Bachelor thesis in Business Administration
Influential Factors of Foreign Market Entry Modes

A case of Swedish MNCs into the Chinese Market

Author: Berkan Basören & Michael Olugunna
Supervisor: Tao Yang
Examiner: Lena Bjerhammar
Subject: Business Administration
Credits: 15
ACKNOWLEDGEMENT

We are pleased to finally finish our Bachelor thesis. We would like to thank everyone who contributed to our thesis. First of all, we would like to thank our supervisor Tao Yang who guided us during all seminars. We couldn’t have finished our thesis without her assistance. We also thank Sabine Gebert-Persson and Lena Bjerhammar for their valuable suggestions to improve our thesis and Sarah Berglind who helped us with language and referencing.

Our special appreciation goes to the interviewees who dedicated their time to provide us with all information needed for this research: Tobias Hägglöv, Chief Business Analyst, Electrolux; Svante Lindholm, former Manager Sandvik China and; Helene Birknert, Head of Communications, Ericsson Sales and marketing.

Finally, we thank our families for their support and all of our lecturers during our studies.

“I am very grateful to God, for He is ever faithful to me. My gratitude goes to my family for their love, patience and support throughout my study period; I could not have accomplished this without you guys. I cannot but say a special thank you to Helen Holmquist and Monica Eriksson for their advice and words of courage, also to all my friends for their love and support. Olawale Abudu, you are a special friend” Michael Olugunna

May 2012

Berkan Basören and Michael Olugunna
ABSTRACT

Globalization has reduced the significance of geographical boundaries. Companies that successfully establish themselves in foreign markets experience many benefits. One of the key decisions in the process of foreign market entry is selecting market entry modes since selection of entry modes is a significant determiner in the success of company. Entry mode selection is influenced by external and internal factors. Therefore, company has to consider external and internal factors and choose the most appropriate entry mode which will maximize its chance to succeed in the chosen foreign market. The purpose of this thesis is to identify the factors that influence entry mode decisions of Swedish MNCs when entering the Chinese market. A research question regarding influencing factors in entry mode decisions is formulated. Root’s theory and Hollensen’s work on entry modes are presented in theoretical framework which is followed by conceptual framework where the theory and literatures used are summarized to provide clearer picture to the readers.

This research is a qualitative one and uses case study approach. Data regarding to entry modes and influencing factors is collected from three Swedish MNCs Electrolux, Sandvik and Ericsson through interviews. Our findings show that, in order to be able to control their products and business activities, the three Swedish MNCs investigated in this study used direct export and direct investment. However, joint venture is an alternative while the MNCs are spreading their business activities in China, as the Chinese government protects local businesses. Market size and the growth potential of the market inspired companies to enter China. Internal and external factors jointly influence the selection of entry mode into China. Among them, internal factors are less effective than external factors. Factors that influenced Swedish MNCs decisions in the selection of entry modes into China are mostly related to external factors: Chinese market factors; Chinese production factors and environmental factors are most influential ones.
# Contents

1. **INTRODUCTION** ................................................................................................................. 1
   1.1. Background .................................................................................................................. 1
   1.2. Chinese Market Overview ......................................................................................... 2
   1.3. Swedish business in China ....................................................................................... 3
   1.4. Problem Description ................................................................................................. 3
   1.5. Purpose ....................................................................................................................... 4
      1.5.1. Research question .............................................................................................. 4
2. **THEORETICAL FRAMEWORK** ......................................................................................... 5
   2.1. Entry Modes ............................................................................................................. 5
   2.2. Factors in Entry Mode Decision .............................................................................. 8
   2.3. Conceptual Framework ............................................................................................ 11
3. **METHODOLOGY** ............................................................................................................. 12
   3.1. Research Strategy .................................................................................................... 12
   3.2. Data Collection ....................................................................................................... 14
   3.3. Data Analysis ......................................................................................................... 15
   3.4. Reliability ................................................................................................................ 15
   3.5. Validity .................................................................................................................... 16
   3.6. Limitation ............................................................................................................... 16
4. **EMPIRICAL DATA** .......................................................................................................... 17
   4.1. Case 1 – Electrolux .................................................................................................. 17
   4.2. Case 2 – Sandvik .................................................................................................... 20
   4.3. Case 3 – Ericsson .................................................................................................... 22
5. **ANALYSIS** ...................................................................................................................... 26
6. **CONCLUSION** ................................................................................................................. 35
7. **REFERENCE** .................................................................................................................. 37

Appendices ................................................................................................................................. 40
1. Interview with Electrolux ................................................................. 40
2. Interview with Ericsson ................................................................. 43
3. Interview with Sandvik ................................................................. 46
1. INTRODUCTION

To start with, background will be presented in order for the readers to have a clear insight into the topic, followed by the problem description, purpose of this paper and finally, research question will be formulated.

1.1. Background

Globalization is a significant trend today. It is bringing the world closer. Geographical boundaries are disappearing. The companies that successfully managed to establish themselves on new foreign markets may experience a variety of benefits such as higher growth rate and higher profit margins.

Competition among firms is greater now than ever. The decision to expand business abroad and being able to compete in different foreign markets is the most valuable one for most firms. Even though most companies would prefer to remain local champions, the pulling factors from the foreign markets are just overwhelming (Kotler & Keller, 2006).

Multinational Corporations (MNC) are corporations that operate in more than one country (Pitelis & Sugden, 2000). According to International Labor Organization (2011), today 50,000 multinational corporations and their 450,000 partners employ more than 200 million people around the world. Some of MNCs are even larger than some countries in terms of sales and assets (Grauwe, 2002). Thus, they have a significant effect in world economy.

Expanding business coverage and maintaining a substantial market share even in foreign markets is the aspiration of most companies. With rapid communication, transportation, financial flows, the birth of World Wide Web, technological advancement and removal of international trade barriers among different countries, firms have been able to explore foreign markets easily and more successfully. The most conducive markets to enter are those where market entry and control cost are low; product and communication cost are low; established foreign firms are not setting high entry barriers (Kotler & Keller, 2006). The Chinese market was open and foreign investment was encouraged, in fact, MNCs operating in certain industries are given tax rebates, says Wang Li, Deputy Director of State Administration of Taxation (Xinhua News Agency September 28, 2006)
Having decided to target a particular country, the firm has to determine the most appropriate mode of entry. Entry mode is “an institutional agreement for the entry of a company’s products and services into a new foreign market” (Hollensen, 2008, p.200). Firms could gain access into foreign markets through different entry modes. Each entry strategy involves different level of commitment, risks and profit potential and control. Root (1994) states that there are three different strategies can be used for selection of entry mode. First, firms can use the same entry mode for every country. Second, firms can use “workable entry mode” for each country. And the last one is that firms can evaluate all possible entry modes and make the decision as a result of this evaluation.

In the process of selecting a foreign entry mode, there are a number of internal and external factors that influence the companies’ entry mode decisions. According to Hollensen (2008, p. 205) entry mode selection is the “result of several, often conflicting forces”. Therefore, firms should consider the factors both inside and outside the company and choose the entry mode that will maximize the profit.

China is Sweden’s largest trade partner in Asia, according to Swedish Chamber of Commerce in China (2011). China attracts foreign companies with its huge market potential which makes it the world’s biggest market for foreign investment. Many of the Swedish MNCs are successful in China. They are even appreciated for having good working environment, bringing new technology and high quality products to China -Swedish Chamber of Commerce, (2011). However, there are still some factors that limit the access to market and influence companies’ selection of entry modes.

1.2. Chinese Market Overview

People’s Republic of China is located in East Asia. It has 9.6 million square kilometers area which makes the country one of the largest country in the world. China is the world’s most populous country with its 1.3 billion citizens. Beijing is the capital city. Official language of the country is Mandarin, although many different dialects exist. (Chinese Government’s Official Web Portal, 2012)

More than 30 years ago, China has opened its economy to the world. After the death of socialist leader Mao, Deng Xiaoping put open door policy into practice. In 1978, after years of government control of all productive assets, the country adopted socialist market economy instead of centrally planned economy (Chinese Government’s Official Web Portal, 2012).
These reforms were undertaken to encourage foreign companies to enter the market and make investments in China.

As a result of economic transformation, China has become one of the world’s fastest growing economies. For the past 30 years, China saw an average growth of 9 percent while the pre-reform annual growth rate was 6 percent (Hu & Khan, 1997). This led to higher standard of living and bigger purchasing power in the country. Today, the Chinese economy is the world’s second biggest economy. The International Monetary Fund (IMF) predicted that Chinese economy will be larger than US economy in a few years.

1.3. **Swedish business in China**

China is one of Sweden’s largest trade partners in the world, and the largest one in Asia. Trade between China and Sweden is growing day by day. Despite the economic crisis, China has one of the fastest growing economies in the world and still attracts foreign investors. More and more Swedish companies are entering the Chinese market and according to the report from Embassy of Sweden in China, most of the existing Swedish companies are successful in China.

According to Business Confidence Survey conducted by Swedish Chamber of Commerce in China (2011), there are more than 10,000 Swedish companies that are doing business with China and 400 Swedish companies entered the Chinese market in 2011. Top earners among Swedish companies in China are industrial companies. Companies that are manufacturing and selling industrial products have the highest profit rates and market shares among other sectors (Swedish Chamber of Commerce in China, 2011).

Business Confidence Survey (2011) shows that, Swedish companies employ 75000 employees in China and 96 percent of employees are local people. Although the number of small and medium sized companies is higher than MNCs, 73 percent of total employees are employed by ten biggest Swedish MNCs in the market.

1.4. **Problem Description**

Entering a foreign market is always risky and selection of entry mode is one of the most important decisions for companies that consider entering foreign markets (Hill et al. 1990). China is one of the fastest growing economies in the world and it attracts foreign investors.
The reasons behind our choice of Chinese market are its market size, rapid economic growth and its attraction of foreign investment. China is also Sweden’s biggest trade partner in Asia. However, even though the chosen MNCs have great capabilities and resources, there are some factors that influence the selection of entry modes. There are numbers of researches with focus on market entry modes; but very little has been done particularly on Swedish MNCs and the influential factor behind their entry mode decision into China.

1.5. **Purpose**

The purpose of this thesis is to identify the factors that influence Swedish MNCs’ selection of entry modes when entering China. The aim of this thesis is to provide valuable insight for other Swedish companies when deciding on entry mode into such market as the Chinese.

1.5.1. **Research question**

What factors influence Swedish MNCs entry mode decisions to China?
2. THEORETICAL FRAMEWORK

In this chapter, relevant theories will be presented. These theories will help investigate and answer the research question. Market entry modes and the factors in entry mode decisions are described in this framework.

2.1. Entry Modes

According to Root (1987, p. 5), entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a foreign country”. Decision to enter a market is a very important long-term decision for companies. Selection of entry mode is the crucial step for company’s success in target markets. There are many internal and external factors that affect selection of entry modes and a company can use more than one entry mode at the same time. Different product lines may require different entry mode (Hollensen, 2008). There are a variety of ways through which a firm could expand its business activities into foreign markets. Entry modes can be classified into three categories: export modes, contractual modes, investment modes. Each of the entry modes requires different level of control, resource commitment and risks (Hill et al., 1990). Albeit, Yang (2004) argued that as firms mature and expand further into global markets, they will consider combining different market entry strategies, that is, the traditional market entry strategies will be treated as complementary strategies. This is obvious nowadays with the birth of more strategies like, co-production, different alliances and business relationships.

2.1.1 Export Modes

Export is one of the most traditional and common entry modes when entering international markets. It represents the easiest way for entering new markets (Belu & Caragin, 2008). With export, products are produced within the home country and transferred to target country directly or indirectly (Hollensen, 2008). Export mode makes it possible for companies to expand their business activities abroad with less risk, high flexibility, but also with low control. Export is divided into two types: direct export, indirect export.

**Indirect Export**

Indirect export means that company does not control its operations directly. Instead, an independent export company or agency handles export activities and carries products abroad.
Sales are handled in the same way as domestic sales since company’s products are sold by domestic intermediary and the company is not involved in foreign sales. There are five main examples of indirect exporting which are: export buying agent, broker; export houses, trading company, piggyback (Hollensen, 2008). Indirect exporting tend to be less risky since the company does not need to invest much, transportation and responsibility of damaged and loss products rests fully on local partner(s). Therefore, it is most preferred entry mode for companies with limited international experience and minimal resources (Wiedersheim, 1975). On the other hand, there is lack of control and less profit potential than direct export. According to Hollensen (2008), using intermediaries bring some risks such as products may be sold through inappropriate channels, with poor servicing or be underprice/overpriced or worse still, imitated which may tarnish the reputation of company.

**Direct Export**

With direct export, a company handles export activities directly through setting up its own export channels and sells directly to buyers in foreign countries. It includes export through agents and distributors. To undertake its own export, a firm should build up contacts; make a good market research; handle the documentation and transportation and design marketing mix strategies (Hollensen, 2008). Direct export provides a better control of operations in foreign markets. Profit potential is higher than indirect export since intermediaries are not really involved in direct export (Delaney, 1998).

**2.1.2 Contractual Modes**

Contractual modes, in other words intermediate modes are non equity agreements between the manufacturer company and a company in the target country. In this type of entry modes, contract is based on transfer of technology, equipment or knowledge (Root, 1994). What makes contractual modes differ from export is that firms may transfer knowledge and skills. Just like the export mode, there is also no full ownership involved; however control is shared between the parent firm and a local partner (Hollensen, 2008). Contractual entry modes include variety of arrangements such as franchising, licensing, joint venture, turnkey contracts, management contracts, co-production arrangements (Hollensen, 2008). Three main and most common contractual modes are licensing, franchising and joint venture (Hollensen, 2008) each of which is further explained below.
Licensing
Licensing is the method of entry in which licensor grants the rights to licensee to use its intangible business components such as patent of product and process, know-how, marketing and technical advices, and trademarks in exchange of fee (Hill, 1990). Licensing provides access to foreign markets at little risk and little cost since it requires just a little investment. Licensee bears most of the cost for opening and serving the foreign market. It means that licensee owns all revenue generating assets which means that resource commitment of mother company is low (Hill, 1990). Licensing is attractive mostly when the host country restrict foreign direct investment and also if the market is small (Belu & Caragin, 2008).

Franchising
Franchising is a foreign entry mode in which franchisor grants right to franchisee to use its business model, trademarks, expertise in exchange of money. It is similar to licensing but in franchising, franchisee must follow franchisor’s instructions related to business model (Belu & Caragin, 2008). Franchising is more common in the United States where one third of retail sales are derived from franchising (Hollensen, 2008). Franchising is a good method for investors with little or no business experience. It allows for investors to use the brand name which is well known and the synergy is that resources required for marketing is minimal. From the franchisees stand point however, one of the limitations of this entry mode is that franchisees are not completely independent. There are some procedures and requirements by franchisor which must be followed (Belu & Caragin, 2008).

Joint Venture
Joint venture is a partnership between two parties. Technologic and management skills of partners and access to distribution channels attract companies to use this entry mode. International partners can also increase the speed of the market entry process (Hollensen, 2008). In an attempt to protect local businesses, some countries may have tougher regulations towards foreign investment, so joint venture is an easy way of entering such market. The problem with joint venture however is that since there are two different companies with different management styles and culture and by implication, building good relationship may take longer time (Hollensen, 2008).
2.1.3 Investment Modes

**Foreign Direct Investment**

According to Kotler & Keller (2006), investment modes are one of the entry modes in which investor has ownership of facilities in target country through buying a local company or building its own facilities. Investment modes also known as hierarchical modes are most suitable entry modes for investors who want great control over its resources and activities (Hollensen, 2008). Resources such as capital, technology and staff are transferred from home to target country. It gives company a great control of its activities in a foreign market. It also provides companies with better knowledge of customers, business environment and local suppliers. However, this type of entry mode might not be suitable choice for small businesses or investors, because it requires great resources and capabilities to enter and succeed in a foreign market (Hollensen, 2008).

2.2. **Factors in Entry Mode Decision**

Root (1994) developed an entry mode selection model to determine factors that influence selection of entry modes. The idea is that choice of entry modes is dependent on several factors. These influencing factors are categorized into external and internal factors. The external factors are factors outside the company which cannot be controlled by the company while the internal factors are controllable factors within the company.

2.2.1 External Factors

According to Root (1994), there are four external factors that influence choice of entry mode: “Target country market factors, Target country production factors, Target country environment factors, Home country factors.”

**Target Country Market Factors**

Market size of the target country is one of the key determiners to entry mode selection. In large markets with high sales potentials, entry modes with high breakeven sales volume are used by companies. These entry modes include branching, subsidiary exporting and equity investment in local country (Root, 1994). In contrast, in small markets, entry modes with low breakeven sales are expected such as indirect distributor exporting and licensing agreement (Hollensen, 2008). Competitive structure of the target country is another important factor that
influences selection of entry modes. The greater the intensity of competition, the more the company will favor low resource commitment entry modes such as exporting (Hollensen, 2008)

**Target Country Production Factors**

Root (1994) states that the cost, quality and quantity of labor, raw material, energy and the economic infrastructure in the target country are important factors when selecting entry mode. In the countries with high production cost, exporting is a suitable market entry mode. On the other hand, in the countries with low production cost local production is encouraged.

**Target Country Environment Factors**

Target country environment factors consist of political, economic and socio cultural environment of the target country. The political factors are government policies and regulations which highly affects the selection of entry modes. For instance, in the countries with some barriers such as high tariffs and strict import regulations, export is not appropriate way to enter market. Geographical distance is another important factor since if there is a great distance between Sweden and China, transportation costs are higher, thus could discourages export. That might be among the reasons why Sandvik and Ericsson switched more to direct investment. The economy of the target country can also affect the entry mode selection. For example, entering a market through direct investment is not all that easy in the countries which have centrally planned economies, as a result of this; non-equity exporting and licensing agreements are the most common ways to enter that kind of countries (Root, 1994).

Cultural distance is a factor as important as geographical distance. Socio cultural differences between two countries can create uncertainty for the firm and this could influence the entry mode decision (Hollensen, 2008).

**Home Country Factors**

Home country factors are market, production and environmental factors in the home country which influence selection of entry modes. If the production cost in the home country is high, then the company will choose entry modes such as licensing, contract manufacture and investment (Root, 1994). The market size, competitive structure and government policies of the home country are other factors that are part of the home country factors. If the market size of the home country is big, then the company is expected to grow big before entering a new
market. Large companies are more likely to enter the market through direct investment. However, in the countries with small market size, the company often chooses export entry modes to increase its size (Root, 1994).

2.2.2 Internal Factors

Root (1994) states that there are two internal factors that influence companies’ entry mode decisions: Product factors and Resource commitment factors.

Product Factors

Highly differentiated product has an advantage over competitor’s product and gives sellers a degree of price discretion. This kind of product will gain demand in spite of the high price (which may be due to high transportation costs). On the other hand, a poorly differentiated product must compete on price basis. Therefore, export is the most suitable entry mode for highly differentiated product while local manufacturing through equity investment or contractual arrangement can be used for products which are not differentiated (Root, 1994). If the product is intangible, in other words service, then the company must make a decision about how to perform it in target country. As in franchising, local companies can be trained or service can be sold directly under the contract with foreign customers. Setting up branches and subsidiaries are another options for firms.

Resource Commitment Factors

Commitment of a firm is one of the key factors in the selection of entry mode. Root (1994) states that if a company has great amount of resources such as technology, production, management and marketing skills as well as strong resources commitment, it has the possibility to choose from a wide range of entry modes. On the other hand, companies with limited resources and weak commitment have limited entry mode options (Root, 1994).
2.3. Conceptual Framework

According to Miles & Huberman (1994, p.18) “conceptual framework explains the main elements and concepts to be studied, either in a graphical or narrative outline”. In this section, most important concepts that discussed in theoretical framework will be presented to provide readers a clear understanding of the theories used in this thesis.

Hollensen (2008) classifies entry modes into three groups. Each of these groups contains different kind of entry modes.

- Export Modes
  - Direct Export
  - Indirect Export
- Contractual Modes
  - Licensing
  - Franchising
  - Joint Venture
- Investment Modes
  - Foreign Direct Investment

To answer our research question, Root’s theory on factors that influence choice of entry modes is used in this thesis. Root (1994) classifies influencing factors as internal and external factors: there are four external factors that influence company’s entry mode decisions.

- Target country market factors
- Target country production factors
- Target country environment factors
- Home country factors

Root (1994) explains that there are two internal factors which influence company’s entry mode decisions.

- Product Factors
- Resource Commitment Factors
3. METHODOLOGY

The process of a good research is not dependent on a set of rules as to what is right or wrong but rather on the ability of the researcher(s) to make strategic decisions on the most suitable approach and method of data collection to apply (Denscombe, 2007). Regardless of what approach or method, individual method has its own benefits and weaknesses (Benbasat et al. 1987). There is no “one right” strategy to a social research, however some approaches are more appropriate for a specific kind of problem, considering the nature of the study (Denscombe, 2007, p.3). This study requires in-depth analysis and a clear description of the preferred entry modes and influential factors behind the decision of Swedish MNCs in their expansion to the Chinese market and in order to get qualitative and well detailed information, case-study is the most suitable approach, in the sense that focusing on just a few (selected) Swedish MNCs among many that are operating in China with a view to provide in-depth account of their entry strategies into the Chinese market is a characteristic feature of the case study approach (Denscombe, 2007). Benbasat et al. (1987, p.369) also added that case study is particularly appropriate for researches related to “practice-based problems where the experiences of the actors are important and the context of action is critical”.

3.1. Research Strategy

“Case study approach is the most appropriate one when researchers are willing to investigate the research problem in depth and provide an explanation” Denscombe (2010, p.55). “A case study examines phenomenon in its natural setting, employing multiple methods of data collection to gather information from one or a few people, group, or organizations” (Benbasat et al. 1987, p.370). Rather than using a single case study, multiple case studies were used in this research so as to increase the effectiveness of the research and provide better results. Benbasat et al. (1987) supports the idea of using multiple-case in this kind of study, as the intent of the research is descriptive. Three Swedish MNCs which are among the largest companies in Sweden were selected to identify their entry modes and factors that influence their entry mode decisions into the Chinese market.

The primary aim of case study is to be able to reveal the complexity of a given situation by concentrating on one or few selected cases rather than general. Albeit, case study is most suitable to the scope and scale of this research because there is no “one perfect” source of
data collection but rather, case study allows for the use of multiple sources of information and is opened to several methods in relation to the situation studied (Denscombe 2007).

The choice of selecting Electrolux, Sandvik, and Ericsson among hundreds of Swedish companies present in China that are being investigated is based on their distinctive attributes: the chosen MNCs are among Sweden’s largest companies and have been operating in China for decades. Each of these companies has more than 50,000 employees to its name; is among the biggest winners of Swedish MNCs in China and have a great knowledge of the market. Besides that, “You need sufficient access to the potential data, whether to interview people, review documents or records, or make observations in the ‘field’. Given such access to more than a single candidate case, you should choose the cases that will most likely illuminate your research question” (Yin 2009, p.26). Otherwise it’s advisable to consider changing the research questions, hopefully leading to new candidates to which you do have access.

Condition to the selection is the assumption that information gather in this study would be useful for other Swedish firms planning to extend their business activities into the Chinese market in the future, so case study justifies such selection. Case study is selected because it is more convenient, requires less resources; it involves the least travel, and it is the least expensive. The companies selected in this study are extreme instance, that is, notably large Swedish multinational corporations (top players in their individual industry) were selected and the justification for the selection is that the effect of “size” (Denscombe 2007) becomes more evident than when using average companies.

However, it is imperative to acknowledge that this thesis may face skepticism, some of the readers may doubt if the companies selected are proper representatives of the case; they might even question if the result of this research could be generalized on the basis of the few companies investigated. (Hammersley, 1992; Ragin & becker, 1992, Yin, 1994) as sited in (Denscombe 2007) that even though some of the companies are unique, each of them is a single example of Swedish multinational corporations operating in China. Provided that the findings from these three selected companies are sufficiently detailed enough, it could give rich implication to other Swedish MNCs of similar sphere and operating in China (Denscombe 2007).
3.2. Data Collection

According to Yin (1994), there are two types of data. He classifies the data as primary or secondary data. Secondary data are the data collected by someone else rather than the researcher and it is one of the easiest ways to access information. Primary data is a more reliable way of data collection since the researchers collect the data by themselves and know the source of the data (Sachdeva, 2009). Although some of the data were gathered from secondary sources, most part of the data used in this study is primary data gathered by us. Denscombe (2010) states that there are four main data collection methods for social researches: “interviews, documents, questionnaires, and observation”. Each of these methods has its own advantages and disadvantages. None of the methods can be considered as perfect or ineffective (Denscombe, 2007).

In order to fulfill the research purpose and answer the research question, gaining insights into such things as people’s (the selected companies’) experience and opinion is a necessity, so interviews is likely the most appropriate method, because an in-depth interview helps in gaining “privileged information” from key players (people in the best position to know) when it comes to sensitive issues that are more personal (different company with different strategies), the interviewees are more open to share their experiences and opinions in such a detailed and honest manner than simple “yes or no” response (Denscombe 2007).

Interview is chosen as means of data collection basically because prior to this research we have had a number of positive encounters with different Swedish companies which proved openness and transparency in their operations and the possibility of gaining access to the prospective (companies) interviewees. To this end, semi-structured interviews questions were carefully designed in a flexible manner relating to the research to enable interviewees develop ideas and speak more broadly on their companies’ expansion to China and the underlying conditions to their entry strategies. The aim of these interviews is to help unravel the influential factors behind the companies’ choice of entry modes. However, unlike the structured interview, semi-structured interview allows the interviewees to develop their own thoughts and share their experiences and opinions regarding complex issues as entering any new market (Descombe 2007).

In selecting the informants for the interview, a formal letter was sent to the Head offices of the three selected companies by the authors requesting contact to the appropriate and
Influential Factors in Foreign market Entry Modes

(Berkan Basören & Michael Olugunna)

authorized persons in relation to this research. In the letter, we were able to persuade the companies that the research is a “bona fide” one and is conducted as a requirement for a Bachelor Degree at Högskolan Dalarna. This shows that the researchers are ‘trustworthy’ and ‘capable’ (Denscombe 2007). The letters were forwarded to authorized persons in the companies who are, according to them in the best position to provide the researchers with detailed information on the expansion process. (Tobias Hägglöv, Chief business Analyst for Electrolux; Svante Lindholm, Former manager of Sandvik China; Helene Birknert, Head of Communication, Ericsson Sales and Marketing).

The three representatives were in a tight schedule at the time of this research but were willing to schedule a telephone interview and provide detailed information needed for this paper. The interview process was recorded upon the interviewees’ approval and notes taken. Transcribing audio recording of the interviews was much easier with the help of (telephone call recording) applications on the new technology mobile phones. Albeit, follow up calls were made where necessary in order to check the accuracy of the data gathered from the interviews.

3.3. Data Analysis

With a qualitative approach to this study, an in-depth analysis of the situation is done in this research in order to get more than general thoughts about the topic. The idea here is to expose some general principles that can be used to explain the nature of the findings in the research and can be applicable elsewhere to other situations (Denscombe 2007, p.331). Primary data is thus gathered from the authorized representatives of Electrolux, Sandvik and Ericsson respectively.

3.4. Reliability

In an attempt to fulfill the requirement of a good research, it is important to measure the reliability of the research instrument. Reliability is the consistency of a measure of a concept, according to (Denscombe, 2007, p.334) “researchers need to feel confident that their measurements are not affected by a research instrument that gives one reading on the first occasion it is used and a different reading on the next occasion when there has been no real change in the item being measured”. For the purpose of this study, the same interview questions were asked to different interviewees at different occasions and each of them shared the company’s experience. The reason is that the three companies are from different industries.
and the respondents might have different opinions and experience as regards their Chinese market entry process. In measuring the reliability of the data gathered from the interviews, as mentioned in 3.2, follow-up calls were made to the respondent to cross-check and confirm their responses.

### 3.5. Validity

Interview questions were designed in relation to the research purpose and the idea is to give the reader an insight into the opinions and experience of the respondents as far as market entry mode decision is concerned. Validity is the extent to which the research data is accurate, honest and relevant with the methods for obtaining the data (Denscombe 2007). The idea is to measure if data from interviews with the three Swedish MNCs representative is sufficient enough and is yielding accurate result. The respondents are professionals and company’s representatives who are involved and well experienced in expansion process of their individual companies; however the validity of this research is therefore based on the simplicity of the interview questions and impartial analysis of the data.

### 3.6. Limitation

Since “New market entry modes” is a broad area to research on, this paper focuses on the influential factors behind the entry modes decision of three Swedish MNCs. In spite the justification made earlier in 3.2 as regards the selection of only three companies; and assumption of the informants’ credibility, we however acknowledge that this research is not a perfect one as it only investigated three MNCs out of thousands of Swedish firms in China. Electrolux, Ericsson and Sandvik have strong reputation and financial capabilities, so “influential factors” to their entry mode decisions might be different to those of Swedish Small and medium sized enterprises in China. It is equally important to admit that we cannot boast of accuracy of the information gathered from the respondent but it is only assumed that they are knowledgeable enough since the companies assigned them to us as representatives.
4. EMPIRICAL DATA

In this chapter, the data collected from the three companies are presented. First, background of each case company is introduced and then the data collected through interviews is presented.

4.1. Case 1 – Electrolux

Background

Electrolux is a well-known brand when it comes to home appliances and appliances for professional use. The company was founded in 1901 as AB Lux, with its Headquarters in Stockholm. It was gathered from its webpage that as at March 2012, Electrolux is operating in 150 countries and selling more than 40 million products to customers every year. Electrolux produces wide range of products such as vacuum cleaners, air conditioners, dishwashers, refrigerators, washing machines and cookers. These products are sold under different brands such as Electrolux, AEG, Eureka and Frigidaire. In 2011, the company’s sales reached 102 billion SEK and the number of employees is 58,000 (Electrolux, 2011). The current slogan of the company is “Thinking of you” which demonstrates the company’s customer centered focus. The mission of the company is to become a global market leader in appliances (Electrolux 2012).

Electrolux’s presence in 150 countries shows that the company is experienced when it comes to new market entry strategy. “Electrolux strategy is to create sustainable solutions by pursuing business opportunities created as a result of changes in legislation and consumer preferences”(Electrolux, 2012). The success of Electrolux is attributed to the combination of its innovative products and quality brands in the premium segment and proper utilization of its global strength. The diagram below presents Electrolux strategy, the model shows the company’s strategic plan even prior to the China entry.

Figure 1 Electrolux’s New Market Entry Strategy

Strategy for profitable growth.

(Workers, 2009)
The company has been operating in China since the mid-1990s, so we decided to establish a contact with them in order to have access to a member of the group who is acquainted with the expansion process of the company particularly into China. We were connected to Tobias Hägglöv who is the Chief Business Analyst, Electrolux Investor Relations. We assume he is competent enough to help us unravel the influencing factors resulting to Electrolux decision on entry mode into the Chinese market. Interview questions were sent to him through the email interview was done on the 28th of March, 2012.

The Chinese Market Entry

Electrolux made its first entry to the Chinese market in the mid-1990s. The company was growing and intended to constantly strive for top position in the market and according to Hägglöv (interviewee from Electrolux), the intention of Electrolux was to create values for shareholders and one of the ways to achieve that was to increase economy of scale. At that time, the best option was to enter the Chinese market. Hägglöv continued that China today is the largest manufacturer of household appliances in the world and one of the largest markets in terms of high sales potentials. So, to be a global player in the appliance industry, you need to be present in China. The reason, he says, is that China is such a huge market in terms of size and is full of potentials that all top players in different industries are willing to explore.

Prior to the entry decision, Electrolux had made a number of researches on the Chinese market. Assessments were made on the market size, potentials in the market, that is, growth of the market was monitored and future growth was projected. There were underlying market expectations among of which is that customers in China would step up and able to buy the expensive and premium products and thus the market share of European products would increase. At the time of Electrolux’s entry into the market, there were already about 80 both local and multinational producers of home appliances in China. When Electrolux entered the market, its exposure to China was very small at the beginning.

Company faced some challenges in the market such as fierce competition, unbalance between retailers and producer. There were dominant players in the retailing thus there was no balance between them and producer and the implication was that the retailers have dominant power towards determining product prices. Getting a space to set up own plant was an issue, company were offered temporary site. That, according to Hägglöv had impacted the structure
of Chinese market for a long time. Electrolux has stopped selling to retailers in rural areas of China and set more focus on middle-class in major cities, through successful launch of new products. Electrolux increased its sales in China by approximately 30% in 2011.

**Entry Mode**

Electrolux entered the Chinese market through direct investment. Although it started small, Electrolux have always been in control of the production. Total production volume was not huge but it was not too small either. The entry mode decision to the Chinese market is the same to virtually all the markets where Electrolux is present. Although Hägglöv claims that there is some exception depending on their goal in an individual market. For instance, Electrolux produces in Poland and sell it in Germany, produce in Mexico and sell in the US. Electrolux is neither in the franchising business nor joint ventures. They are using licensing in India. They believe that licensing is rough but it is however aggressive, if a company wants to become a large player in a country, Hägglöv suggests that it is not logical to use licensing. Even in India, Electrolux make the production themselves in most cases.

Electrolux’s goal in the Chinese market was to be present and maintain highly competitive advantages in the market. They believe that they have achieved that goal so far since they are present and have a strong platform in the market, they chose the most suitable entry strategy in the sense that the company wanted to be highly competitive in the global market and so could not neglect the importance of such emerging market as China. Hägglöv added that entering through Direct Investment was the most appropriate if a company chooses to protect their products and exercise full control of the entire operations. Although they have achieved that goal, when it comes to profitability, Electrolux have not done so well in China. Expectations in this regards was higher than what they are actually experiencing and one of the problems is that Electrolux has had higher challenges than expected in the Chinese market, the challenges have less to do with the mode of entry but more to do with the presence and operation in the Chinese market coupled with competition.

**Influencing Factors**

According to the Hägglöv, if a company is a multinational corporation, it needs to increase its sales and China is the best option since it was expected to grow substantially. In order to create value for shareholders, companies have to explore new markets with high growth potential. The Chinese government had opened its economy to foreign investment. Internally, Electrolux was willing to explore such emerging market as China. Although the political
environment in China did not present an easy entry into the market, Electrolux believes that in order to actually become a global player and to enhance the global strength, expanding to China was a right decision. When you are in market you expect competition but for Electrolux, creating stockholders values was their main priority.

Hägglöv says the company believes that direct investment was the most suitable choice in China but the market was tougher than expected. According to him, China has been a very tough market both for Electrolux and many companies. Electrolux faced many challenges but it wasn’t solely due to the entry mode decision, but rather the competitive structure of the market. Hägglöv shared his opinion from experience that be successful in China, as a firm or company should either have a very high volume of products, or very high in the price with premium products with high selling.

4.2. Case 2 – Sandvik

Background

Sandvik was established in Sweden in 1862 by Göran Fredrik Göransson. Sandvik is a high-technology engineering group that operates in 130 companies. Annual sales of the company are more than SEK 94 billion and the company has 50,000 employees worldwide, according to Svante Lindholm (respondent from Sandvik). Headquarter is located in Sandviken. The company is divided into five business areas: Mining, Machining Solutions, Materials Technology, Construction and Venture. Sandvik manufactures high quality products and product development is carried out in cooperation with customers. Quality is the main principle in global markets. Sandvik’s five largest markets in terms of sales are USA, Australia, Germany, China and South Africa. Recent press release (Sandvik, 2012) shows that as of 2012, the company implemented a new strategy to strengthen its market leadership. The company’s goal is to reach world-class performance in all five business areas and to create the highest shareholder value. They focus to strengthen their position in the markets they operate as well as increasing profitability.

Upon our request from the Sandvik in China to provide us with a member who is well acquainted with the company’s entry to China, we were contacted by Svante Lindholm who has been working with the company since 1981 and was the President of the Sandvik China Ltd Subsidiary since January 2005 until he retired in October, 2011. We therefore have no
doubt that he is knowledgeable enough to provide us with adequate information as regards influential factor that behind the decision of the company’s entry mode into China.

The Chinese Market Entry

Sandvik have been present in China since 1989 and in 1994 first factory was completed. The main reason for company’s entry into China was to reach the local market. According to company’s representative, they didn’t have any preliminary assessment of the Chinese market. They believe that about 20 years ago, it wasn’t so easy to make a successful survey of the market. The company started in small scale which gradually grew to what it has become today. Today, Sandvik has 3500 employees in China and with a turnover of 6billion. There were no significant challenges before the entry, however just like any other company face a number of post entry challenges. Some of which are the protection of the Intellectual Property; finding the right human resources, and frequent change in legislation.

Entry Mode

It was gathered from the interview with Lindholm that Sandvik entered the Chinese market through 100% direct export. Sandvik has been independent and in the control of the export process. The products were made in Sweden then shipped to China. However, in 1994 Sandvik succeeded in direct investment by acquiring its own factory in China. Sandvik use the same entry mode, regardless of the market. Lindholm added that Sandvik operates in almost all the markets in the world today and the entry mode has been relatively the same. Even though adjustment is made where required, the entry mode is basically direct exportation. According to the Lindholm, selected entry mode is most suitable one for Chinese market; Sandvik couldn’t have used a better mode. The goal of Sandvik was to experience the same market sales in China as in rest of the world. They believe that they have achieved their goal in Mining and tolling but so far not on material technology.
Influential Factors in Foreign market Entry Modes

(Berkan Basören & Michael Olugunna)

Lindholm believes that there was no internal factor per se, and that the decision on entry mode was just a strategic one based on the projection that China will become a great market in the nearest future. They took the chance and obviously it pays off. China opened its market to the world and the company was able to see the potentials the market has and saw the possibility that China would become a very strong market. That was early so competition was not a push factor.

4.3. Case 3 – Ericsson

Background

Ericsson was established by Lars Magnus Ericsson in Stockholm in 1876. The business started out as a telegraph repair shop. Ericsson is one of Sweden’s largest MNCs and a world-leading company in information and communication technology. From company fact (Ericsson, 2012), it is gathered that Ericsson operates in 180 countries. With its headquarters located in Stockholm, the company has five business segments while two of them are joint ventures Sony Ericsson and ST Ericsson. Main three business segments are Networks, Global Services and Multimedia. Company is market leader in all of its three business segments (Figure 2). As of 2011, Ericsson has 104,000 employees worldwide and net sales of the company is SEK 226 billion. The vision of the company is “to be driver of an all communicating world”. Ericsson’s mission is “empowering people, business and society” (Ericsson, 2012).
Prior to the interview with Helene Birknert who is the Head of Communications, Ericsson Sales and Marketing, the interview questions had been sent to her so she was familiar with them before she scheduled an interview. We could rely on the information gathered from the interview since the interviewee (Helene Birknert) just like the other two interviewees was assigned to us by the company headquarters as someone who is well experienced and involved in the company’s marketing.

The Chinese Market Entry

Ericsson made its first sales to China in the 1890s through telephone sales of Gustaf Öberg (Ericsson 2012) who at that time was managing director of the Shanghai Mutual Telephone Company Ltd. It was gathered from the interview with Birknert that the First World War struck the progress of Ericsson in China. Between 1947 and 1976 the Chinese market was not open to foreign investment, several attempts were made after the war but there was no success.

Later, towards the end of the 1970s, the ruling Communist Party gradually opened the market to foreign investment. Summary from the 1976 operation (Ericsson 2012) shows that Ericsson tried again to re-enter the Chinese market with the sales of AXE stations to China through direct export and it was successful. The reason of entering the Chinese market was the potential of the market which was the discovery of Gustaf Öberg, who also predicted that Ericsson was going to become a leader in Information and Communication Technology. Since...
the market was closed for about 30 years, Ericsson’s assessment of the market rested on their progress in China before the World War I. Ericsson acknowledged the enormous market size and the prospects of the market. The World Wars were the company’s setback; however, most of the challenges were related to laws and regulations when market was reopened according to Birknert.

**Entry Mode**

The first entry mode of Ericsson to China was direct export in 1890s. After China has opened its market to foreign investment, Ericsson established representative office in China in 1985 (Ericsson 2012). In 1994, company established a local company in China. After a few years, China became the largest market of Ericsson. The company also set up joint ventures with some production companies in order to maintain its competitive advantage. Ericsson use different entry modes for different countries (Ericsson history, 2012). According to Birknert (Head of communication, Ericsson sales and marketing), Ericsson starts up its business with a representative office, direct exports or joint ventures. For instance, Ericsson made its entry to Korean market last year through joint venture with LG. Initially with 50/50+1 share split, recently Ericsson expanded its share in LG Ericsson to 75%. In Taiwan, Ericsson entered the market also through setting up joint venture with a local company. The company operates in China for many years and believes that it has achieved its goals so far since Chinese market is one of Ericsson’s top 2 markets. Birknert added that the company’s history and presence is a strong competitive asset. Today, Ericsson have R&D facilities, production plants, joint ventures of different kinds; all serving their role in order to continue to grow its business in China.

**Influencing Factors**

The internal factor that influenced company’s entry to China was its goal of being the prime driver in all-communication world. Internally, the company had financial, managerial and production capability; with strong desire for growth. The demand from Shanghai through Gustaf Öberg in the 1890s revealed the potential of the market. The 1976 annual report (Ericsson, 2012) shows that in the late 70s, when inflation was inevitable in many markets; competition became stronger and labor cost was increasing simultaneously in Sweden when China adopted the open door policy; its economy was opened for foreign investment. Ericsson had positive experience prior to World Was I so the open economy was a strong pull factor for them back to the Chinese Market. In spite of the “open door policy”, regulatory measures
were taken by the Chinese government to limit FDI in order to strengthen the local businesses at the same time, so direct export or joint venture with local firms was the smartest move, says Birkner.
5. ANALYSIS

In this section, analysis of the collected data is presented to provide readers a clearer understanding of data collected through interviews and to answer the research question. Theories in theoretical framework are applied to data gathered from three Swedish MNCs in China.

5.1 Entry Modes

Selection of entry modes is a crucial step when a company is planning to enter foreign markets. To fulfill the purpose of this research, data gathered from interviews with the Swedish case companies will be analyzed in following section. Hollensen (2008, p.215) classifies entry modes into three categories which are “export modes, contractual modes and investment modes”.

Export Modes

Direct Export

Two of three case companies, Sandvik and Ericsson made their first entry through direct export although both of them are using direct investment today. Ericsson made its first entry to China in 1890s through telephone sales. However, since it was more than 100 years ago, it might not be a good example for today’s world. After China put open door policy into practice, Ericsson re-entered the market through direct export again. That time, AXE stations were exported to China. To what may be called a similar trend, Sandvik made its first entry through direct export in 1989. During the interviews with Ericsson and Sandvik, it was made known that the reason behind selecting direct export is companies’ will to be independent and in the control of their operations. According to Delaney (1998), direct export gives companies great control of activities as well as a higher chance of profit since intermediaries are eliminated. However, it requires good contacts and ability to handle transportation and documentation (Hollensen, 2008). For this reason, direct export suits large companies like the case companies used in this study.
Influential Factors in Foreign market Entry Modes  
(Berkan Basören & Michael Olugunna)

Contractual Modes

Joint Venture

Joint venture is a form of partnership between two parties. Among the three companies studied, Ericsson used joint venture in China, not as primary entry mode but in their expansion within the Chinese market, and the rationale was that collaborating with local businesses/firms was a smart idea, since even though the market was opened to foreign investment; the Chinese government’s regulations reflected much interest in the local businesses. Although joint venture doesn’t give independence as much as direct export and direct investment, however Ericsson entered into Joint venture with many local partners (Birknert 2012), particularly, production companies since the Chinese government requires local manufacturing. The joint venture with Nanjing Panda electronics for example played a role in the growth of Ericsson in China, and by 2003, Ericsson already had 16 joint ventures in china (Zhang & Pearce, 2011).

It was gathered from Sandvik’s annual report that the company signed a 50/50 joint venture agreement with Shandong Energy Machinery Co. which was expected to be operational at the end of 2011 with focus on assembling, sourcing, sales and service of roadheaders for the large Chinese coal mining market. In the agreement, Sandvik is responsible for contributing product know-how and technology while Shandong Energy Machinery Co. is to take care of customer application knowledge and local sourcing. The main aim of the joint venture was to become the leading premium roadheader supplier to Chinese coal mining market (Sandvik 2012).

Investment Modes

Foreign Direct Investment

According to Kotler & Keller (2006), in foreign direct investment entry mode, investor owns the facilities through buying a local company or building its own facilities in the target country. In spite that Ericsson and Sandvik made their first entry into market through direct export, today all three Swedish case companies use foreign direct investment. In the case of Ericsson for example, the long-term experience in the evolution stage of China telephone and communications infrastructure justifies why the company was eager to re-enter when the market was open to foreign investment (Zhang & Pearce, 2011). In 1994, Ericsson established a local company in China and supported China in the transition from digital phone to the 3G
mobile system. Ericsson has about half of the market share for mobile system and about 10 percent of the fixed network (Ericsson 2012). As at August 2003, Ericsson already has four wholly owned companies in China (Zhang & Pearce, 2011).

Sandvik on the other hand completed its first factory in China in 1994 after five years of direct export. During the first five year of Sandvik’s operation in China, their products were produced in home country (Sweden) and shipped to China; the reason according to Lindholm, former manager of Sandvik China is protection of intellectual properties and scarcity of “right human resources”.

Electrolux is the latest entrant to market among three case companies. During an interview with Chief Business Analyst, Tobias Hägglöv, he stated that Electrolux started small in China but was always in control of its production. He believes that entering through direct investment was best choice to protect their products and be in control of the entire operations. Direct investment gives companies a great control and effect over resources and activities as well as knowledge of market, local suppliers and potential customers. However, just as direct export, it suits large companies since it requires great resources and capabilities to enter and succeed in a foreign market (Hollensen, 2008). Since three case companies in this study are among the largest companies in Sweden and global leaders in their respective industries, they have great resources and abilities that foreign direct investment requires.

5.2 Influencing Factors

Data regarding factors that influence selection of entry modes is collected through interviews. To answer the research question, data is analyzed in this section. According to Root (1994), there are two types of factors that affect entry mode decisions: internal factors and external factors.
External Factors

Target country market factors

Target country market factors are related to market size and the competitive structure of the target company (Root, 1994). It is one of the key determiners in entry mode decisions. China is a large market. All three case companies predicted that after the government opened the market to foreign investment, China will continue to grow as the market was full of potentials. With the population close to a billion as at the time its market was opened, virtually all top players in different industry would like to explore the Chinese market since “the market is large enough to sustain your business and competition” (Jys China business service). Only Electrolux, among the three companies investigated admitted to have made a good market assessment prior to the Chinese market entry. Hägglöv added during the interview that increasing shareholders’ value is the main priority of the company and to realize that, there was need to increase economies of scale.

Size of the market in terms of volume and other inevitable growth potentials of the market were quiet fascinating, the Chinese market was expected to step-up to patronize even premium products. So Electrolux believes that exploring the market would help the company increase its shareholders’ value through increase in sales volume for both regular and premium products. Such expectation and other promising characteristics of the market influenced Electrolux’s choice of Direct Investment in order to exercise control over its product. This statement validates Root (1994)’s suggestion that the break even sales volume has to be in relation with the company’s choice of entry mode, such as Electrolux’s assessment of the Chinese market enabled the company to make an accurate forecast of both costs and sales to determine break-even point, and that shaped it’s choice on entry mode; but on the contrary with (Hollensen 2008) suggestion that the greater the level of competition in the market, the more MNCs will favor less resource commitment entry modes, such as exporting. For example, Electrolux used most resource commitment entry mode among the three MNCs investigated even though the company had to face fierce competition from the inception of its operation in China. Whereas both Ericsson and Sandvik used direct export but neither of them saw competition as an influential factor to their entry mode decision.

Even though China opened its market to foreign investment and the economy has grown significantly in the past 30 years, disparity among the regions’ development has widened, for example, the eastern region of China has been the driving force behind the development of the
Chinese economy, with about 58% of the total GDP; in 2006, only this region accounted for 90% of China’s foreign trade and 75% of the total utilized FDI (China Knowledge 2012). So a better understanding of regional economies is a necessity for foreign investors (China Knowledge 2012). Therefore, to a great extent, one could conclude that majority of the MNCs in China is located or started their business in this region, which shapes the competitive structure. In addition to disparity among regions’ development, different culture and tradition across the China is huge and that might explain why MNCs choose different entry modes into different local markets. Ericsson is a good example.

Competitive structure of the market was not so tensed, particularly not in the telecommunication industry as at the 1890s, so Ericsson was part of the telephone and communication evolution in China. That explains why Ericsson at a time had almost half the market share of mobile systems in China (Ericsson 2012). The level of competition in China varies by time and industries.

Hägglöv continued that competitive structure of the market was another important factor that influenced the choice of entry modes. Electrolux faced some kind of challenges in the market such as fierce competition and unbalance between retailers and producer. They (the retailers) were dominant players in the retailing thus there was no balance between them and producer. The implication was that the retailers have dominant power towards determining product prices.

**Target country production factors**

Target country production factors consist of cost, quality and quantity of labor, raw material and economic infrastructure of the target market (Root, 1994). From the interview with former Manager of Sandvik in China, it was gathered that acquiring a place to set up their own facility was not easy and the issue of finding the right human resources was a serious concern for the company, while, Hägglöv asserted with all alacrity that increasing economies of scale was the aim of Electrolux, which means that low labor cost and economic infrastructure was among the important “prospects” of the Chinese market; it was also gathered from Ericsson’s annual report that competition was increasing simultaneously with labor and production costs in matured economies when China opened its market again in the late 1970s, there is therefore no doubting the fact that low labor cost, cost of raw materials and production costs as well as lower tax rates in China are great opportunity especially for the companies that set up their own production facilities in China.
To back this up, we found that the Chinese government was not only trying to regulate the economy using tax policy to encourage foreign investment in certain provinces or regions, like central region, but the telecommunication and high-tech were among the few industries that were prioritized and tax policy seemed to favor most, which might explain how Ericsson and Sandvik successfully collaborated with local businesses and switched gradually to direct investment, for example. "If the newly-built businesses are export or high-tech companies, the tax paid for the reinvested capital will be totally rebated" Wang Li, Deputy Director of State Administration of Taxation (Xinhua News Agency September 28, 2006)

This among other things explains why production cost in China was lower compared to the developed countries at the time China opened its market (Ericsson 2012). Root (1994) suggests that in countries with high production cost, exporting is the best mode of entry. However two of our cases (Ericsson and Sandvik) show the contrary, this indicates that the choice of entry mode is not dependent on a single factor; other factors may have effects on the entry mode decision.

**Target country environmental factors**

Target country environment factors are one of the key factors in selection of entry modes for all three case companies. It contains political, economic and sociocultural environment in the target country as well as geographic distance (Root, 1994). Although China opened its market, it still regulates the sphere of foreign investment in order to protect and promote local businesses. As mentioned earlier, the economic development in Eastern region of China has caused cluster of MNCs in the region, which means that firms would not expect the same success rate when expanding their business to other regions that are not as large and competitive. “One distinctive feature of China’s business environment, its authoritarian political system, requires MNCs to practice strategic public affairs to interact constantly with the different levels of Chinese government, respond to the policies and further influence business policy formation” (Chen, 2003). Also, in the first years of open market, investment was restricted to joint venture with local companies and export oriented activities (Fung et al. 2002). These challenges could be attributed to one of the reasons why Ericsson made joint venture agreements with some local production companies.
On the other hand, during the interview with former manager of Sandvik China, Svante Lindholm stated that protection of the Intellectual Property and frequent change in legislation was the biggest challenges they faced. According to Root (1994), geographical distance is an important factor that affects entry mode decisions. If there is a great distance between home and target country, export is not an appropriate entry mode since transportation costs will be higher. Sandvik and Ericsson chose direct export which is in line with Root (1994) suggestion, since there is a great distance between Sweden and China; production was made in Sweden, and then shipped to China, according to Lindholm.

**Home country factors**

According to Root (1994), home country factors are market, production, environment factors in the home market as well as government policies and competitive structure. In the interview, Ericsson’s representative stated that during the first entry, inflation was unavoidable in many markets and labor cost was increasing, therefore entering China was a smart move. However, none of the companies’ entry modes was really affected by regulations and policies in Sweden since Swedish government doesn’t limit companies that want to go abroad. Nevertheless, Swedish MNCs are thinking global thus difference in labor and production costs as well as taxation policies between China and Sweden could account for some of the factors that made Swedish companies enter Chinese market. According to Root (1994), companies with small domestic markets are not likely to grow big in the home country; therefore entering a new market through export is the most suitable way to increase company size. Sweden is a small market compared to China; thus Sandvik and Ericsson chose direct export, which again is in line with Root (1994) suggestion. The competitive structure of the Swedish market varied at the times of entry of Electrolux, Ericsson and Sandvik into China. It could be due to the fact that the three MNCs entered China at different time and/or the fact that they are in three different industries. For example, while high competition was among the push factors for Ericsson in the late 1970s, Sandvik manager asserted that the company entered China early (1989) and thus competition was not a push factor.
Internal Factors

Product factor

According to Root (1994), companies with highly differentiated products have advantage over competitors; export is the most suitable mode for highly differentiated products. All three case companies in this study have high quality and technology oriented products. In the case of Ericsson, the company made its first entry in 1890s through telephone sales and second entry with sales of AXE stations which basically gave the company advantage over competitors as China signed what, at the time, was largest telecom contract for 200,000 lines of AXE (Ericsson 2012). Sandvik collaborated with its Chinese partner to produce premium Sandvik roadheaders that are sold under Sandvik brand (Sandvik 2012). These two examples however agree with Root (1994) that export mode is the most suitable for highly differentiated products.

While Electrolux anticipated that the Chinese market would “step-up” to buying expensive and premium product and that the share of European product in the market would increase. Just like Root (1994) proposed that local manufacturing through equity investment can be used for consumer good as Electrolux products that are not highly differentiated.

Resource commitment factor

Root (1994), states that if a company has great amount of resources such as technology, production, management and marketing skills as well as strong commitment, it can choose from a wide range of entry modes. Since Electrolux, Sandvik and Ericsson are large companies and global leaders in their respective industries; they have the financial and managerial capabilities to choose whatever entry modes, which justifies why they all go for the entry modes with more resource commitment. For example, Ericsson used direct export as primary entry mode and with its resources and managerial capability, it was able to establish joint venture with Chinese manufacturing company and when the time was right Ericsson switched more to direct investment. Sandvik had similar situation, entered the Chinese market through direct export, and after five years of operation in China the company acquired its own facility. Meanwhile, even when they were operating through direct export, both companies remain in control of their products by producing in their home country (Sweden) and shipping to China. Similarly, resource and managerial capability enabled Electrolux to choose from a wide range of entry modes.
Joint Effects of Both Internal and external Factors

The decision on entry mode is not only based on a single factor but on a number of influential factors; both internal and external. Data gathered from the three Swedish MNCs showed combination of different important factors shaping the decision on entry mode to China. Internally, all three companies have the financial, managerial, technological and production capability; alongside highly differentiated products in the industries they serve and therefore could choose any entry mode. Success in the foreign market however requires more than just internal capabilities, so understanding of foreign market situation in terms of market size, competitive structure, government regulations, including taxation and local policies of different regions in the market are as important as or even more important than the internal factors.
6. CONCLUSION

In this section, our findings from analysis are summarized to provide clearer picture to readers. In addition, recommendation for future managers and future research are presented.

6.1 Summary of Findings

The purpose of this thesis was to identify the factors that influenced Swedish MNCs in their decision on entry mode into the Chinese market. Data collected from interviews with case companies revealed that only Electrolux entered China with Direct Investment in the mid-1990s when the government regulation had become more flexible. Both Ericsson and Sandvik has been in China earlier than Electrolux and both of them used direct export as entry mode because according to their representatives, they had to collaborate with local Chinese firms. However, in their expansion within China they have switched more and more to Direct Investment by setting up their own facilities in China. The reason, according to the interviewees is companies’ will to be independent and in the control of (and protect) products and operations. Generally, the three companies have been in China for decades and each has its own facilities in China.

Our study has shown that even though internal factors exist, external factors are major factors that influence entry mode selections of MNCs. Albeit the decision on entry mode is shaped by a combination of joint factors; After China open its economy to foreign investment, Swedish MNCs among others were able to see the market size and growth potentials which were among the key reasons behind companies’ entry into the Chinese market. Chinese market factors; Chinese production factors and environmental factors however were the most influential to the decision of entry modes of the Swedish MNCs investigated. For example even though the economy was exposed to foreign investment, the Chinese government, through regulations still controls the spheres of foreign investment. Home country factors were not so influential to entry mode decisions. All three case MNCs have high quality and technology oriented products that make difference in China. Since they are large and global leaders, they have great amount of human and technological resources as well as strong commitment, they are open to the possibility to choose from wide range of entry modes.
6.2 Recommendations

**Recommendations for Future Managers**

Since chosen MNCs are among the successful companies operating in China for decades, we believe that this research provides a valuable insight for MNC managers who plan to expand their business to China or similar markets. We suggest that before making the decision on foreign market entry, companies should carry out market research. From the interviews we found that making a good market research was not so easy in the early stage after China opened its market. However, today, virtually all MNCs have the ability to make a market research in China or their chosen market. Before entering the market MNCs should consider both internal and external factors. External factors are the most influential ones in the Chinese market since government regulations still determine the level of foreign investment. By evaluating factors inside and outside of the company, MNCs will be able to make a decision on the most appropriate entry mode which will help maximize their chance to succeed in the market.

**Recommendations for Future Research**

Our research is limited to data gathered from three Swedish MNCs (Electrolux, Ericsson and Sandvik) operating in China. For future research, MNCs in other countries can be investigated. Entry modes and influential factors in entry mode decision when entering other emerging markets can also be identified. Finally, since about 99% of Swedish businesses are SMEs, it would be interesting carry out a research on Swedish SMEs’ entry mode decisions into China to see possible similarities and differences between MNCs and SMEs in the process of foreign market entry.
7. **REFERENCE**

**Literature**


Influential Factors in Foreign market Entry Modes

(Berkan Basören & Michael Olugunna)


Internet Sources


Ericsson Homepage http://www.ericsson.com accessed 27th April 2012

History of Ericsson

Business Administration Thesis – 15hp Högskolan Dalarna (Spring 2012)

Grauwe, de Paul, (2002) “How big are the big multinational companies”

“IMF predicts China economy will pass US sooner than expected”

International Labor Organization, “Multinational Enterprises”


Sandvik Homepage http://www.sandvik.com accessed 3rd April 2012


**Interviews**

Electrolux, Chief Business Analyst, Tobias Hägglöv, 28th March 2012

Ericsson, Head of Communications, Helene Birknert, 26th April 2012

Sandvik, Former manager in China, Svante Lindholm 23th March 2012
Appendices

1. Interview with Electrolux

Name and title of the respondent:

Tobias Hägglöv, Chief Business Analyst

1. Company background: Electrolux is more than 90 years old and the Mission statement is to be the best appliance company in the world by customers, shareholders and employees. Electrolux has about 60,000 employees.

2. When did your company enter the Chinese market? We entered the Chinese market in the mid-1990s.

3. Why the Chinese market? Electrolux was growing and we intend to constantly strive for top position in the market, we wanted to create value for our shareholders and one of the ways to realize that was to increase economy of scale and at that time the best option was the Chinese market. China today is the largest manufacturer of household appliances in the world and the largest market measured in terms of volume. It was not so obvious to many companies but if a firm wants to be a leader in the industry you have to be present in the Chinese market. The reason is that China is such a huge market full with potentials that all top players in different industries are willing to explore.

4. Prior to the market entry decision, did your company have any preliminary assessment of the Chinese market? If yes, kindly explain. Yes! There were numbers of researches prior to the entry decision. We made assessment of market size, potentials in the market, that is, growth of the market was monitored and future growth was projected. There was underlying market expectations among of which is that customers in China would step-up and be able to buy the expensive and premium products and thus the market share of European products would increase. At the time of (Electrolux) entry into the market, there were already about 80 producers of home appliances in China (both local player and some multinational). When we entered the market, our exposure to china was very small at the beginning.

5. What kind of challenges (if any) did your company face in the process of entering the Chinese market? Fierce competition, unbalance between retailers and producer… there were dominant player in the retailing so no balance between them and producer
and the implication was that the retailers have dominant power towards determining product prices. Getting a space to set up our own plant was an issue, we were offered temporary site. That had impacted the structure of the Chinese market for a long time. Electrolux has stopped selling to retailers in rural areas of China and set more focus on middle-class in major cities, through successful launch of new products Electrolux increased its sales in China by approximately 30% in 2011.

6. **What entry mode did your company choose when entering China, (direct export, indirect export, licensing, franchising, joint venture, or direct investment)?**
   
   Basically, direct investment, though we started small but we have always been in control of the production. Total production volume was not huge but it was not so small either. That was the decision to the Chinese market and virtually all the markets we are present in, today. We have some exceptions, though, it depends a little bit on our goal in an individual market, and for example, we produce in Poland and sell it in Germany, produce in Mexico and sell in the US. We are neither in the franchising business nor joint ventures. We are using licensing in India. Licensing is rough but it is however aggressive, if a firm wants to become a large player in a country, it is not logical to use licensing. Even in India, we, most cases we make the production ourselves.

7. **What were the internal factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market.**
   
   When you are a global company you want to increase your sales, and China is the best option because it was projected/expected to grow substantially. To create value for your shareholders you have to explore new markets with high growth potential, China.

8. **What were the external factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market?**
   
   The Chinese government had opened its economy to foreign investment. Internally, Electrolux was willing to explore such emerging market as China. Although the political environment in china did not present an easy entry into the market but at the same time, we have global competitors at that time, in order to actually be a global player and to enhance our global strength, expanding to China was a right decision for us. When you are in market you expect competition but for Electrolux, creating stockholders values was our priority.

9. **Do you think the entry mode chosen was the most suitable one for the Chinese market? Why?**
   
   Yes, direct investment was the most suitable choice we could have
made towards China but however the market was tougher than expected. China has been a very tough market both for Electrolux and many companies. We have faced many challenges but I wouldn’t say it was solely due to the entry mode decision, but rather competition. In order to be successful in China, as a firm, you should either have a very high scale, high volume of products, or very high in the price with premium products with high selling. The entry mode was the most suitable one for us, yes!

10. What were your company’s goals in China and has your company achieved its goals in the Chinese market (so far) as a result of the entry mode? If yes, kindly give examples.

Our goal in the Chinese market was to be present and stay highly competitive in the market. And so far, we have achieved that goal because obviously, we are present and have a strong platform in the market, we chose the most suitable entry strategy in the sense that the company wanted to be highly competitive in the global market and so could not neglect the importance of such (then) emerging market as China. Entering through Direct Investment was the best we could do to protect our products and exercise full control of the entire operations, so yes! We have achieved that goal but when it comes to profitability, we have not done so well in China. Our expectations in this regards was higher than what we are actually experiencing and one of the problems is that Electrolux has had higher challenges than expected in the Chinese market, the challenges have less to do with the mode of entry but more to do with our presence and operation in the Chinese market coupled with competition.
2. Interview with Ericsson

Name and title of the respondent

Helene Birknert, Head of Communication, Ericsson Sales and Marketing

1. Company background:
Vision of the company is to become main driver of an all communication world.
Mission is empowering people, business and society.
Presently the number of employees is about 104,000
Countries of operations: We have business in 180 countries, operations in 120.
History: Established in 1876, started out as telegraph repair shop, innovations lead company. Today, Ericsson is a leading player in Information and Communication Technology.

2. When did your company enter the Chinese market? We sold our First order in China in the 1890s through Captain Gustaf Öberg, who at that time was Managing Director of the Shanghai Mutual Telephone Company Ltd. The First World Way struck the progress of Ericsson. Between 1947 and 1976 the Chinese market was closed to Ericsson, several attempts were made after the war but there was no success. Later, towards the end of the 1970s, the ruling Communist Party gradually open the market to foreign investment. We tried again with the sales of AXE stations to China through Direct Export and it was successful.

3. Why the Chinese market? The market was filled with growth potentials for us. That was the discovery of Gustaf Öberg, who also predicted that Ericsson was going to become one of the leaders in ICT (Information and Communication Technology). And by the time the Chinese economy was reopened to the world, we had just accomplished the installation of first digital telephone exchange, so it would be too risky for us to neglect China.

4. Prior to the market entry decision, did your company have any preliminary assessment of the Chinese market? If yes, kindly explain: China had just adopted the “Open Door Policy” to promote foreign trade and economic investment, our assessment of the market rested fully on our progress in China before the World War I. We acknowledged the enormous market size and the prospects of the market.

5. What kind of challenges (if any) did your company face in the process of entering the Chinese market? The World wars were our setback as far as China is concerned;
most challenge though, had to do with laws and regulations when the market was open.

6. **What entry mode did your company choose when entering China, (direct export, indirect export, licensing, franchising, joint venture, direct investment)?** See information at link above. In 1890’s it was direct exports. When the country opened up to foreign business we established a representative office and moved on from there.

7. **Does your company use the same entry mode for every country you enter?** No, it varies. Most often our business starts up with a representative office, direct exports or JVs. A recent example is our entry to Korean market. We initially entered the market last year; we did that by setting up business through a JV with LG. Initially with 50/50+1 share split, recently we announced we expand our share in LG Ericsson to 75%. In Taiwan, we entered also by setting up a JV with a local company. It is another story how we evolved our business and presence in Australia.

8. **What were the internal factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market.** Our goal has always been to be the prime driver in an all-communication world and we had the internal capability to deliver; with strong desire for growth. We had just launched the AXE digital switching system when China opened its economy.

9. **What were the external factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market?** Initially, the demand from Shanghai through Gustaf Öberg in the 1890s revealed the potentials in the Chinese market. In the late 70s, when inflation was inevitable in many markets; competition became stronger and labor cost was increasing simultaneously was when China adopted the open door policy; its economy was opened for foreign investment. We had had positive experience prior to World War I so the open economy was a strong pull factor for us back to the Chinese market. In spite of the “open door policy”, regulatory measures were taken by the Chinese government to limits FDI in order to strengthen the local businesses at the same time, so direct export or joint venture with local firms was the smartest move.
10. **Do you think the entry mode chosen was the most suitable one for the Chinese market? Why?** Yes, it was a perfect one for us because China has been an important market for us since the start of our operations there and as mentioned earlier, after the “open door policy”, there were still (reasonable) restrictions so direct exportation and or joint venturing was not a bad measure at all, as we collaborated with local firms.

11. **What were your company’s goals in China and has your company achieved its goals in the Chinese market (so far) as a result of the entry mode? Kindly give examples.**

   We have been in China for many years, our presence and mode of operations has evolved over the years and today it one of our Top 2 markets. We believe that our history and presence is a strong competitive asset. Today we have R&D facilities, production plants, JVs of different kinds; all serving their role in order to continue to grow our business in China but also export from China.
3. Interview with Sandvik

Name and title of the respondent:

Svante Lindholm (former) President Sandvik China

1. Company background (brief history, countries of operation, number of employees, mission and vision statement)
   Sandvik has been present in China since 1989 and in 1994 first factory was completed. Today, Sandvik has 3500 employees in China and with a turnover of 6 billion USD.

2. When did your company enter the Chinese market? 1989…

3. Why the Chinese market? To be able to reach the local market. That was the principal reason.

4. Prior to the market entry decision, did your company have any preliminary assessment of the Chinese market? If yes, Kindly explain
   Basically, no! We started in small scale which gradually grew to what it has become today. Think about that 20 years ago it was not so easy to make a successful survey of the market. We started and worked for us.

5. What kind of challenges (if any) did your company face in the process of entering the Chinese market? There was no challenge against our entry mode but Sandvik, just like any other company face a number of post entry challenges. Some of which are the protection of the Intellectual Property; finding the right human resources, and frequent change in legislation.

6. What entry mode did your company choose when entering China, (direct export, indirect export, licensing, franchising, joint venture, direct investment)? Sandvik entered the Chinese market through 100% direct export. Sandvik has been independent in the export process. The products were made in Sweden and then shipped to China. In 1994 Sandvik succeeded in direct investment by acquiring its own factory in China.

7. Does your company use the same entry mode for every country you enter? Basically the same principle, regardless of the market. Sandvik is in almost all the markets in the world today and the entry mode has more or less been the same.
Adjustment is made where needed but basically we enter through direct exportation.

8. What were the internal factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market? I would say there was no internal factor per se, just a strategic decision that China will become a great market in the nearest future, and we took the chance and obviously it pays off, we are so proud we did.

9. What were the external factors (if any) that influenced your company’s decision on the choice of entry mode to enter Chinese market? External factors, yes...Like China opened its market to the world and then we were able to see the potentials the market has and we saw the possibility that China would become a very strong market. That was early so competition was not a push factor.

10. Do you think the entry mode chosen was the most suitable one for the Chinese market? Why? Yes! We could not have used a better strategy.

11. What were your company’s goals in China and has your company achieved its goals in the Chinese market (so far) as a result of the entry mode? If yes, kindly give examples.

The goal of Sandvik is to experience the same market sales in China as in rest of the world. And how far are we in achieving this goal? We are two step clear out of three business area. In practice, we have achieved our goal in Mining and tolling but so far not on material technology.