>	<b>Restech Norway AS</b>
<b>Internal Factor</b>	-	-
Firm Size	<b>Yes</b>	<b>Yes</b>
International Experience	<b>Yes</b>	<b>Yes</b>
Product Complexity	<b>No</b>	<b>No</b>
Product Differentiation Advantage	<b>Yes</b>	<b>Yes</b>

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<b>Desire Mode Characteristics</b>	-	-
Risk Averse	<b>No</b>	<b>Yes</b>
Control	<b>No</b>	<b>No</b>
Flexibility	<b>No</b>	<b>No</b>
<b>Transaction-specific Factors</b>	-	-
Tacit Nature of Know How	<b>No</b>	<b>No</b>
Opportunistic Behavior	<b>No</b>	<b>No</b>
<b>External Factors</b>	-	-
Socio-cultural Distance between Host Country and Home Country	<b>No</b>	<b>Yes</b>
Country Risk/Demand Uncertainty	<b>No</b>	<b>No</b>
Market Size and Growth	<b>No</b>	<b>No</b>
Direct and Indirect Trade Barriers	<b>No</b>	<b>No</b>
Intensity of Competition	<b>No</b>	<b>No</b>
Small Number of Relevant Export Intermediaries Available	<b>No</b>	<b>No</b>
Others	Market Demand and Market Trend	Market Demand and Market Trend

Table 5.3 displays the influential factors that have impact on each case company's entry mode choice to Chinese market. According to table 5.3, both case companies agree that firm size, international experience, product differentiation advantage and market demand and market trend have influence on their entry mode choice to Chinese market. Kumera AS doesn't regard product complexity, desire mode characteristics or external factors are such influential factors. Compare to Kumera AS, Restech Norway AS has two more factors of risk averse and socio-cultural distance between host country and home country in its group of influential factors on entry mode choice to Chinese market.

Besides, both case companies' internationalization process in Chinese market could, to some extent, be described by Uppsala Internationalization Model. In terms of relationship between motivations and entry mode choice, the motivation that Kumera AS has a sister company in China, to a certain extent, has impact on the company choosing licensing as one of the entry mode to Chinese market. As for Restech Norway AS, the motivation of technology competence and unique product makes the company's products have product differentiation advantage and then to some degree influence the company choosing exporting as entry mode choice to Chinese market.

**5.4 Summary of the Analysis**

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The within case analysis of the two case companies and the cross-case analysis between these two case companies provide a good overview of why they decided to enter Chinese market, how they entered Chinese market and what influence their entry mode choice to Chinese market. Besides, the analysis also compares the two case companies in terms of their answers to the research questions. Specifically, these two case companies have some similarities. When it comes to the motivations to enter Chinese market, both companies agree that foreign market (Chinese market) opportunity and profit are main motivations. Also, they are different in some aspects. For example, Kumera AS entered Chinese market relatively reactively while Restech Norway AS entered Chinese market proactively.

This analysis helps to look deep into the case companies in respect of their Chinese market entry strategies and provides summative answers to the research questions of this paper and also prepares for the findings and conclusions.

## **6. Findings and Conclusions**

In this chapter, the findings and conclusions of this study will be presented.

### **Motivations to Internationalization**

This study supports the theories that profit and growth goals, management urge, technology competence / unique product, foreign market opportunity, economies of scale, competitive pressure and domestic market: small and saturated could motive small and medium size companies to internationalize.

Besides, we discovered from this study that the big scale of foreign market is also a motivation that drives the SMEs to internationalize. The big scale of foreign market means a lot of potential market opportunities, which attract SMEs to internationalize there.

In addition, we found on this study that connections with organizations from host country could also stimulate SMEs to internationalize. These organizations could provide market information, inquiries from local customers and technical supports to the company and this makes it much easier and safer for the SMEs to internationalize. This connection could be either from corporate level or management networking.

Furthermore, this study shows that prospective for future of foreign market could also trigger SMEs to internationalize aboard. Having good expectations on the future economic situations of host country could also encourage the SMEs to enter that particular market.

### **Approaches to Internationalize**

This study supports the theory that SMEs prefer to use export mode to internationalize because of resources and capacity limitation. However, there are exceptions. SMEs might use contractual mode such as licensing when they have connections or networking there in the host country.

### **Influential Factors on Entry Mode Choice**

This study supports the theories of firm size, international experience, product differentiation advantage, risk averse, socio-cultural distance between host country

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and home country have impact on SMEs' foreign market entry mode choice. Different company might have different influential factors and also the same factor could have different impact on company's entry mode choice.

We found on this study that one of the main influential factors on SMEs' foreign market entry mode choice is firm size. Firm's size is an indicator of resources and capacity available. SMEs have limited resources and capacity, which restricts them to increase internationalization degree (i.e. market commitment) in foreign market. Thus, this study supports the theory that small scale of firm size has great impact on SMEs' foreign market entry mode.

Beside, on this study, we discovered that international experience has influence on SMEs' foreign market entry mode choice. However, international experience doesn't necessarily increase SMEs' internationalization degree as stated by some theories and studies. Instead, it could also have impact on which exporting intermediaries to use.

In addition, it is discovered in this study that current market demand and market trend could also influence SME's foreign market entry mode choice. Same as international experience, current market demand and market trend don't obviously increase SMEs' market commitments. Instead, they help to find out who should they export their products to.

On the basis of the findings mentioned above, we can draw some conclusions as followed.

- This study supports the opinions and theories that profit and growth goals, management urge, technology competence / unique product, foreign market opportunity, economies of scale, competitive pressure and domestic market: small and saturated could motive small and medium size companies to internationalize.
- This study discovers that big scale of foreign market, connections with organizations from host country and prospective for future of foreign market could also stimulate SMEs to internationalize.
- This study supports that SMEs prefer to use export as foreign market entry mode, but not necessarily.

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- This study agrees with the opinions and theories that firm size, international experience, product differentiation advantage, risk averse, socio-cultural distance between host country and home country have impact on SMEs' foreign market entry mode choice.
- This study shows that firm size is one of the main influential factors on SMEs' foreign entry mode choice.
- We found on this study that international experience and current market demand and market trend also influence SMEs' foreign market entry mode choice. However, they don't increase SMEs' market commitments but have impact on which exporting intermediaries to cooperate.



## **7. Limitations and Implications**

### **7.1 Limitations**

One of the major limitations in this study is sample type selection. The topic of this master thesis is about small and medium size companies' internationalization in terms of motivations to internationalize and influential factor on foreign market entry mode choice. However, both of these two case companies are small size companies and the medium size company is ignored. Thus, this research is more about internationalization process of small companies than small and medium size companies. The limitation in terms of sample type selection is one of the problems for this study.

Besides, sample quantity is another limitation for this study. In this study, the author only chose two case companies to study because the restrictions in terms of time, resources and personnel make it difficult to involve many companies as case companies. Even so, since companies differ in their internationalization process, it would be better to more companies to the study.

In addition, since this study is about small and medium size companies' motivations to internationalize and influential factors on foreign market entry mode choice, only choose companies within the maritime industry makes this study relatively biased.

Also, the author only conducted an interview with one person for each case company, which makes it difficult to study the case companies completely. Different people within the same organization could have different opinions about one issue and these different opinions could form a complete description. Case study only depends on an individual's opinion sometimes would cause of problem of bias.

Last but not the least, the findings from the case companies are not supported by statistical data, the results cannot be generalized and alleged for all SMEs that enter in a foreign market.

### **7.2 Implications**

It is highly important for the managers with SMEs to identify their main motivations to internationalize in order to decide whether to exploit foreign market or not. Besides,

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it is also significant for the managers to measure the importance of these internationalization motivations. If these motivations are of great importance, the managers should consider internationalization. However, if they are not so important, these managers might better think about risk reduction.

Beside, once the managers within SMEs decide to exploit foreign market, it is important for them to identify the influential factors on foreign market entry mode choice and decide which are significant to them. In addition, the managers should also understand the advantages and disadvantages of each type of entry mode. Combining the motivations to internationalize, influential factors on entry modes and advantages and disadvantages, the managers within the SMEs could decide the foreign market entry mode choice in a strategic way.

Finally, the managers within SMEs should also pay attention to the market demand and market trend, which could influence on the commercial mechanism and then companies' foreign market entry mode.

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## 9. Appendix

### Interview Guide

#### 1. First part, General question.

Q1. First of all, can you introduce briefly your company and main business?

- Year of established?
- Number of employees?
- Main business and products?
- Annual turnover?
- Ratio of export to China?
- Main competitors?
- Respondent name?
- Years in the company?
- Respondent's position in the company?

#### 2. Second part, questions about motivations to enter Chinese market.

Q2. What do you think of ship equipment market in China?

Q3. What are the motivations of your company to exploit China's ship equipment market?

Motivations examples:

<b>Proactive</b>	<b>Reactive</b>
<ul style="list-style-type: none"><li>● Profit and growth goals</li><li>● Managerial urge</li><li>● Technology competence / unique product</li><li>● Foreign market opportunities / market information</li><li>● Economies of scale</li><li>● Tax benefits</li></ul>	<ul style="list-style-type: none"><li>● Competitive pressures</li><li>● Domestic market: small and saturated</li><li>● Overproduction / excess capacity</li><li>● Unsolicited foreign orders</li><li>● Extend sales of seasonal products</li><li>● Proximity to international customers / psychological distance</li></ul>

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Q4. In addition to these motivations, is there anything else you think also the motivations of your company to exploit Chinese market?

Q5. Among these motivations you mentioned, which do you think are the main motivations?

Q. How would you rank these motivations?

Q6. Do you think your company decides to exploit the Chinese market proactively, or reactively?

### 3. Third part, questions about influential factors (and determining factors) on entry mode choice.

Q. How many foreign markets have your company entered before Chinese market?

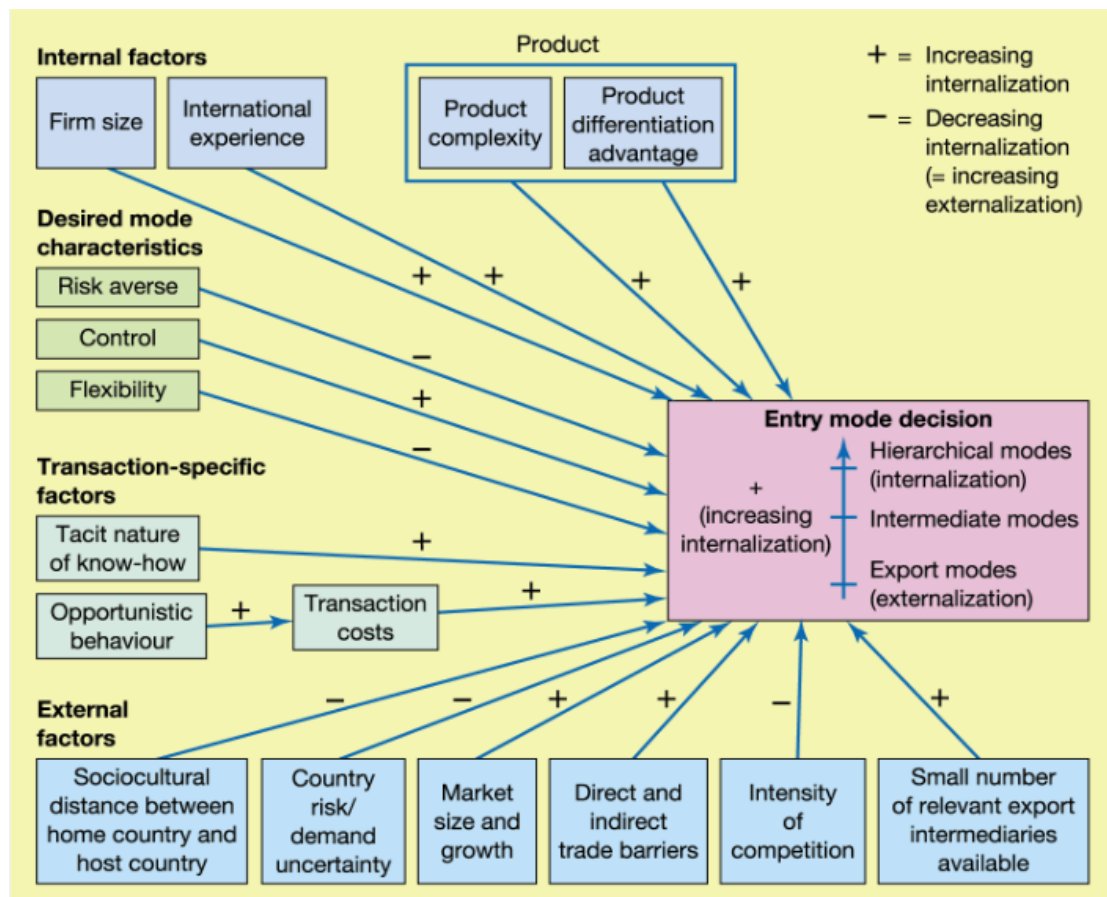
Q. How did you choose entry mode for these foreign markets?

Q. What do you think are the most important influential factors when deciding the entry mode for these foreign markets?

Q. Do you think these experiences have influence on your decision of entry mode for Chinese market? If yes, how?

Q7. What do you think are the influential factors on your company's entry mode choice for Chinese market?

**Influential factors could be:**



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Q8. In addition to these influential factors mentioned above, is there something else you think also affect the entry mode choice for Chinese market?

Q9. How do these influential factors you mentioned affect the entry mode choice for Chinese market in your company?

Q10. Among these influential factors you mentioned above, what do you think are the determining factors/or relatively more important than the others?

Q. How would you rank these influential factors according to their significance?