Swedish Companies in Saudi Arabia
The Struggle to Maintain Corporate Culture

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Author: Hartvigson, Johannes 840417-2598
         Hourani, Rayan 850322-5040
Tutor: Karlsson, Tomas
Examinator: Bjursell, Cecilia
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Författare: Hartvigson, Johannes 840417-2598
Hourani, Rayan 850322-5040
Handledare: Karlsson, Tomas
Examinator: Bjursell, Cecilia
Jönköping Juni, 2009
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.......................................................... ..........................................................
Johannes Hartvigson Rayan Hourani
Definitions

Asymmetric Information: This problematic situation (asymmetric information) occurs when the agent has more detailed knowledge of the operation than the principal (Doherty & Quinn, 1999). The case could also be that even if the access to information was perfect the principal would not be able to interpret this information (Doherty & Quinn, 2000).

Corporate culture: A common perception that is held by all members in an organization and highlights the relational and process aspects of the organization. Subjects included are; risk taking, power and authority relationships, coping with uncertainty, motivation, loyalty and commitment, coordination and integration, control and discipline, consultation, communication and participation (Silverthorne, 2005).

Culture: The collective programming of the mind which distinguishes the members of one category of people from another (Hofstede, 1994).

Franchising: The Federal Trade Commission (FTC) states three demands that a business must fulfill in order to be classified as a franchise. The first is that the franchisor must license a trade name and trademark that the franchisee operates under, or the franchisee must sell products or services identified by this trademark. Secondly, the franchisor must exert a significant amount of control over the operation of the franchisee, or provide extensive assistance to the franchisee. Last the franchisee must pay a fee to the franchisor at any time before or within the first six months of operation. Although this is a definition specifically provided for companies in the US, definitions provided in the rest of the world tend to have a very similar meaning (Blair & Lafontaine, 2005).

International Joint Venture (IJV): A joint venture is formed when two or more firms pool a portion of their resources within a common legal organization (Kogut, 1988). International joint ventures are used when competing on a global arena (Geringer & Herbert, 1989).

The Middle-East: Swedish dictionary NE (2009) defines the Middle-East as the Arabic peninsula (Saudi Arabia, Oman, Yemen, United Arab Emirates, Qatar, Bahrain and Kuwait), Turkey, Syria, Lebanon, Israel, Egypt, Jordan, Iran and Iraq. However when used in this thesis the emphasis is put on the richer oil countries, Saudi Arabia, Oman, Qatar, Bahrain, Kuwait and the United Arab Emirates.

Even though this thesis is focused on Saudi Arabia the authors believe that in certain cases the information provided has a more general character and in those cases the term Middle-East has been used.

Psychic Distance: The sum of factors preventing the flow of information to and from the market (Johansson & Vahlne, 1977).

This definition explains that there exist factors that affect psychic distance between companies and the countries they intend to expand to. These factors could be differences in languages, culture, political systems, educational level, industrial level etc (Dow & Karunaratna, 2005).

Wholly-owned subsidiary: A subsidiary whose parent company owns 100% of its common stock (Dictionary, 2009).
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Subject terms: corporate culture, organizational culture, psychic distance, cultural distance, control, principal agent relationship, Saudi Arabia etc.

Abstract

Saudi Arabia is increasingly becoming one of the most attractive areas in the world for foreign investors. At the same time the country has a major influence on the economy in the Middle-East. However there exist reasons for why companies previously have been reluctant to enter this market, these reasons have mainly been related to political turbulence, foreign traditions and culture. In recent years some research has been dedicated to this area however there is still more to investigate.

The purpose of this thesis has thereby been to identify what problems Swedish companies have encountered when operating in Saudi Arabia in terms of psychic distance, asymmetric information and working towards mutual goals. Hence, what problems they have dealt with during the continuous work and to what extent they have managed to maintain their corporate culture.

The authors chose to conduct a deductive multiple case study including four Swedish companies with operations in Saudi Arabia, these were Abetong, IKEA, Oriflame and Tetra Pak. The research took a qualitative approach as four in-depth interviews were conducted with managers in suitable positions at respective company.

The findings of the thesis indicate that the companies to a great extent have been able to maintain their corporate culture, and the adaptations that were made were mainly related to women’s role in Saudi society. In terms of psychic distance, this is something that has been encountered to a certain extent by all of the companies. Challenges have mainly been faced within the areas of religion, political systems, culture and educational level whereas the economic development was generally perceived as an opportunity. As for problems with asymmetric information and working towards mutual goals, these have not been reflected to a greater extent within any of the companies. However the problems that have been encountered have been related to language barriers.
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Åmnesord: företagskultur, organisationskultur, psykiskt avstånd, kulturellt avstånd, kontroll, principal-agent relation, Saudiarabien etc.

Sammanfattning

Saudiarabien håller alltmer på att bli en av världen mest attraktiva områden för utländska investerare. Samtidigt har landet ett stort inflytande på ekonomin i mellanöstern. Trots detta finns det flera anledningar till varför företag tidigare varit tveksamma till att etablera sig på denna marknad, dessa anledningar har i huvudsak varit relaterade till politisk turbulens, främmande traditioner och kultur. På senare år har forskning ägnats åt detta område men det finns fortfarande mer att undersöka.

Syftet med denna uppsats har således varit att identifiera vilka problem svenska företag har stött på i sin verksamhet i Saudiarabien relaterat till psykiskt avstånd, asymmetrisk information och att arbeta emot gemensamma mål. Följaktligen, vilka problem de har hanterat under det pågående arbetet och till vilken grad de har lyckats att behålla sin företagskultur.

Författarna valde att utföra en deduktiv multipel fallstudie innefattande fyra svenska företag med verksamhet i Saudiarabien, dessa var Abetong, IKEA, Oriflame och Tetra Pak. Studien var kvalitativ där fyra djupgående intervjuer genomfördes med chefer i lämpliga positioner på respektive företag.

Resultaten av uppsatsen indikerar att företagen till en hög grad lyckats behålla sin företagskultur och att anpassningarna som gjordes var främst relaterade till kvinnors roll i det saudiska samhället. Vad gäller psykiskt avstånd är detta något som alla företag stött på till en viss grad. Utmaningar har huvudsakligen stöpts på inom områdena religion, politiska system, kultur och utbildningsnivå medan ekonomisk utveckling uppfattades generellt som en möjlighet. Angående problem med asymmetrisk information och att arbeta emot gemensamma mål, har dessa inte speglats till en högre grad i något av företagen. Däremot har de problemen som stötts på varit relaterade till språkbarriärer.
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1 Introduction

This chapter will introduce the thesis by presenting the background and the problem of the chosen topic. Relevant research questions are stated along with the purpose of the thesis and lastly the multiple case study approach and delimitations are presented and the reader is provided with the disposition of the thesis.

1.1 Background

In terms of decreased time distances, the world today is smaller than it was twenty years ago. Globalization and the strive for a higher living standard have triggered many of the west world companies into expanding abroad. Economies of scale has enabled companies to cut their costs and improve their profits and today there are several global companies that you can find in almost every part of the world. For example, today McDonald’s have restaurants in 56 different countries spanning over all of the six continents (McDonalds, 2009).

But even though new markets create new possibilities they also create new problems. As we live in a multi-cultural world, companies who have proven to be very successful in one country may not succeed in another one (Norman, 2007). Legislations could be different, the climate can have an effect on demand as well as production and apart from this changes in culture and lifestyles are important to take into account. One part of the world where the difference towards the west world countries is especially strong is in the Middle-East (Farsi, 2003).

The Middle-East is an area that has attracted a lot of attention recently by Swedish companies as a potential region for expansion. During the last years it has been reported, mainly in Swedish media, about how more and more Swedish companies such as IKEA, ABB and H&M have expanded or are planning to do so in the Middle-East. The presence of foreign companies in the region is nothing new but has during the last decades increased significantly. Due to the evident changes in lifestyles from the rest of the world many companies have been hesitant when regarding whether or not to enter this market. However lately more and more west world companies have been establishing branches in Dubai, Saudi Arabia and Oman (Swedish Trade, 2009).

Saudi Arabia has a major influence on the economy of the Middle-East. The country is the world leading producer of oil and natural gas and possesses 25% of world’s known oil reserves. Saudi Arabia has for a long period of time been one of Sweden’s most important trade partners in the Middle-East. During 2008 Sweden exported goods and services worth of 9,4 billion SEK and for the upcoming 15 years the country has an estimated need for infrastructure worth 1000 billion USD (Swedish Trade, 2009).

Despite this explosive development that has attracted a lot of Swedish investors to the country, one must not neglect the fact that the vast cultural differences might lead to problems (or opportunities) for the companies involved. These problems might in turn affect the corporate culture of the company and force them into making adaptations that could compromise their fundamental values.
1.2 Problem discussion

Hofstede (1994, p. 15) defines culture as “the collective programming of the mind which distinguishes the members of one category of people from another”. Using this definition the authors can establish that there are differences between different categories of people, and these differences could create both problems and opportunities for the companies when they expand into new countries with a different culture.

When expanding to a market distant in terms of culture from the one you are currently operating in, you need to adapt and tailor your corporate culture (Crainer & Dearlove, 2008). However Crainer and Dearlove (2008) also argue that organizations must consider how much they are prepared to give up and subsequently decide if the price is worth paying. If an organization has a business model that requires strict observation to a specific way of doing things or has a so strong culture that it would be critically compromised by entering a particular market, then the right thing to do might be not to enter a new market (Crainer & Dearlove, 2008). And since the Saudi market is strongly influenced by Muslim values and the culture differs greatly from the west world for example in terms of work ethics (Khalidun and Rahman 1989) this could be a source of problems for many Swedish companies expanding to and operating in Saudi Arabia. This can be referred to the concept of psychic distance, indicating that there exist factors that affect psychic distance between companies and the countries they intend to expand to (Dow & Karunaratna, 2005).

Another issue that is of importance when discussing companies’ operating strategy for expansion and operations is the principal agent theory, a theory indicating the existence of a principal in control and an agent given the right by the principal to operate the daily activities. Within this theory there exists one major issue referred to as asymmetric information which concerns the information flow and can be a major source of problem. The problem of asymmetric information is not necessary a problem by itself, but can together with the problem of working towards mutual become a greater problem (Doherty & Quinn, 1999; Doherty & Quinn, 2000). These are issues that are of importance and highly relevant between countries where cultural differences exists.

Engman and Thörlund (2008) and Göcmen, Saidi and Sourati (2007) both mentions the problem of establishing a Swedish franchise in Saudi Arabia. Both theses focus on the Swedish hamburger chain Max and discuss the cultural difficulties they face during the implementation process and how to maintain the corporate culture during the daily work. This is a problematic challenge mainly for franchising companies, since the lack of control complicates the management’s ability to secure that company policy is being maintained and that nothing is done that cause damage to the company image. Opening a branch in a country where the cultural differences are strong means that you most likely will have to make adaptations. On the other hand many companies might be provided with strict guidelines from central headquarters and in the case of cultural clashes these two perspectives contradict each other.

With the discussion above as a starting point the authors found it interesting to develop the research made within this area not solely focusing on franchising but include different expansion strategies as well. Apart from this the authors have expanded the previously used frame of references and included more theories and previous research. The authors further wanted to explore if the findings from this thesis would contradict, support or even contribute with entirely new insights. Last but not least the authors believe this to be a highly interesting and current topic that deserves more attention.
1.3 Research questions

The previous discussion leads to the following research questions.

- To what extent have Swedish companies managed to maintain their corporate culture when operating in Saudi Arabia? And what adaptations, if any have been made?
- What problems have the companies encountered in terms of psychic distance?
- What problems have the companies encountered related to the principal agent relationship in terms of asymmetric information and working towards mutual goals?
- To what extent is effective control exercised in the local branch of the company? And by which means?

1.4 Purpose

The purpose of this thesis is to identify what problems Swedish companies have encountered when operating in Saudi Arabia in terms of psychic distance, asymmetric information and working towards mutual goals. Hence, what problems they have dealt with during the continuous work and to what extent they have managed to maintain their corporate culture.

1.5 Multiple Case Study

According to Saunders, Lewis & Thornhill (2007) conducting a multiple case study that involves more than one case presents results that can be compared between two different companies. Yin (2003) argues that doing a multiple case study is preferable to doing just a single case study, since if you only use a single case study you will need to have a strong justification for your choice.

In comparison to the earlier theses that have been investigating Swedish companies in Saudi Arabia that have focused on a single case study, this thesis compares four different companies. In doing this, the authors believe that the findings will contribute and further develop the understanding of Swedish companies in Saudi Arabia. Figure 1 illustrates the method of our multiple case study. The figure also indicates the chosen companies for this study, Abetong, IKEA, Oriflame and Tetra Pak. The selection process is presented more in depth in section 3.4.2.

Figure 1 Illustration of Multiple Case Study Strategy (Own Model).
1.6 Delimitations

Since the purpose of the thesis is to highlight the issues from a Swedish perspective, interviews were only conducted with Swedish respondents. This choice was affected by the fact that most companies that the authors contacted had limited time and resources. Initially the authors had six different companies for the study but two of those were screened out due to the fact that they did not serve the purpose of the thesis.

Due to the fact that three of the companies chosen for this study have been established in Saudi Arabia for several decades the focus of the thesis has been on the continuous work rather than the establishment. This since it was troublesome to find the people involved in the expansion process.

The target audience for the thesis is mainly Swedish companies that are considering expanding their business to the Middle-East and primarily Saudi Arabia. Apart from this the findings can also be relevant for Swedish companies based in the Middle-East in terms of identifying common denominators for success or problems encountered.

1.7 Disposition

Chapter one has accounted for the background, problem discussion, research questions and the purpose of the thesis. It also presents a multiple case study model and the delimitations of the thesis.

Chapter two accounts for the frame of reference. The chapter starts off with a literature review. Thereafter a target market review and different types of expansion strategies are presented. Finally the different theories used for the thesis are presented.

Chapter three accounts for the methodology used for this thesis. A research approach is discussed alongside with data collection and validity, reliability and credibility. The proceeding of the research is also presented and the section ends with shortcomings and reflections.

Chapter four presents the empirical findings of the four interviews separately and a company review of each company is included.

Chapter five accounts for the analysis of the empirical findings. Theories and previous research are used as tools when analyzing the findings of the interviews. The chapter is divided into three sections, corporate culture, psychic distance and principal agent theory and control.

Chapter six concludes the authors work and the research questions are answered. The authors have also included a section on reflection and critique and a section on suggestions for further research.
2 Frame of Reference

This chapter will present the reader with background information and theories related to the chosen topic. It starts with a literature review and continues with a target market review and a presentation of the different expansion strategies relevant for this thesis. Finally the reader is provided with the theories chosen to later analyze the empirical findings.

2.1 Literature Review

The authors will now present the frame of reference chosen for this thesis, provide a summary and discuss the most vital points later used when analyzing the empirical findings.

To provide the reader with an understanding of the differences in culture and religion between the Middle-East and the west world and what effect this has on business, a target market review (see section 2.2) has been compiled. The information in this section is not country specific and the authors are aware of the differences in that region. However, as can be observed in the definitions (see page ii) the authors have provided a narrow and somewhat untraditional definition of the Middle-East, including Saudi Arabia, Oman, Qatar, Bahrain, Kuwait and the United Arab Emirates.

In order to generate an understanding of the different strategies companies use for expansion a few of them is presented in section 2.3. The strategies presented, IJV, franchising and wholly-owned subsidiary, are chosen from the criteria that the companies chosen for the study have used one of these three strategies when expanding to Saudi Arabia. Therefore other expansion strategies as outsourcing and acquisitions are left out of the thesis.

There are literally hundreds of definitions of the term corporate culture. The authors have thoroughly screened numbers of articles of the topic in order to choose the most relevant definitions for the case at hand. The concept of corporate culture is one of the foundations of which the thesis is built on but also one of the cornerstones for a company’s expansion internationally, and therefore naturally forms an important part of the frame of reference.

The theory of psychic distance is well-studied and has been used in many theses before when analyzing differences between countries. The authors have included theories that contradict each other, on one hand psychic distance is viewed as something negative, on the other it can be seen as an opportunity for the company. The authors have used the model presented in section 2.5.1 to establish the negative or positive effects of psychic distance derived from the four different aspects in the model.

The last theory presented by the authors is the principal agent theory, which is of relevance especially for franchising companies. This as control is a larger issue when the agent owns the local branch and might be more interested in developing it towards his or her own goals. However the problem still exists in IJVs as insufficient or ineffective control can limit the performance of the IJV. This was used in the analysis to highlight problems and establishing successful ways of managing and controlling local branches in Saudi Arabia.

The authors have found three bachelor theses within the subject of maintaining corporate culture and how cultural differences affect the control when expanding to a region with different cultural values than that of their own. A compilation of these bachelor theses can be found in Appendix B. Relevant findings from these have been integrated into the frame of reference. The purpose of including these previous studies was to find possible similarities but also to point out differences that have been found. The purpose has also been to use these studies as guidance when forming the interview questions.
2.2 Target Market Review

As the countries that are included in the authors’ definition of the Middle East are very close to each other in terms of culture and religion, the authors have chosen to include a target market review that is more general, instead of solely focusing on Saudi Arabia.

The Middle East (as defined for this thesis) is a region that recently has caught the interest of many west world companies. Through findings of oil countries around the Persian Gulf has experienced a high growth in economic welfare, this is especially strong in the United Arab Emirates and Oman that has the highest income per capita in the region. Although there is a great difference both within the countries and between them when it comes to economic welfare, for example the economic situation is as night and day between the U.A.E and Yemen (Saleh & Kleiner, 2005).

The Middle East is developing at a rapid pace and is the richest among the developing regions in the world. There are also a lot of advantages for foreign companies to expand into the Middle East, cheap labor, tax incentives, cheap oil prices and even lack of competition in some cases. Most Middle-Eastern governments also spend a considerable amount of time trying to attract foreign investors to their respective countries (Saleh & Kleiner, 2005). The fact that 70% of the population in Saudi Arabia are below 30 years old is another fact that attract foreign investors (J. Abellsson, personal communication, 2009-04-30).

2.2.1 Religion

When it comes to work ethics this is in the Middle East very much related to religion and differs greatly from the one existing in the western world. Khaldun and Rahman (1989) indicated that engaging in business activities serves physical, psychological, social and spiritual purposes. More thoroughly they identified the following reasons, alleviation of poverty, motivating people to be persistent and engaging creatively in an appropriate profession, complementing the human soul with verified knowledge, good manners, useful ideas and responsible deeds, and reaching salvation. Work in Islam is situated in the core of faith and is considered as an integral part of life (Ali & Al-Owainhan, 2008).

In 1977 Maxime Rodinson asserted that Islam was incompatible with capitalism, however since then a lot has happened and many different views has been argued. Islamist political movements have often been associated negatively with businesses, as they have been perceived as a threat to security and stability. However, most of the current writings by self-designated “Islamic economists” are far from being antagonistic to business, this is instead a misconception made by many western companies (Wilson, 2006). Although in spite of their praise for trading activities, Muslim countries appear to trade less than their Christian or Buddhist counterparts (Mehanna, 2003), although explaining this in terms of religion may be misleading.

Islam work ethics is an orientation that forms and influences the involvement and participation of believers in the work place. The prophet Mohamed addresses issues related to work and have set out the following instructions. Pursuing legitimate business (those who work hard are acknowledged), wealth must be earned (men shall have what they earn), quality of work (connecting a job done right with a blessing from God), wages (should be fair and just), reliance on self (no earnings are better than that of one’s own effort), monopoly (a fault that produces suffering), bribery (strongly condemned), deeds and intentions (intentions is more important than result when evaluating the work), transparency (honesty
in business is very important), greed (a threat to social and economic justice) and generosity (a virtue in Islam) (Ali & Al-Owaihan, 2008).

2.2.2 Culture

As religion is a very big part of both the personal life and the business life, of course it also influences the culture in a strong way. Many west world companies have failed when expanding into the Middle-East simply because of cultural misunderstandings. Browaeys & Trompenaars (2000) presents a situation between a German and a Saudi company involved in a business deal. The Germans insisted of signing a contract straight away even though the Saudi representative gave his word. The deal then fell through due to the fact that the Saudi representative felt insulted because of the way the Germans acted, in the Middle-East a man’s word is as good as a signed contract, and questioning it is to question the persons honor.

Whether or not religious, people in the Middle-East tend to be conservative. The crime rate there is very low compared to many other areas in the world, partly because of the strong religious influence but also because of the cultural influence. Theft is not a big problem either and no big robberies or burglaries happen in this part of the world (Saleh & Kleiner, 2005).

2.3 Expansion Strategies

This section starts with a general briefing of expansion to the Middle-East and after that a few expansion strategies are explained. The ones that have been chosen are related to the ones our case companies have chosen when expanding to Saudi Arabia.

Tetra Pak were among the first Swedish companies to move into Saudi Arabia when they in 1964 installed a Tetra Classic Aseptic machine in Lebanon (Tetra Pak, 2009). Another Swedish company that followed Tetra Pak shortly after was Volvo Penta which was established in Saudi Arabia in 1968 (Volvo, 2009). IKEA opened their first store in Saudi Arabia in 1983 under a franchising agreement but it was not until 2004 that their first full size store opened in Saudi Arabia (IKEA, 2009). Arla Food is one of the latest Swedish companies that have expanded into the Middle-East when they in 2005 decided to aim for a market leading position in the region (Newsdesk, 2005).

Towards the mid 1990s and early 2000s the expansion of west world companies into the Middle-East accelerated heavily. Companies such as Next and Monsoon were among the first retailers to establish outlets but were quickly followed by many others (Jones, 2003).

Alshaya is a company founded originally in Kuwait as early as in the 1890s. In the 1960s and 1970s they expanded substantially, developing business within areas such as real estate construction, hotels, automotive and general trading. In 1983 they founded their first store within the retail division as a franchise store of British company Mothercare opened. Since then Alshaya has opened a lot of franchise outlets from large multinational enterprises such as Next, Starbucks, H&M and Claire’s (Alshaya, 2009).
2.3.1 International Joint Ventures

A joint venture occurs, narrowly defined, when two or more firms pool a portion of their resources within a common legal organization (Kogut, 1988). One of the most common explanations for why companies engage in joint ventures is rooted in transaction cost theory. Explained in a simple way, Williamson (1985) argues that companies choose how to transact according to the criteria of minimizing the total sum of productions and transactions costs. Example of different joint ventures is Sony Ericsson, Fujitsu Siemens Computers and Fiat Spa (NE, 2009).

IJVs have lately become an alternative to wholly owned subsidiaries when expanding internationally (Geringer & Herbert, 1989). They are today used when competing on a global arena and also presents an effective way of dealing with the increasing competitive and technological challenges posed in today's environment. Although there exist a lot of advantages with IJVs there are also important drawbacks. Since there is a presence of two parents (owners) the company can become difficult to manage and this is often characterized by poor performance (Geringer & Herbert, 1989).

Contractor and Lorange (2002) state that apart from economic benefits, IJVs promise coordination cost advantages, improved knowledge flows, shared risks and access to complementary resources. Although despite of their widespread use IJVs do not guarantee financial success. Research has shown that many IJVs, especially in developing countries have suffered from unsatisfactory performance and serious management problems (Sim & Ali, 1998). Consequently a lot of IJVs are terminated before they accomplish the goals pursued by their partners (Vanhonacker, 1998).

Buckley, Glaister and Husan (2002) present a model that deals with partnering skills and cross-cultural issues in IJVs. The model is explained below in Figure 2.

![Figure 2 IJV Skills Set (Derived from Buckley, Glaister & Husan, 2002).](image_url)

The model presents four different kinds of skills required for making the business unit successful. Inter-partner skills to establish the IJV and fostering the relationship between the partners. The skills required by the partner managers to manage the interface between the
two partner firms and the IJV. The skills required by IJV managers to effectively cross the interface between the partners and the IJV. The skills required by the IJV managers to ensure successful operations and performance of the IJV itself (Buckley et. al., 2002).

This could then be divided further into categories as Macro, Industry/Sector, Firm and Individual/Manager (Buckley et. al., 2002). As this thesis is focused on uncovering the cultural barriers, the three last categories will to a great extent be left out of the analysis and the macro level (where cultural issues are included) will be highlighted.

2.3.2 Franchising

The Federal Trade Commission (FTC) states three demands that a business must fulfill in order to be classified as a franchise. The first is that the franchisor must license a trade name and trademark that the franchisee operates under, or the franchisee must sell products or services identified by this trademark. Secondly, the franchisor must exert a significant amount of control over the operation of the franchisee, or provide extensive assistance to the franchisee. Last the franchisee must pay a fee of at least 500 US$ to the franchisor at any time before or within the first six months of operation. Although this is a definition specifically provided for companies in the US, definitions provided in the rest of the world tend to have a very similar meaning (Blair & Lafontaine, 2005).

According to Welch (1990) it is a complex interaction of both internal and external factors that influence a company to expand internationally. These factors are background factors, direct stimuli and decision-making characteristics and are illustrated below in Figure 3.

![Figure 3 Influences on International Entry by Franchisors (Quinn, 1998).](image)

The background factors prepare the company for an international move rather than influences it directly. Welch (1990) mentions three different types of background factors influencing an international move, an expansion ethos, a network spread and a learning curve. These three attributes represents the core of franchising and is what makes it an at-
tractive strategy for growth. Regarding the expansion ethos it can be questioned whether this is unique with franchising compared to other forms of entry modes, as companies using other methods of expansion also are highly growth orientated and have achieved objectives related to growth as rapidly as their franchising competitors.

The second factor, direct stimuli, can be both internal and external. Internal stimuli is defined as "any excess capacity in the firm's resources (e.g., meaning marketing, production, finance) and/or any unique competence, for instance product superiority" (Welch, 1990, p. 22). External stimuli include activities such as orders from foreign competitors, domestic competitors entering foreign markets, increased competition in the domestic market and various market opportunities (Welch, 1990).

The last factor that influences the franchisors is the decision makers. At this point the decision to internationalize is not only influenced by the company and its environment but also on the characteristics of the individuals involved in the process, their experiences, values, attitudes and knowledge (Welch, 1990).

2.3.3 Wholly-owned Subsidiaries

By expanding with a strategy of a wholly-owned subsidiary it offers the company the benefit of total profits and full control over the foreign subsidiary (Chan, 1995). However this full control of the local subsidiary also means higher costs and risks involved in R&D, production, financing, and market penetration. Lei (1989) argues that top management believes that no organization alone can manage the high risks associated with transnational ventures. Erramilli and Rao (1990) further point out the differences between wholly-owned subsidiaries and other choices of entry mode. They divide it into four different sections and discuss the difference in involvement/control, cost, dissemination risk and returns.

Alvarez (2003) conducted a study on Catalan companies' expansion strategies when they went abroad, a comparison between wholly-owned subsidiaries and IJVs was made. Regarding the different geographical areas, the results were that IJVs were most common in Africa and Asia while wholly-owned subsidiaries were most common in the European Union and in Latin America which indicates that wholly-owned subsidiaries are more common in areas of similar culture (language).

2.4 Corporate Culture

Gorman (1989) argues philosophically that all definitions of corporate culture refer to the underground nature of culture and to the hidden hand with which culture guides feelings, thought and behavior. Schein (1985), a well-known professor and researcher within the field of organizational culture mostly known for his Three Levels of Culture, points out that culture is the total of the collective or shared learning of the group. This as the group develops its capacity to survive in its external environment and to manage its own internal affairs. He argues that culture is composed of values and assumptions which prescribe what is important, beliefs on how things work and behavioral norms which is a set of attitudes that are easier to interpret than values and assumptions.

Silverthorne (2005) describes corporate culture as a common perception that is held by all members in an organization and highlights the relational and process aspects of the organi-
zation. Subjects included are; risk taking, power and authority relationships, coping with uncertainty, motivation, loyalty and commitment, coordination and integration, control and discipline, consultation, communication and participation. However, many large organizations besides having a dominant culture also have several sets of subcultures. Usually, companies that conduct the same type of business have related standards and constraints.

According to Silverthorne (2005) corporate culture is often said to have seven primary characteristics; attention to detail, innovation and risk taking, people orientation, outcome orientation, team orientation, stability and aggressiveness. These seven different characteristics exist in every organization, some to a higher extent than others and form and shape the organization’s culture.

In earlier days, colonial activities in far-away foreign regions was not only accepted but even preferred as a way for organizations to maintain their corporate culture and a way of doing things despite of the local culture. Nowadays, as the globalization has matured, organizations have realized that success comes at a price – a price that questions an organization’s very existence and what it values. For corporate cultures to fit other regions, organizations are realizing that the cultures need to be adapted and tailored and cannot be exported wholesale. In other words, globalization requires local customization – the paradox of globalization (Crainer & Dearlove, 2008).

The multinational organizations of today must seek to embrace all cultures. This leads to a very important issue raised by Crainer & Dearlove (2008, p. 34); “If a truly global corporation is no longer rooted in a particular national culture, can it be said to have a corporate culture at all?” Perhaps the matter is less about an organization maintaining a homogeneous culture and more about developing a new culture to be able to benefit of the traditions of different regions (Crainer & Dearlove, 2008).

Ted Levitt, a Harvard professor, urged organizations in the early 1980s to think global and act local. The challenge today is to act global and think local, something that is easier said than done. Most organizations settle with the easier task of talk global and act like you do at home. However, it takes more than just talking about integrating cultures for a multinational organization to truly succeed worldwide. Serious rethinking of practices is essential (Crainer & Dearlove, 2008).

Engman and Thörnlund (2008) found in their research on the influence of international franchising on corporate culture that to easier maintain corporate culture, managers must build an environment of trust and respect. Their results also indicated that managers employed from within the company can influence the corporate culture to a larger extent. The corporate culture can easier be implemented if the franchisor and the franchisee have similar values and to make sure the corporate culture is preserved it is important for the franchisor to control the franchisee and its activities.

If an organization has a business model that requires strict observation to a specific way of doing things or has a so strong culture that it would be critically compromised by entering a particular market, then the right thing to do might be not to enter a new market. Not going into a new market can be seen as a failure, but this can also be the best decision an organization ever makes. Organizations must consider how much they are prepared to give up and subsequently decide if the price is worth paying (Crainer & Dearlove, 2008).

Göcmen, Saidi and Sourati (2007) performed a research on fast food chains’ establishment in Saudi Arabia. The conclusion they drew was that to succeed in their establishment several adaptations must be made. A fast food chain that seeks a successful establishment in
Saudi Arabia must recognize and accept everything from cogent regulations to more voluntary adaptations. Similar results were found by Assaad and Mauricci (2008) in their case study on IKEA’s presence in Saudi Arabia and the issue of two cultures under one roof. Their results show that IKEA have made several adaptations of their concept when franchising to Saudi Arabia. As a concluding remark they argue that as long as IKEA is generous with doing exceptions, the franchisee will not face any problems with adapting the concept.

2.5 Psychic Distance

Psychic distance is a debated phenomenon within international trade and commercial operations. In 1956 Beckerman formed the theory about psychic distance; that companies preferably deal with countries that are closer to them is a psychological sense, for example similarities in language. In the concluding paragraph of the article distance and patterns of Intra-European trade Beckerman (1956, p. 38) explains it by;

“... a special problem is posed by the existence of 'psychic' distance. It is probable that the manner in which the purchases of raw materials by a firm are distributed geographically will depend partly on the extent to which foreign sources have been personally contacted and cultivated. While the transportation costs paid by an Italian entrepreneur on a raw material supplied by Turkey may be no greater than the same material supplied by Switzerland, he is more likely to have contacts with Swiss suppliers, since Switzerland will be 'nearer' to him in a psychic evaluation (fewer language difficulties, and so on), as well as in the economic sense that air travel will absorb less of his time.”.

The theory has since then been debated intensely and its meaning has varied in the literature depending on how it has been used. However, it was not until researchers at Uppsala University named this phenomena “psychic distance” and composed a specific definition of the concept that it received a prominent role in science (Dow & Karunaratna, 2005).

“The sum of factors preventing the flow of information to and from the market” (Johansson & Vahlne, 1977, p. 24).

This definition explains that there exist factors that affect psychic distance between companies and the countries they intend to expand to. These factors could be differences in languages, culture, political systems, educational level, industrial level etc. Researchers have lately added more factors that they believe forms a part of psychic distance, some among these are dominant religion, business language, form of government and economic development (Dow & Karunaratna, 2005).

Evans, Mavondo and Bridson (2008) discuss the fact that although psychic distance traditionally has been used to explain the process of international market selection and internationalization the literature has failed in providing conclusive support for either a positive or a negative connection between psychic distance and organizational performance. Despite of this, Evans and Mavondo (2002) present two main arguments in support for a positive relationship. The first argument concentrates on the issue of differentiation, meaning that companies may struggle to establish themselves in a physically close market due to the fact that they cannot differentiate themselves from the existing alternatives. In contrast, companies establishing a branch in a physically distant market may be able to capitalize on their differences and so forth avoid direct competition with local actors.

The second argument presented by Evans and Mavondo (2002) connect psychic distance and organizational performance to a desire to learn about new markets. When entering
psychic distant markets the company is likely to perceive a higher level of risk, and this creates a strong desire to learn about the new market which results in a deeper understanding of the challenges and the opportunities presented by the market. This knowledge increases the company’s strategic decisions and, consequently its performance.

2.5.1 Psychic Distance and Cultural Distance

Psychic distance has in many cases been used synonymously with cultural distance. The different between the two terms is that psychic distance is something that is measured on individual level since it is the individuals’ comprehension about the psychological distance stimuli that constitutes a distance. The cultural distance is however something that should be measured on a cultural level. Cultural distance is defined more as the level of cultural differences that exists between different countries and therefore it is perceived from the cultural values that exists (Sousa & Bradley, 2004).

Even though cultural distance and psychic distance are unlike from each other there are also important similarities between them. A lot of researchers imply that the cultural distance affects the psychic distance through the interpretation of the individual. The greater the cultural distance is the harder it is to interact with the other party which could lead to misunderstandings and caution between the parties. Cultural distance is therefore a deciding factor for psychic distance and the greater the cultural distance is the greater the psychic distance is (Sousa & Bradley, 2004).

Zanger, Hodicová and Gaus (2008) further establish that psychic distance is restricted to the individual’s perception while cultural distance can be determined at country level. Apart from cultural distance they mention two other types of differences that derive to the concept of psychic distance, these are geographical distance and economical distance. To explain the theory further they have presented a model as illustrated below in Figure 4.
The model supports the views of other researchers such as Sousa and Bradley that psychic distance is related to and depends on other distances like cultural, or geographical and economical.

According to Czinkota and Ronkainen (2007) it is preferable for new international companies to start their expansion in areas that are psychologically close to their own market, to acquire experience before expanding to more distant markets. This is a step most companies normally take when they start their international process. The reason for this is that it is simpler to understand these countries and that they more or less have a similar business environment. To expand into countries where the psychic distance is small reduces the uncertainty that can emerge when expanding into a new market. It is also easier to learn about countries/markets that are psychologically close to our own (O’Grady & Lane, 1996).

The problem with the reviews of psychic distance is that most of the times it is measured on an aggregated level, which can hide important abnormalities. If you measure on a national level you could easily neglect regional differences within the country, cultural and structural differences within the industry and individual dissimilarities and experiences. Managers and decisions makers have to learn to interpret the variations in order to understand the market and adapt to it. If there is an inability to learn these important differences the adaptation process is obstructed and this affects performance results (O’Grady & Lane, 1996). The best way to decrease uncertainty is through good knowledge about the market, which is gained through experience. And the better you understand a particular market the smaller the psychic distance is (Hansson, Sundell & Öhman, 2004).

### 2.6 Principal Agent Theory

The principal agent theory that originates from the economics literature is based on the principal agent relationship and emphasizes the magnitude of associated monitoring costs, the information asymmetry and information transfer process. These are specific issues that affect the entry mode choice decision and are especially important when explaining franchising as an operating strategy for expansion (Doherty & Quinn, 2000).

Doherty and Quinn (1999) explain that the principal could be an individual or a group of individuals who have control over the economy or asset. The agent is subsequently given
the right by the principal to operate the daily activities. Furthermore, the principal could be the shareholder in a company and the agent the manager who handles the operation.

The asymmetric information problem is a major issue in the principal agent relationship and concerns the information flow. This problematic situation occurs when the agent has more detailed knowledge of the operation than the principal (Doherty & Quinn, 1999). The case could also be that even if the access to information was perfect the principal would not be able to interpret this information (Doherty & Quinn 2000). To make sure the agent cooperates the principal has two main tools and these are according to Castrogiovanni, Combs and Justis (2006) direct observation over the agents behavior and incentives which are attached to the agents output.

Another example where asymmetric information can occur is when there exist different levels of economic development between the two markets. This could for example involve differences in regulation considering employment laws, planning regulations and opening hours leading to that the agent or the franchisee has further detailed knowledge of the operations in the foreign market than the principal or the franchisor (Doherty & Quinn, 2000).

Differences in cultural practices between the home and the host country could also be an example of asymmetric information. The issues of differences in human resource management practices could be an example of this (Doherty & Quinn, 2000).

In the principal agent relationship the existence of information asymmetry is not a problem itself. It can however become a problem together with the possibility of different goals between the principal and the agent (Doherty & Quinn, 2000). This leads to the problem of moral hazard and occurs if the agent starts to work in his or her own self-interest and against the objectives set up by the principal (Doherty & Quinn, 1999).

2.6.1 Control

Control can be explained as a process by which one part, to a varying degree, influences the behavior and output of another part (Ouchi,1977) through the use of power, authority (Etzioni, 1965) and a wide range of cultural, informal and bureaucratic mechanisms (Baliga & Jaeger, 1984). According to Lawrence and Lorsch (1967) control is important considering the capacity of a company to achieve its goals. This leads to the vital need for managers to monitor, coordinate and integrate the organization’s activities in business units, including IJVs (Child, 1977; Mintzberg, 1979).

As Geringer and Hebert (1989) argue that a critical determinant of an IJV’s performance is the control exercised by parents over a venture’s activities. This is especially true in comparison to wholly-owned subsidiaries. The exercise of effective control over IJVs might be more difficult for the parent organization as they are often unable to rely solely on their ownership position to establish the IJV’s management and behavior. Insufficient or ineffective control over an IJV can limit the parent company’s ability to efficiently utilize its resources, to effectively implement its strategy and to coordinate its activities. By exercising control over some or all activities of an IJV, the company can protect its strategy, technological core or other components from exposure.
Geringer and Hebert (1989) present an approach that helps to emphasize what functions that are the most vital ones to an organization’s overall success. The model (see Figure 5) is mainly a function of the fit between the international strategy of the parents, the IJV strategy and the parameters of control. The approach deals with the organization’s decisions about which IJV activities to control, the extent of control to implement and the control mechanisms to utilize. The developed model helps to illustrate the nature of the linkages between the three parameters of control and IJV performance.

Figure 5 A Strategy-Control Model of JV Performance (Geringer & Hebert, 1989).

Control is also a vital issue for international franchise companies. This as companies continue to utilize franchising as a way for expansion internationally, in diverse economies and in locations geographically distant from the home market. As a result managing the international franchise relationship between the franchisor in the home market and the franchisee at the local level need to be given more attention (Doherty & Quinn 2000).

Assaad and Mauricci (2008) found in their case study on IKEA’s presence in Saudi Arabia and the issue of two cultures under one roof that the cultural differences affect how the franchisor controls the store. The culture of Saudi Arabia is mainly based on religion and this is the foremost issue that controls many of the adaptations.

As discussed earlier moral hazard is a result of information asymmetry and a fundamental aspect of the principal agent relationship is the contract between the principal and the agent that controls this. Due to the presence of intangible assets especially in for example the retail franchising information asymmetry is a considerable matter and is taken into account through strict contracting, payments and fees. As a result principal agent theory plays an important role in explaining power and control in international franchising (Doherty & Quinn, 2000).

Doherty and Quinn (2000) explains that there are two means by which the franchisor can control the behavior of the franchisee are coercive and non-coercive control and in this case the franchise contract functions as the major source of coercive power. Another example of control could be strict enforcement to ensure that the franchisee do not confiscate the retail brand and the concept provided by the franchisor.
“In the franchise context, coercive power includes a set of monitoring systems to ensure strict adherence to the franchise agreement and protection of the franchise trademark. Non-coercive power is obtained through the franchisor’s support activities and is concerned with management by persuasion and example, rather than by threat” (Doherty & Quinn, 2000, p. 358).

The source of power from an agency perspective is always with the principal, this since the principal is in position to enforce or end the contract if moral hazard would occur. In summary, agency theory would support coercive power as to non-coercive power (Doherty & Quinn, 2000).
3 Methodology

This chapter will account for what research approach and method that have been used in order to fulfill the purpose of this study. It further presents the data collection and discusses the validity and reliability of the findings. Finally it also includes a detailed description of the proceeding of the research and a section for shortcomings and reflections.

3.1 Research Approach

This section will discuss the methodological outline of the thesis. A qualitative approach is presented, a hermeneutic perspective argued for and a deductive strategy is chosen.

3.1.1 Qualitative Approach and Hermeneutic Perspective

To be able to answer the purpose and the research questions of this thesis the authors choose to use a qualitative approach, this in form of interviews. The authors found the qualitative approach as the most suitable approach since the nature of the purpose and research questions required more in depth answers and analysis. The qualitative approach was also chosen as the purpose and research questions could not be quantified and measured in numbers.

Hermeneutics is the study of interpretation theory and means that different people can have a different understanding of the same text (Vikström, 2005). In this thesis the authors have chosen to use a hermeneutic perspective to interpret the interviews to fulfill the purpose of the thesis. As earlier studies within the same subject has used a qualitative approach with a hermeneutic perspective the authors believed that in order to make use of them and to further develop their conclusion, using the same or a similar research strategy would facilitate the process. This might however cause common method bias and will be discussed in section 3.5.1.

3.1.2 Deductive Strategy

Since a lot of research already exists within the areas of cultural differences and expansion strategies the authors has chosen a deductive research strategy. This means that you test whether or not a theory is applicable in a practical context (Saunders et. al., 2007). This has been done by applying relevant theories on the four companies chosen for this study. The result might still be of interest to other Swedish companies planning to expand to Saudi Arabia. However the purpose is purely exploratory and the conclusions are solely based on statements contradicting or supporting the frame of reference.

3.2 Data Collection and Literature Search

The data in this thesis mainly consists of material from interviews and scientific articles. Other data consists of company specific information, news articles and previous research within the same field.

All the books and scientific articles were found through and are available at Jönköping University’s library as well as the library’s database. The most frequently used databases
were; Ebrary, Emerald, ABI Inform, Google Scholar, Scopus. Examples of search words are; corporate culture, organizational culture, psychic distance, cultural distance, power, control, principal agent theory, Middle-East, Saudi Arabia etc.

Company specific information, news articles and previous research were found through browsing the Internet. The authors used search words as; Abetong, IKEA, Oriflame, Tetra Pak, expansion strategies, Middle-East, Saudi Arabia, culture etc.

The interviews are discussed separately and in more depth in section 3.4.

### 3.2.1 Primary Data

To gather primary data that is specific for this research, the authors used interviews. A total of four interviews were conducted with managers at suitable positions at respective company. The interviews are discussed separately and in more dept in section 3.4.

### 3.2.2 Secondary Data

The secondary data in this thesis consist of data that has been collected earlier by other researchers for other purposes. This involves data from books, previous research, scientific articles, company specific information and news articles. To the possible extent the authors tried to use articles published during the last few years since the topic is very current and the prerequisites for establishing branches in the Middle-East has gone through some major changes.

### 3.3 Validity, Reliability and Credibility

Validity concerns the issue of whether the data collection methods accurately measure what it intended to measure (Saunders et. al., 2007). In this thesis this could be related to if the chosen method is relevant to fulfilling the purpose of the thesis. In this case the authors have used previous research as a template when designing both the purpose and the methodology. Therefore, with support from earlier studies this strengthens the possibility of reaching a strong validity for this thesis. External validity or generalizability concerns whether or not findings can are equally applicable to other research settings (Saunders et. al., 2007). This concern is specifically strong when conducting a case study. Since previous research has focused solely on a specific company their generalizability can be highly questioned. Since this thesis is a multiple case study between four companies the findings are more relevant in terms of generalization. However the authors are well aware of the fact that the companies are distinctly different in many ways, and making too large generalizations may be questionable.

Reliability concerns the issue if the different steps the authors have taken are identified clearly and if another researcher could repeat the process and acquire the same result (Saunders et. al., 2007). The reliability of this thesis could be questioned since it is a qualitative study with a hermeneutic perspective. This means that the authors have allowed themselves to be an active part in the interviews and the results and conclusions are affected by their previous experiences and opinions. The authors do not, however claim that the result is purely objective and instead strive for a more general understanding of the problems and
the possible solutions to them. However, Golafshani (2003) argues that the term reliability might not be relevant when analyzing qualitative studies. The purpose of the quantitative study is to “explain” while the purpose of a qualitative study is to generate understanding. It is this difference that makes reliability irrelevant within qualitative research. Stenbacka (2001, p. 552) argues that “the concept of reliability is even misleading in qualitative research. If a qualitative study is discussed with reliability as a criterion, the consequence is rather that the study is no good”.

3.4 Proceeding of the Research

This section will in detail present how the research was conducted, and present the methodology of the interviews in detail.

3.4.1 Selection of Questions

The interview questions (found in appendix A) have been developed to match the frame of reference, and are also influenced by the previous research presented in Appendix B. They are further divided into six different sections in order to facilitate the analysis of the empirical findings. The different sections are information about the respondent, information about the company/expansion/target market, corporate culture, psychic distance, principal agent theory and control. However these have been compiled into three sections for the analysis, corporate culture, psychic distance and principal agent theory and control.

Regarding the characteristics of the questions, the authors chose to develop open-ended questions. This was done in order to establish a more in-depth dialogue between the authors and the respondents and a deeper understanding of the situation and possible problems. The questions are to some extent formed in a way that guides the respondent to give a specific answer, this by providing the respondent with different examples after posing the question. This was done both to clarify some of the questions and to keep the answers within the frame of reference.

The questions are written in both Swedish and English since all of the respondents are native in the Swedish language.

3.4.2 Selection of Respondents

Saunders et. al. (2007) argue that there are two types of sampling techniques; probability and non-probability sampling. The authors have chosen to conduct a self-selective sampling which is an alternative technique within non-probability sampling (Saunders et. al., 2007). Self-selection sampling was considered a suitable choice since data has been collected from those who have been asked to take part in the study and they have showed their desire to participate.

A number of Swedish companies with operations in the Middle-East were therefore contacted and asked if they would be interested to take part in the study. Although many of them declined, with the reason that due to the current financial situation they do not have any time to spare for student theses. At first the authors wanted to make a comparison between four companies within the same industry, and by doing so hopefully be able to identify interesting differences. Although this did not prove possible for the authors and instead
four companies in different industries were chosen for the study. This meant that instead of focusing on differences between the companies, the authors have focused on similar cultural problems encountered when operating in Saudi Arabia.

The four companies chosen for this study were; Abetong, IKEA, Oriflame and Tetra Pak. These companies differ in some aspects, for example type of expansion strategy, number of years established in Saudi Arabia, type of industry sector and size of company. The authors however believe that in spite of these differences, the outcome of the study has not been affected. On the contrary, the authors believe that these differences instead have contributed to identify interesting and similar problems encountered by the four companies.

A total of four interviews were conducted at these companies, with Fredrik Holst, Deputy Managing Director at Abetong, Jonas Abélsson, Store Manager at IKEA in Riyadh, Stefan Karlsson, Chief Marketing Officer and Business Development Director at Oriflame and with Jörgen Haglind, Information Director at Tetra Pak. The interviews were conducted over the phone because of the geographical distance between the respondents and the authors. By conducting these four interviews the authors believe they will be provided with the necessary information to analyze the problem and fulfill the purpose of the thesis.

Regarding the choice to only interview one person at respective company the authors went this way simply because this would be the only person within the company that possesses the relevant information and therefore conducting additional interviews would have proven pointless.

3.4.3 Setting

All interviews were conducted over the phone or by Skype due to the fact that of the geographical distance between the authors and the respondents. All of the interviews were conducted in Swedish to avoid misunderstandings since the authors’ and the respondents’ are not native in English. Apart from this, all interviews were conducted through speaker phone so that both authors could actively participate and the interviews could be recorded. Finally both authors took notes for all of the interviews.

The first interview was conducted with Fredrik Holst 2009-04-21 at 5 pm. The interview took around 50 minutes and while Holst was in his car the authors conducted the interview from a study room at Jönköping International Business School.

The second interview was conducted with Jörgen Haglind 2009-04-24 at 10 am. The interview took around 40 minutes and while Haglind was in his office the authors conducted the interview from a study room at the School of Education and Communication.

The third interview was conducted with Stefan Karlsson 2009-04-28 at 10 am. The interview took around 25 minutes and while Karlsson was in his office the authors conducted the interview from a patio at the School of Education and Communication.

The last interview was conducted with Jonas Abélsson 2009-04-30 at 3 pm. The interview took around 35 minutes and was conducted via Skype since Abélsson works and lives in Saudi Arabia. During the interview Abélsson was in his home while the authors were at a study room at Jönköping International Business School.
3.4.4 Data Processing and Analysis Method

In order to process and in an easier way analyze the data, the interview questions were categorized in six different sections, four of them corresponding to the frame of reference of this thesis. These four are corporate culture, psychic distance, principal agent theory and control. The other two sections cover information about the respondent and the company and its operations in Saudi Arabia.

The answers to the questions were interpreted in a certain way, for example meaning that if a respondent answered that he had encountered problems with cultural differences the authors connected this to the theory of psychic distance, relating it to economical, geographical or cultural distance. Another example could be if the respondent answered that they have encountered problems with asymmetric information, the authors connected this to differences in cultural practices between the companies involved.

During the interviews and as mentioned earlier both authors took notes and recorded the interview. The material was then transcribed carefully. The authors have as a second stage of the data analysis performed a data reduction in order to reduce, focus and organize to be able to process the data in an easier way. The reduced, and thereby the most relevant findings were then translated to English with exceedingly cautiousness. The findings are presented in section 4.2, where they are categorized under corporate culture, psychic distance and principal agent theory and control. The four interviews are at first analyzed separately and then a comparison between them was made where interesting differences and similarities are highlighted.

3.5 Shortcomings of and Reflections on the Research

This section presents shortcomings of and reflections on the research. It discusses both methodological problems during the interviews and source criticism in both primary and secondary data.

3.5.1 Methodological Problems (Interviews)

As the interviews were conducted over the phone it leaves a higher risk of misinterpretation and misunderstandings than if they had taken place face-to-face. However to deal with this and minimize the risk of misinterpretations and misunderstandings the authors disclosed the print-outs from the interviews to the respondents. This to let them validate the material and possibly indicate if there is something they want altered.

This thesis might also suffer from common method bias since the authors have conducted a single-method study consisting of a semi-structured approach. The authors are aware of this shortcoming but due to shortage of time and the relatively small research project, the authors were not able utilize different types of methods.

3.5.2 Source Criticism

This section presents criticism of the different sources chosen for this thesis. It is further divided into primary data, were the interviews are discussed, and secondary data were the articles and other scientific and current publications are discussed.
3.5.2.1 Primary Data

The interview questions do to some extent presuppose that it does exist differences and problems within the companies, based on what has been described in the frame of reference. Another shortcoming concerning the interview questions is the use of the word “problems”. In retrospect the authors reflected that this word was not ideal and well thought-out. Many of the answers to the questions including the word “problems” indicated that the companies had not faced any problems. However, this since the respondents might have been unwilling to admit that they have faced any problems. A better way to formulate those questions would have been to use words such as challenges or difficulties. The authors are aware of that this might have resulted in embellished view of reality.

As this thesis is written in English and the authors and the respondents are native in Swedish, this leads to the issue of translation errors. A risk for translation errors can occur when translating the interview question. Other translation errors can arise when translating the findings of the interviews. In order to minimize those, the authors have reviewed the interview questions with our tutor and opponents at one of the thesis seminars. Regarding the translation of the empirical findings, the authors have sent the compiled and translated interviews to the respondents in order for them to validate the material.

Considering the fact that the authors have chosen to interview Jonas Abelsson who actually represents the franchisee have resulted in that some of the interview questions have been more difficult to pose. However, the authors believe that Abelsson’s knowledge about the Saudi market has been very valuable and considering his answers, the authors can conclude that the outcome has been applicable.

As all of the four companies chosen for this study are considered to be “successful” the authors faced the problem of success bias. This means that the companies are likely to underestimate the problems encountered when operating in Saudi Arabia. This is something that has been taken into consideration in the analysis and when the respondents stated that they have not encountered any problems in Saudi Arabia, the authors have taken this with a pinch of salt.

3.5.2.2 Secondary Data

Even though the authors have done thorough searches to find appropriate and suitable articles for the thesis, there is always a risk for not finding the most relevant articles. One should also consider the fact that even secondary data, such as articles might be influenced by the researcher and presents a subjective interpretation of the problem, or it may even be so that they in some cases present information that is inaccurate. Therefore it is of great importance to thoroughly review the data in a critical perspective.

Another problem that the authors encountered was the fact that since the topic is very current, and that a lot of things have happened only during the last six months, finding articles that discussed these issues was troublesome. Although the authors believed they managed to solve this is a satisfying way, one might question the relevance in at least some of the articles. Additional information related specifically to the section on Company Review (section 4.1) was collected from the selected companies’ web pages respectively. This information must therefore be considered as valid.
4 Empirical Findings of the Research

This chapter will account for the results of the research. It starts with a brief company review for all of the four companies. After that the interviews are presented, divided into three different theoretical areas, corporate culture, psychic distance and principal agent theory and control.

4.1 Company Review

In order to provide the reader with an understanding about the companies chosen in this case study the authors have chosen to present them briefly below.

4.1.1 Abetong

Abetong was founded during the 1940s in Växjö, Sweden (F. Holst, personal communication, 2009-04-21) and belongs to the German Precast Group within HeidelbergCement. The company provides the market with customized concrete products and their operations are divided into four segments; agriculture, civil engineering, housing and license activities. Abetong has production and sales units in 15 different places in Sweden. The company employs around 500 people (Abetong, 2009).

Holst explains that in 1977 Abetong signed a deal with a partner in Saudi Arabia, this due to the decline on the Swedish market during that time and the fact that the existing competence could not be utilized on the Swedish market. Also because of the fact that oil-producing countries had an economical upswing that attracted many to invest in these countries. Holst also explains that Iran was the initially intended market but due to that a television program broadcasted bad publicity about Sweden, the deal fell through.

Abetong’s partner Alrashid-Abetong in Saudi Arabia is an IJV that employs 4,000 people within four large factories in the country (Alrashid Abetong, 2009).

4.1.2 IKEA

IKEA, founded by Ingvar Kamprad in Agunnaryd, Sweden in 1943, offers a wide range of well-designed and functional home furnishing products. The IKEA Group has a total of 263 IKEA stores in 24 countries/territories. Furthermore, there are 34 IKEA stores that are owned and run by franchisees outside the IKEA Group in 16 countries/territories (IKEA, 2009). The world-wide franchising of the IKEA concept is owned by Inter IKEA System B.V. which is located in The Netherlands (Inter IKEA Systems B.V., 2009).

In 1983 the first IKEA store was opened in Jeddah in Saudi Arabia and today the country has three IKEA stores with around 250 employees in each store (J. Abelsson, personal communication 2009-04-30). Abelsson explains that when an international company wants to enter Saudi Arabia the regulations in the country requires that a partnership with a Saudi Arabian partner is established. This and the fact that entering a distant market can be quite risky resulted in the choice of franchising.
4.1.3 Oriflame

Oriflame was founded in 1967 by Bengt Hellsten, Jonas af Jochnick and Robert af Jochnick and offers a wide range of high quality beauty products. The sales force today consists of around 3,1 million consultants around the world. Oriflame employs around 7500 people and they have five own production units in Sweden, Poland, China, Russia and India. They also have operations in 61 countries of which 13 are franchisees (Oriflame, 2009).

Six years ago Oriflame expanded to Saudi Arabia by franchising. They chose this expansion strategy since the consumer market is relatively small in this area. One reason for why Oriflame chose to expand to Saudi Arabia was that they had a franchisee in Sudan that had contacts and family in Saudi Arabia (S. Karlsson, personal communication 2009-04-28).

4.1.4 Tetra Pak

Tetra Pak was founded in 1951 by Ruben Rausing and is today one of three companies in the Tetra Laval Group. The company provides hundreds of different types of carton packaging for food and their unique innovations have changed the way food is packaged and distributed around the world. Tetra Pak operates in more than 150 market and employs over 20 000 employees (Tetra Pak, 2009).

During the 1960s Tetra Pak expanded their operations to Saudi Arabia through wholly-owned subsidiaries (J. Haglind, personal communication, 2009-04-24). Haglind explains that Tetra Pak has always been a global company with a product suitable for almost all countries with a functioning infrastructure and it was early established that Sweden was not the market for Tetra Pak’s products.

4.2 Interviews

A total of four interviews were conducted with four different companies and are presented below. In order to facilitate for the reader they are first divided into the different companies and then divided into three theoretical sections, corporate culture, psychic distance and principal agent theory and control.

4.2.1 Abetong

At Abetong, the authors interviewed Fredrik Holst, Deputing Managing Director at the company. Holst started his career in Skanska in 1994 as a Product Developer. In 2003 he started working at Abetong as a division manager and in 2008 he became Deputing Managing Director at the company.

4.2.1.1 Corporate Culture

According to Holst the fundamental values of the company are simplicity, flexibility and short ways of decisions. The company is very decentralized with autonomous divisions. Further Holst describes the company more as a geographical organization rather than a functional one. Holst describes Abetong’s corporate culture as open, honest and with a fo-
cuses on long-term relationships. He mentions that before the expansion to Saudi Arabia the company had a stronger entrepreneurial spirit and a greater acceptance to risks.

According to Holst maintaining corporate culture comes naturally when expanding to a new market, this because knowledge and experiences are transferred from the mother company. The companies might sometimes have different needs and one must give and take, be willing to listen to each other and compromise to find the best solutions. Holst believes that it is important that all companies have a certain degree of closeness to the mother company. He further states that the expansion to the Saudi Arabia has only been positive and has given them a lot of opportunities. The employees find it exciting to have the opportunity to work abroad. Swedes are nowadays more open to other cultures. Holst states that the expansion has also had a very positive influence on Abetong’s economy.

4.2.1.2 Psychic Distance
Holst perception of the national culture is that there exists enormous differences, in particular when it comes to women’s roles in the society, for example Abetong has only men employed at the local company. He believes that it is impossible for Abetong to change the country’s national values and regulations. If Abetong are to be present in Saudi Arabia they have to accept the national culture. According to Holst, what differs the local market from the Scandinavian market is that in Saudi Arabia the projects are larger and more investments are made. It is often an advantage to have contacts within the royal house. He also explains that businesses are built more on knowledge, relationships and trust. Holst continues and states that religion has a very central role, in comparison to the western culture. At the same time the people are very honest, open and curious about western culture.

Holst feels it is important to be perceptive to the national traditions, investigate business relations and to expect that things are done differently. He further talks about the importance of capturing the business culture and locating the demand. Holst believes that acquisitions or IJVs are good ways to enter a new market. This is even more substantial in Saudi Arabia where there exist great cultural differences. One must be adaptable and be patient since the business processes often are very long. According to Holst Abetong has not encountered any problems with respect to language, this since the business language is English. Cultures, political systems, religion, business language, form of government and economic development, have not been a source of problem for Abetong. However when it comes to educational level, there have been a shortage of qualified engineers available in Saudi Arabia.

According to Holst Abetong has experienced several advantages with being a Scandinavian company in the Saudi Arabia. In general Swedes are trusted in the Middle-East, this because they over the years have performed a very good job. There exist a good reputation of Swedish companies in the Middle-East and several Swedish competences have given them a competitive advantage.

4.2.1.3 Principal Agent Theory and Control
According to Holst Abetong has not encountered any problems regarding asymmetric information. However there do exist different interests as to the financial structure of the local company. He further states that they have not encountered any problems with working towards mutual goals. To ensure that the local company cooperates board meetings are
held twice a year. Holst says that the relationship is to a great extent built on trust and continuity, for example some of the board members have been present in Abetong for over 20 years.

According to Holst Abetong does not exercise any control in the local company, since it is a private corporation. Instead they support the local company with management and knowledge while the Saudi company provides business contacts and opens doors. The annual report is controlled according to national regulations. Abetong receives information continuously from the Swedes that are employed at the local company.

4.2.2 IKEA

At IKEA the authors interviewed Store Manager Jonas Abelsson. Abelsson started working at IKEA Riyadh in Saudi Arabia in 2006.

4.2.2.1 Corporate Culture

IKEA’s fundamental values are to create a better every-day-life for many people and they do this by offering a wide range of well-designed functional home furnishing products at low prices so that as many people as possible will be able to afford them (IKEA, 2009). According to Abelsson IKEA’s corporate culture is typically Swedish, with a low level of hierarchy and a high level of trust. Abelsson further explains that many people in Saudi Arabia are used to having one strong leader that takes charge. Therefore Abelsson consider it is important to market the Swedish leadership style and to communicate the Swedish culture. “Swedishness” is also one of the corporate brand values which are mandatory for any IKEA organization to communicate internally as well as externally. This does not only include the Swedish furnishings range but also the Swedish values. Abelsson believes it is a necessity to maintain the corporate culture when expanding to a new market. He further states that the corporate culture is the soul of the company and that is what makes the company strong, it is a necessity to ensure a strong corporate identity. However, minor adaptations need to be made due to macro factors, but it is important not to modify the core.

According to Abelsson, when expanding to a new market internal training is an important part to maintain corporate culture. This could for example include mediation of the company’s corporate culture and specific guidelines. Abelsson argues that minor adaptations have been made and that IKEA has been able to maintain their corporate culture to 99%. However, certain adaptations have been made due to women’s role in Saudi society, Saudi legislations and religion. He also explains that IKEA in Saudi Arabia has chosen to employ Swedish or IKEA experienced employees in Saudi Arabia to ensure that the fundamental values are pursued, this is especially important during the implementation stage of the expansion.

According to Abelsson, there is of course a risk of harming the company’s brand/image/corporate culture when expanding to a distant and different market. The brand can be harmed if the market is not ready for the company and its products or services. He emphasizes that one must make a thorough analysis to make sure the market is mature and that there is a demand for the products and services one is wishing to sell.
4.2.2.2 Psychic Distance

According to Abelsson, the national culture is quite Americanized and to a great extent influenced by religion. The culture is also very family-oriented. When expanding to a new market, Abelsson mentions three issues that are of importance. Firstly, the company needs to ensure that the products have a demand on the market. This is done by investing in a thorough analysis of the market to ensure that the market is mature for ones products. Secondly, one must have local knowledge and experience of the market. This can be solved by accruing a strong local partner that has extensive knowledge about the local market. Finally, one must be patient since the processes in Saudi Arabia could be very long.

Abelsson states that language is always a difficulty as all employees do not speak English - the corporate language. Religion and the political system are two other areas that also can cause problems or be seen as barriers for those who are not familiar with them. Abelsson further explains that in general the educational level in Saudi Arabia is quite low and it is therefore difficult to find qualified personnel. Also business ethics are not the same as in the west. Regarding business language, all contracts are written in both English and Arabic. However, the Arabic version is the official one and that could create problems with interpretation this since the Arabic language has many words that can mean differently depending on who is reading it. Legislation (form of government) could also create problems, this since local regulations are sometimes intervened by or incomprehensive and up to arbitration. This usually means that the process sometimes is much longer than for example in Sweden. Regarding the economic development, Abelsson sees only advantages. To solve the challenges within language, religion, political systems, educational level, business language, form of government and economic development it is according to Abelsson important to have local representatives and IKEA has specialists within different areas to deal with this.

According to Abelsson IKEA has mainly experienced advantages with being a Scandinavian company in Saudi Arabia. Swedes are associated with offering high-quality products. He further believes that Swedes has an advantage compared to other international companies in Saudi Arabia since Swedes are more patient and their leadership is influenced by democracy and discussions.

4.2.2.3 Principal Agent Theory and Control

According to Abelsson, IKEA has faced difficulties with asymmetric information mainly related to the language. He further believes that the issue of asymmetric information is always a challenge when one is not familiar with the language. Problems with asymmetric information that IKEA has encountered occurs when for example translating certain documents or regulations. Sometimes it is impossible to translate certain words or words can have several meanings and be interpreted in different ways. Another problem is that when conducting meetings in Arabic, the participants forget to inform the English-speaking employees and the problem with asymmetric information arises.

Abelsson believes that there are always challenges when working towards mutual goals. However, these obstacles are often small details and can be minimized by clear communication between the partners. He further mentions that the language is a barrier in this area as well. To ensure that the staff cooperates, regular meetings are held to guarantee that everyone is in line with corporate goals.
Abelsson explains that the franchise contract is used to ensure that the business agreement is held. This is also done by regular reviews of the franchisee by the franchisor. Apart from this, the franchisee must be transparent to the franchisor in regards to the franchising fee by sharing its sales development.

4.2.3 Oriflame

At Oriflame, the authors interviewed Stefan Karlsson, Chief Marketing Officer and Business Development Director at the company. Karlsson started at Oriflame in 1992 as a sales person and he later became Regional Director and Country Director. In 2000 Karlsson left Oriflame but returned in 2005 and attained the position he has today.

4.2.3.1 Corporate Culture

The fundamental values of Oriflame are togetherness, spirit and passion. Karlsson explains that Oriflame is a value-driven company where nothing is impossible. According to Karlsson corporate culture is what replaces regulations and policies. A clear corporate culture is a prerequisite in order to be successful and this is something that Oriflame puts a lot of effort into. It simplifies the process for employees to make decisions by having an understanding of the core values instead of making decisions based on large policy documents. Karlsson further states that the corporate culture is part of the business and vital in order for it to function, and therefore important to maintain it when expanding to a new market. Karlsson explains that when expanding to a new market Oriflame maintains their corporate culture by internal trainings. They also have a franchise department that sends representatives as cultural communicators in order to establish budgets and goals.

According to Karlsson Oriflame has not made any adaptations to their corporate culture when expanding to Saudi Arabia. However they have been forced to make adaptations when it comes to the work culture. This can for example mean that in certain positions no men are allowed, women are not allowed to travel with men and Oriflame cannot send out direct mail advertising to women. Karlsson further says that it is more difficult to maintain corporate culture in a franchise organization than in a wholly-owned subsidiary. He also states that the expansion to Saudi Arabia has not had any negative effects for the company.

4.2.3.2 Psychic Distance

Karlsson states that he is no expert on the national culture but points out that there are vast differences especially in regard to religion and one must be prepared to make adaptations. According to Karlsson there exist an enormous amount of issues that need to be taken into consideration when expanding to a new market, for example legislations, wage levels and employment regulations. These issues are the same for all markets, however there exist some differences in Saudi Arabia. This especially includes women’s role in society. The consumption pattern is also different, this since color cosmetics are more popular in Saudi Arabia, as opposed to Europe where skin care is the largest segment.

According to Karlsson Oriflame has not encountered any major problems with respect to language, culture, political systems, educational level, religion, business language, form of government and/or economic development. Karlsson states that it is Oriflame’s core competence to overcome these issues. He further points out that the cooperation with Saudi
Arabia is in many aspects easier than the cooperation with for example Pakistan. However certain adaptations have been made with respect to religion, political systems and culture. According to Karlsson Sweden is perceived as a country with high morals and ethics, and Swedes are known for offering high quality products. However Karlsson has not experienced any major advantages with being a Scandinavian company in the Saudi Arabia and he states that many people are not familiar with Scandinavia or Sweden.

4.2.3.3 Principal Agent Theory and Control

According to Karlsson Oriflame has not encountered any problems with asymmetric information, this due to the simplicity of their operations and the market they operate in. However there have been problems with working towards mutual goals. Sometimes the franchisee is more interested in supporting their families financially rather than focusing on what is best for the mother company. Karlsson states that to ensure that the local company cooperates, there need to exist a sense of closeness. This is ensured by various events such as conferences and seminars. Karlsson further states that it is important to make the local company feel as they are a part of the mother company. This is as relevant for franchising as for wholly-owned subsidiaries.

According to Karlsson Oriflame controls the financial activities of the local company, this includes monitoring costs, profits etc. However the company’s perception on the market is not investigated further. Nevertheless there are contracts that regulate the local company’s rights and liabilities. Karlsson states the importance of employing and working with the right people that share and understands Oriflame’s fundamental values. After that it is each and everyone’s own responsibility to make sure the company moves forward. According to Karlsson the most important aspects to control and influence at the local company are product development, sales force development, turnover and profits/costs. Karlsson further states that regarding this Saudi Arabia is not different from the rest of the world.

According to Karlsson Oriflame has not encountered any problems with exercising effective control at the local company. He further states that the franchise contract is a large document that does not include any control mechanisms, however there are strict rules and guidelines. Karlsson says that there are no major differences in the franchise contract between different countries.

4.2.4 Tetra Pak

At Tetra Pak, the authors interviewed Jörgen Haglind, Information Director at the company. Haglind started his career as a consultant and in 1986 he joined Tetra Pak. Since 1991 he has been a representative in the management team.

4.2.4.1 Corporate Culture

Tetra Pak's fundamental values include customer focus and long-term view, quality and innovation, freedom and responsibility and partnership and fun. Haglind believes that Tetra Pak is a culture-driven company and the culture is thereby an important part of the company when expanding. When Tetra Pak decides to expand to a new market they estimate the differences in corporate culture and national culture of the target market and if necessary actions are taken. An example of this is that they send representatives to train the local
employees and management in production, corporate culture and Tetra Pak’s ways of doing business. Tetra Pak has according to Haglind not experienced any problems in maintaining their corporate culture when expanding to Saudi Arabia. He further mentions that he believes they encountered greater challenges in Asia regarding the strict hierarchy that penetrates their business culture. The challenges faced in Saudi Arabia have been easier to overcome than the ones faced in Asia. According to Haglind the food processing industry in Saudi Arabia is very international and this has facilitated the operations for Tetra Pak.

According to Haglind Tetra Pak has only made minor adaptations, for example can be mentioned that they have women employed throughout the organization and this also includes management positions. Haglind further states that the expansion to Saudi Arabia has not harmed the company in terms of image, brand and/or corporate culture. He argues that people are able to separate between business and what happens outside the company.

4.2.4.2 Psychic Distance

Haglind perceives the national culture as very male dominant. The society is founded on a strong and clear hierarchical view with a powerful royal house. He further believes that every country is unique and that the differences between Sweden and the Saudi Arabia are no greater than the differences between Sweden and Germany. Haglind states that what differs the market in Saudi Arabia from the Scandinavian market is the consumption pattern – not as much dairy products are consumed in Saudi Arabia but rather juice products. When expanding to a new market it is according to Haglind important to make a thorough analysis of the target market. This includes a demand analysis, that there exist a capacity to purchase the product and that the relevant competence exist. Furthermore he states that this analysis is always conducted when expanding to a new market and therefore this analysis is not unique for Saudi Arabia.

According to Haglind Tetra Pak has not encountered any problems related to language, culture, political systems, educational level, religion, business language, form of government and economic development, although he admits that there exists challenges but they are no greater in Saudi Arabia compared to the rest of the world. Every country is unique and corresponding problems exist in all countries. He states that one cannot rely on having a management team with only Swedes when having an operation abroad but need to capitalize on the national knowledge.

Haglind states that there exist some advantages with being a Scandinavian company in Saudi Arabia. Swedish knowledge is very attractive and in general Swedish engineering has a good reputation. Although in recent years regarding to the Muhammad drawings Scandinavians have endured negative publicity. Tetra Pak has no local competitors in Saudi Arabia and in comparison to many global competitors they have enjoyed an advantage by being physically present.

4.2.4.3 Principal Agent Theory and Control

According to Haglind Tetra Pak has not encountered any problems with asymmetric information. This is due to the fact that the local company is wholly-owned by Tetra Pak and therefore it is easier to maintain a high level of transparency. Haglind further states that Tetra Pak has not come across any problems regarding working towards mutual goals. Overall goals are established and thereafter communicated at the business review meetings to the
managers respectively. The managers later return with an action plan that is discussed and then established if it corresponds with Tetra Pak’s overall goals. Haglind explains that there is always a sense of “we” and that the goal-setting process is a collective process.

The operations are controlled through two types of audits; financial and business. These are executed by an external part. Tetra Pak conducts a yearly self-assessment to ensure that policies and guidelines are implemented. Within every operation there exist a number of different key performance indicators. According to Haglind Tetra Pak has not encountered any problems when exercising effective control.
5 Analysis

This chapter will analyze the findings of the study. It is divided into the three different theoretical sections used in the empirical chapter. Citations from the frame of reference are used for all of the three areas and for psychic distance a model is used in order to facilitate the analysis. Each section is summarized with a table highlighting the key points of the analysis.

The analysis chapter is divided into three main sections, corporate culture, psychic distance and principal agent theory and control. In each of the sections several interesting extracts from the frame of reference is presented and analyzed first for each company separately and concluded with a comparative analysis between the companies. Below, in Table 1 a summary of the four companies’ year of entry and expansion strategy is presented.

Table 1 Compilation of Expansion Strategy and Year of Entry.

<table>
<thead>
<tr>
<th>Company</th>
<th>Year of Entry</th>
<th>Expansion Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abetong</td>
<td>1977</td>
<td>IJV</td>
</tr>
<tr>
<td>IKEA</td>
<td>1983</td>
<td>Franchising</td>
</tr>
<tr>
<td>Oriflame</td>
<td>2003</td>
<td>Franchising</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>1960s</td>
<td>Wholly-owned Subsidiary</td>
</tr>
</tbody>
</table>

5.1 Corporate Culture

Holst talks about the importance of being adaptable in particular when it comes to women’s role in society in Saudi Arabia, for example Abetong has only men employed. This comports with Crainer and Dearlove’s (2008) statement to a certain degree.

Abelsson’s statements support this theory to a certain degree by highlighting that IKEA has made minor adaptations when expanding to Saudi Arabia. However, these adaptations have been made due to macro factors such as women’s role in Saudi society, Saudi legislations and religion.

Karlsson states that Oriflame has not made any adaptations to their corporate culture when expanding to Saudi Arabia. Although they have been forced to make adaptations when it comes to the work culture, this mainly concerns women’s role in Saudi society. However the authors will regard this to be a part of corporate culture and therefore it comports to a certain degree with the statement of Crainer and Dearlove (2008).

Haglind mentions that Tetra Pak has only made minor adaptations when expanding to Saudi Arabia. This statement supports the statement of Crainer and Dearlove (2008) to a certain degree, indicating that changes has been made but that these have been small scaled. He further mentions that they do have women employed throughout the organization, even at management positions.
Abetong, IKEA and Oriflame all mentions the issue of women’s role in Saudi society and that certain adaptations have been made due to this. Tetra Pak however, does not regard this as an issue as they have not needed to make any adaptations. One reason for this could be the fact that Tetra Pak has a wholly-owned subsidiary and this could mean that they are less integrated in the Saudi society. Apart from this the authors can conclude that none of the companies have made any major adaptations. The authors can also conclude that apart from Abetong there is nothing that indicates that the other companies only have men employed.

Perhaps the matter is less about an organization maintaining a homogenous culture and more about developing a new culture to be able to benefit of the traditions of different regions (Crainer & Dearlove, 2008).

Holst explains that when expanding to a new market maintaining corporate culture comes naturally. This because knowledge and experiences are transferred from the mother company. He further describes Abetong’s corporate culture as open, honest and focused on long-term relationships. The authors do not interpret this as Abetong has developed a new culture. However Abetong has been present in Saudi Arabia for over 30 years and Holst describes their corporate culture with terms that could be associated with the national culture. This alongside with the fact that before the expansion to Saudi Arabia Abetong had a stronger entrepreneurial spirit and a greater acceptance to risk, indicating that the national culture has during these 30 years reshaped Abetong’s corporate culture to a certain degree. Another reason that could affect the fact that Abetong has been influenced by the national culture is that the local branch is an IJV, resulting in a greater influence from the Saudi partner.

This statement is something that IKEA’s fundamental values strongly disagree with. As IKEA firmly believes in the “Swedishness” they mediate, abandoning this would be to abandon their core values. Since IKEA is a franchise the authors believe that the franchise contract could also contribute to maintain corporate culture to a certain extent.

Karlsson states that corporate culture is part of the business and vital in order for it to function and therefore important to maintain when expanding to a new market. Since Oriflame is a value-driven company, the corporate culture has a very central role and to abandon it would be abandoning the core on which the company is built. The statement by Crainer and Dearlove (2008) therefore contradicts the view of Karlsson. The ability to maintain corporate culture could also be facilitated by the existence of the franchise contract.

Haglind mentions that Tetra Pak is a culture driven company, and therefore it is an important part of the company when expanding. He further mentions that they have not encountered any problems in maintaining their corporate culture. These comments by Haglind do not support the statement of Crainer and Dearlove (2008). Since Tetra Pak has a wholly-owned subsidiary they are in full control of the local company, and this could be a reason for why they have been able to maintain their corporate culture.

IKEA, Oriflame and Tetra Pak are all are companies that have very strong values and therefore this statement becomes irrelevant. Changing the corporate culture or the fundamental values of a company and developing a new culture would critically harm their core values. Regarding Abetong, the authors have gotten the impression that the company does not have an as strong corporate culture, or that they are not as determined to maintain it which has led to that their corporate culture has been influenced by the national culture. The statement by Crainer and Dearlove (2008) seems less suitable or unthinkable for com-
panies with strong values and a strong corporate culture. Another issue of importance is the fact that different expansion strategies have been used between the four companies. IKEA, Oriflame and Tetra Pak have used franchising and wholly-owned subsidiary. These two expansion strategies might facilitate the ability to maintain corporate culture. As Abetong has an IJV it would only seem natural that the national culture has had a greater influence on the company.

Engman and Thörnlund (2008) found in their research on the influence of international franchising on corporate culture that to easier maintain corporate culture, managers must build an environment of trust and respect. Their results also indicated that managers employed from within the company can influence the corporate culture to a larger extent.

As mentioned earlier Holst states that when expanding to a new market, maintaining corporate culture comes naturally. Other than this there is nothing that indicates that Abetong works actively to maintain their corporate culture. Holst also mentions that there are Swedish employees at the IJV, but the authors cannot conclude that this is an intention from Abetong in order to maintain corporate culture.

Abelsson emphasizes this when he talks about the importance of employing Swedish or IKEA experienced employees in Saudi Arabia to ensure that the fundamental values are pursued. Abelsson further states that internal training is an important part in order to maintain corporate culture. These comments coincide with the findings of Engman and Thörnlund (2008) that managers employed from within can influence the corporate culture to a greater extent.

Nothing of what Karlsson says indicates that Oriflame has taken action similar to those discussed by Engman and Thörnlund (2008). However he states that Oriflame has a franchise department that sends representatives as cultural communicators. He further mentions that they have internal trainings. These two things are done in order to maintain the corporate culture.

Nothing of what Haglind mentions supports the findings of Engman and Thörnlund (2008). However he explains that if the differences in corporate- and national culture are estimated as large between Sweden and the target market, Tetra Pak sends Swedish representatives. This is done to train the local employees and management in production, corporate culture and Tetra Pak’s ways of doing business.

Only IKEA mentions that they employ from within the company which comports with the findings of Engman and Thörnlund (2008). Apart from this Abetong do have Swedes employed at the local company but the intention to this is unclear for the authors. However they do not work actively to maintain their corporate culture. Oriflame and IKEA both have internal trainings. Tetra Pak sends Swedish representatives to cultural distant markets and this can be compared with Oriflame sending cultural communicators. The authors can conclude that although some similarities exist, the four companies work to a larger extent in different ways to maintain their corporate culture. This could be related to the different types of industry they operate in and their choice of expansion strategy since the findings of Engman and Thörnlund (2008) are related to franchising operations.

If an organization has a business model that requires strict observation to a specific way of doing things or has a so strong culture that it would be critically compromised by entering a particular market, then the right thing to do might be not to enter a new market (Crainer & Dearlove, 2008).
There is nothing that points to that Abetong has a business model that would be critically compromised by entering Saudi Arabia. Instead there are actually factors that could work in favor for Abetong compared to companies in other industries, such as the fact that they operate in an industry that is male dominant.

The authors find this highly interesting in the case of IKEA, since the initial thought is their business model is too different compared to the national culture in Saudi Arabia. Abelsson also believes that there is a risk of harming the company’s brand/image/corporate culture when expanding to a distant and different market. Therefore he emphasizes the importance of ensuring that the market is mature and ready for the company and its products and services. In spite of this IKEA has braved the circumstances, entered the Saudi market, and done it in a successful way, this contradicting the statement of Crainer & Dearlove (2008).

Considering the nature of Oriflame’s business, and the fact that women constitute the majority of their target market, one would assume that Oriflame had been forced to critically compromise their brand/image/corporate culture when entering the Saudi market. However, according to Karlsson the expansion to Saudi Arabia has not had any negative effects on the company but resulting in a successful expansion, contradicting the statement above.

Despite the fact that Tetra Pak is culture-driven company there is nothing that indicates that their business model have been critically compromised by entering Saudi Arabia. On the contrary and as Haglind states Tetra Pak has always been a global company with a product suitable for almost all countries.

IKEA, Oriflame and Tetra Pak are all three companies that since they have strong corporate cultures, could be critically compromised when entering the Saudi market. However, all of them have braved the circumstances in a successful way. Considering the statement of Crainer and Dearlove (2008), the success of these three companies’ indicate that even though a company has a strong corporate culture it may very well successfully establish itself in a cultural distant market.

A fast food chain that seeks a successful establishment in Saudi Arabia must recognize and accept everything from cogent regulations to more voluntary adaptations (Göçmen, Saidi & Sourati, 2007).

There is nothing that indicates that Abetong has made any major adaptations when expanding to Saudi Arabia. However since the companies might sometimes have different needs and therefore one must give and take, be willing to listen to each other and compromise to find the best solutions. These comments by Holst support the findings of Göçmen, Saidi and Sourati (2007).

Abelsson’s comments support this statement but points out that the adaptations that have been made are minor and IKEA has been able to maintain their corporate culture to 99%. This does to some extent support the statement of Göçmen, Saidi and Sourati (2007).

As mentioned earlier Oriflame has made minor adaptations when it comes to the work culture, mainly concerning women’s role in Saudi society supporting the findings of Göçmen, Saidi and Sourati (2007).

Haglind states that Tetra Pak has not made any major adaptations to their operations when expanding to Saudi Arabia. This to a certain extent comports with the findings of Göçmen, Saidi and Sourati (2007).
All of the four companies state that they have only made minor adaptations, mainly related to legislations. None of the four companies indicate that any voluntary adaptations have been made in Saudi Arabia.

Assaad & Mauricci (2008), in another study on IKEA in Saudi Arabia argue that as long as IKEA is generous with doing exceptions, the franchisee will not face any problems with adapting the concept.

As mentioned earlier Abetong has only men employed, however whether or not this can be considered an adaptation can be debated. This since Abetong operates in very male dominant branch and the authors can assume that the number of female employees is low also in Sweden. However apart from this there is nothing that indicates that Abetong has been generous with making exceptions in Saudi Arabia.

This is a statement that creates confusion for the authors, since it can be interpreted as if IKEA is open to making adaptations. The statement could also be interpreted as if IKEA has made substantial adaptations. This is not the compiled impression from the findings of this thesis.

Oriflame is a value-driven company and a clear corporate culture is a prerequisite in order to be successful and this is something that Oriflame puts a lot of effort into. Karlsson further states that the corporate culture is part of the business and vital in order for it to function and therefore important to maintain when expanding to a new market. These statements by Karlsson do not indicate any similarities with the findings of Assaad and Mauricci (2008). This as the authors have gotten the impression that Oriflame firmly believes in their corporate culture and is not willing to make any major adaptations.

As Tetra Pak is a culture driven company and the fact that Haglind emphasizes that culture is an important part of the company when expanding indicates that Tetra Pak has not been that generous with making exceptions. This is also supported by the comments of Haglind regarding the fact that they have not made any significant adaptations.

None of the four companies have given the authors the impression of being generous with making adaptations in Saudi Arabia, contradicting the statement of Assaad and Mauricci. However the authors believe that the phrasing of Assaad and Mauricci (2008) creates confusion as the expression generous with doing exceptions might indicate that the company needs to make a substantial amount of exceptions to not face any problems.

Below Table 2 highlights the key points of the analysis of corporate culture.

<table>
<thead>
<tr>
<th>Company</th>
<th>Adaptations made to corporate culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abetong</td>
<td>Minor adaptations (due to women’s role in Saudi society)</td>
</tr>
<tr>
<td>IKEA</td>
<td>Minor adaptations (due to women’s role in Saudi society)</td>
</tr>
<tr>
<td>Oriflame</td>
<td>Minor adaptations (due to women’s role in Saudi society)</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>Minor adaptations (due to other circumstances)</td>
</tr>
</tbody>
</table>
5.2 Psychic Distance

This definition explains that there exist factors that affect psychic distance between companies and the countries they intend to expand to. These factors could be differences in languages, culture, political systems, educational level, industrial level etc. Researchers have lately added more factors that they believe forms a part of psychic distance, some among these are dominant religion, business language, form of government and economic development (Dow & Karunaratna, 2005).

Holst states that Abetong has not encountered any problems in any of the areas except for educational level where there is a shortage of qualified engineers available in Saudi Arabia. This means that the total psychic distance perceived from Abetong’s point of view is of small amounts as it is only related to educational level.

When it comes to these factors, Abelsson argues that problems have been encountered in all areas except the one of economic development where he only sees advantages. These statements (described in detail in section 4.2.2.2) indicate that IKEA has encountered factors that have affected the psychic distance to a high extent, acknowledging the existence of the concept as a source for problems.

Karlsson states that Oriflame has not encountered any major problems related to the issues brought up by Dow and Karunaratna (2005). However challenges have been encountered with respect to religion, political systems and culture and therefore certain adaptations have been made in these areas. These comments point to that Oriflame in fact has encountered factors that have affected psychic distance, also indicating the existence of it.

Haglind explains that Tetra Pak has not encountered any problems but rather challenges related to these factors. This indicates that Tetra Pak has encountered a certain level of psychic distance.

All of the four companies have to some extent encountered challenges related to these areas, however it differs significantly between the companies. IKEA states that they have faced challenges in all areas except economic development, whereas the other three companies have encountered problems within one or a few areas. A reason for this could very likely be the fact that Abelsson is the only one who actually works in Saudi Arabia and therefore could be considered to have more extensive knowledge compared to the other respondents. With this in mind, the authors will consider Abelsson’s view of the national market to be of greater reliability than the others’. These problems might actually be present in the other companies as well, but the managers that the authors interviewed might not have the insight to acknowledge them. Whether or not one takes this into consideration, psychic distance does exist within all of the companies, however the authors believe that it is to a higher extent than is acknowledged.

In contrast, companies establishing a branch in a physically distant market may be able to capitalize on their differences and so forth avoid direct competition with local actor (Evans & Mavondo 2002).

Holst states that Abetong has enjoyed several advantages with being a Scandinavian company in Saudi Arabia. This related to the fact that they are trusted since they over the years have performed a very good job. He further mentions that several Swedish competences have given them a competitive advantage. This indicates that Abetong has been able to capitalize on the difference and avoid competition with local actors.

Concerning the fact of capitalizing on their differences when expanding to a physically distant market, Abelsson states that IKEA mainly has experienced advantages with being a
Scandinavian company in Saudi Arabia. This mainly as Swedes are associated with offering high-quality products and also the fact that Swedes are perceived as more patient and their leadership is influenced by democracy and discussion. This last point indicates that IKEA actually has been able to benefit from the psychic distance.

Karlsson states that despite the fact that Sweden is perceived as a country with high morals and ethics, and that Swedes are known for offering high-quality products Oriflame has not been able to capitalize on their differences and experienced any major advantages with being a Scandinavian company in Saudi Arabia. Therefore nothing indicates that Oriflame has benefited from the psychic distance, even though some advantages exist on the marketplace.

Haglind mentions several advantages with being a Scandinavian company in Saudi Arabia, this especially as Swedish knowledge is very attractive in general and Swedish engineering has a good reputation. He further states that Tetra Pak has no local competitors in Saudi Arabia. These factors has led to that they have been able to capitalize on their differences and they have enjoyed an advantage of being physically present.

In general, all of the four companies states that Swedes have a good reputation Saudi Arabia and are famous for offering high-quality products. This among other factors mentioned above have made them able to capitalize on their differences and given them a competitive advantage.

Figure 6 Demarcation of Psychic Distance From Other Distance Concepts (Zanger et al, 2008).

**Geographical Distance**

Regarding the geographical distance it is the same for all four companies, with head offices in Sweden and the focus of the international operations in Saudi Arabia. Therefore this term will not be discussed separately for each company. The geographical distance can be estimated as a midrange distance taking the whole world into consideration. A greater geographical distance means greater challenges faced in terms of communication and especially face-to-face communication since a greater geographical distance aggravates the visits to the local company. But even though the geographical distance remains today’s technological advances facilitates the communication in several ways. As a concluding remark it can be said that geographical distance has an effect on psychic distance in our case, but that this influence is not of major importance.
**Economical Distance**

As discussed in the target market review countries around the Persian Gulf have through their findings of oil experienced high growth in economic welfare. The Middle-East has been developing at a rapid pace during the last years and is the richest among the developing regions in the world. The Middle-East offers advantage for foreign investors such as cheap labor, tax incentives, cheap oil prices and even lack of competition in some cases. Another important factor to consider is that 70% of the population in Saudi Arabia is below 30 years old. All these factors contribute to the influence of economical distance between Sweden and Saudi Arabia.

Holst mentions several positive economical factors that exist in Saudi Arabia, in line with those discussed above. In Saudi Arabia Holst describes the projects as larger and more investments are made compared to the Scandinavian market. This is something that creates an economical distance but whether it has a positive or negative effect is very hard to determine.

From the findings of the interview with Abelsson, there is nothing specific that indicates an economical distance between IKEA Saudi and IKEA central. However he mentions several positive economical factors, many of them mentioned above. Although these are not specific to a certain company.

Neither Karlsson nor Haglind mention the influence on economical distance on their operations. As for Abetong and IKEA none of the general factors, that are discussed above, of economical distance have had negative effects and can instead be seen as an advantage for their operations in Saudi Arabia. Abetong is the only of the four companies that has encountered any company specific economical distance, this in form of more and larger investments.

**Cultural Distance**

The culture in Saudi Arabia is strongly influenced by religion as it is a very big part of both the personal life, but also the business life. People in Saudi Arabia tend to be very conservative, whether or not religious. Work ethics in Saudi Arabia are also very much related to religion and work in Islam is situated in the core of faith and considered as an integral part of life. These issues indicate the existence of a great cultural distance resulting in a greater psychic distance.

Holst’s perception of the national culture is that there exist enormous differences, especially when comes to women’s role in society. This indicates that there exist a great cultural distance leading to a higher psychic distance.

Abelsson describes the Saudi culture as Americanized, to a great extent influenced by religion and very family oriented. He further mentions that one must be patient since the processes often are very long in Saudi Arabia, and that religion can be seen as a barrier for those who are not familiar with it. Apart from this, women’s role in society is very limited. All these factors contribute to a cultural distance, and in this case some of them are also perceived as to have a negative effect on the expanding company. This in the end leads to a higher psychic distance.

Karlsson argues that there exist vast cultural differences, especially in regard to religion. He further mentions that women’s role in society is limited. With respect to this, the authors can establish that there in this case exist a significant cultural distance as Karlsson firmly
emphasizes the vast differences in terms of culture. Karlsson further mentions that the consumption pattern differs between Europe and Saudi Arabia. This is something that has created a cultural distance which has led to that Oriflame has had to make certain adaptations. For example changing the marketing focus from the entire product portfolio to a more narrow range of products mainly containing color cosmetics. However, if this is to be considered a negative or a positive effect is very hard to determine. The authors can however conclude that cultural distance in this aspect as well, has an effect on psychic distance in Oriflame’s case.

Haglind describes the national culture as very male dominant and the society is founded on a strong and clear hierarchical view with a powerful royal house. This view indicates the existence of a great cultural distance resulting in a higher psychic distance. Haglind further states that the consumption pattern differs the market in Saudi Arabia from the Scandinavian market. This is also a source of cultural distance but it is however difficult to determine whether this has a positive or negative effect on the company.

Abetong and IKEA do not mention anything that indicates the differences in consumption patterns between the markets, however Oriflame and Tetra Pak both identify differences in consumption patterns. Nevertheless the authors cannot draw any conclusion as if this have positive or negative effects on the company, but just that it supports the existence of cultural distance. Therefore, the authors can conclude that the cultural distance is greater for Oriflame and Tetra Pak than it is for Abetong and IKEA considering the differences in consumption patterns. All of the four companies emphasize that there exist great differences in terms of culture and this can therefore be determined to have the greatest influence on psychic distance in all of these cases.

Figure 7 Illustration of the Impact on Psychic Distance (Derived from Zanger et. al, 2008)
Holst believes it is important to be perceptive to the national traditions, investigate business relations and to expect that things are done differently. He further mentions that acquisitions or IJVs are good ways to enter a new market especially when there exist great cultural differences, as for example in Saudi Arabia. These statements are in line with the findings of Hansson, Sundell and Öhman (2004), emphasizing the importance of good knowledge to decrease psychic distance.

Abelsson confirms this statement by arguing that when expanding to a new market the company needs to ensure the products has a demand on the market and this is done by conducting a thorough analysis of the market. He also mentions that one must have local knowledge and experience of the market and this can be solved by acquiring a strong local partner that has extensive knowledge about the local market. Abelsson’s comments empower the statement by Hansson, Sundell and Öhman (2004).

Karlsson states that there are an enormous amount of issues that need to be taken into consideration when expanding to a new market. This could for example involve legislations, wage levels and employments regulations. He further points out that this is the same for all markets, although one major thing that makes the situation different in Saudi Arabia is women’s role in society. All these issues require good knowledge about the local market and therefore coincide with the statement by Hansson, Sundell and Öhman (2004).

According to Haglind, when expanding to a new market it is important to make a thorough analysis of the target market. This statement is in line with the findings of Hansson, Sundell and Öhman (2004) and will therefore contribute to decrease the amount of perceived psychic distance.

Even if the statement by Hansson, Sundell and Öhman (2004) can be perceived as common sense it is supported by all four companies. In order to decrease psychic distance, the companies have utilized different methods. The authors believe that it is of great importance to investigate the target market to gain adequate knowledge, however this might more importantly depend on the expansion strategy. When entering a market as a wholly-owned subsidiary it might be more important than when establishing a franchise or an IJV.

Below Table 3 highlights the key points of the analysis of psychic distance.

<table>
<thead>
<tr>
<th>Company</th>
<th>Effect of psychic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abetong</td>
<td>Encountered in terms of educational level</td>
</tr>
<tr>
<td>IKEA</td>
<td>Encountered in all factors except economic development</td>
</tr>
<tr>
<td>Oriflame</td>
<td>Encountered in terms of religion, political systems and culture</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>Encountered in all factors</td>
</tr>
</tbody>
</table>
## 5.3 Principal Agent Theory and Control

The asymmetric information problem is a major issue in the principal-agent relationship and concerns the information flow (Doherty & Quinn, 1999). In the principal-agent relationship, the existence of information asymmetry is not a problem itself. It can, however, become a problem together with the possibility of different goals between the principal and the agent (Doherty & Quinn, 2000).

Holst explains that Abetong has neither encountered any problems with asymmetric information, nor with working towards mutual goals. However, there do exist different interests as to the financial structure of the IJV. Even though Holst states that there are no problems with working towards mutual goals, the different interest between the companies might lead to moral hazard. However, this is not something that has created any major problems for the company. As Abetong has an IJV, the authors would assume that the problems of asymmetric information and working towards mutual goals would have been greater than indicated. This since an IJV consists of two different partners and that conflicts can arise within the principal agent relationship.

Abelsson states that IKEA has encountered difficulties with asymmetric information, the majority of these are related to language barriers. He further states that he always believes there is a challenge when working towards mutual goals, and that the challenges here are also related to language barriers. These answers support the theory of Doherty and Quinn (2000) and therefore the existence of asymmetric information. Regarding mutual goals, the challenges encountered have often been small details but does even so to some extent support the theory of Doherty and Quinn (2000). As IKEA is a franchise, this comports well with the assumption that asymmetric information and working towards mutual goals would be something that is more evident in this case.

Karlsson states that they have not encountered any problems with asymmetric information, relating this to the simplicity of their operations and the market they operate in. This statement does not coincide with the theory of Doherty and Quinn (2000) and this is quite interesting, this since one would assume that asymmetric information is inevitable in franchising operations. Oriflame has however encountered problems with working towards mutual goals. This supporting the statement by Doherty and Quinn (2000), and this as well as asymmetric information seems inevitable in franchise operations because of their independent nature.

Haglind argues that Tetra Pak has not encountered any problems with asymmetric information and the reason for this is that the local company is a wholly-owned subsidiary and therefore it is easier to maintain a high level of transparency. Concerning working towards mutual goals, Tetra Pak has not encountered any problems and this due to the fact that the process of setting goals is very thorough and collective. The statement on asymmetric information and problems with working towards mutual goals of Doherty and Quinn (2000) is nothing that Tetra Pak is familiar with. The authors believe that the major reason for this is the fact that Tetra Pak has a wholly-owned subsidiary and in these cases the principle agent relationship is not as relevant.

The only one of the four companies that states they have had any problems with asymmetric information is IKEA. The authors would have assumed that Oriflame and to some extent Abetong also would have encountered this issue. This is based on the authors’ assumption that the problem with asymmetric information is mainly an issue in franchising
companies but also in IJVs. This assumption is however to a certain degree valid since Tetra Pak as a wholly-owned subsidiary has not encountered any problems with asymmetric information. Regarding mutual goals, both IKEA and Oriflame mention that they have encountered problems with working towards mutual goals. The authors believe this is once again related to the fact that these two are franchises and operates more independently from the mother company. As for Abetong, the company has not encountered any problems with working towards mutual goals but as Holst expresses it, it does exist different interests. This could be related to the nature of Abetong’s expansion strategy.

| To make sure the agent cooperates the principal has two main tools and these are according to Castrogiovanni, Combs & Justis (2006) direct observation over the agents behavior and incentives which are attached to the agents output. |

Holst mentions that Abetong has board meetings twice a year to make sure that the local company cooperates. He further emphasizes that the relationship is built on trust and therefore the different tools used to control the IJV are relatively few. The authors find this quite interesting since one would assume that control would be exercised to a larger extent in an IJV since it is more independent. The above mentioned supports the statement of Castrogiovanni, Combs and Justis (2006) to a certain extent considering that the board meetings are a form of direct observation. Nothing of what Holst says indicates the use of any incentives.

Abelsson explains that the franchise contract is used to ensure that the business agreement is held, this is also done by regular reviews of the franchisee. In regards to the franchising fee the franchisee must be transparent by sharing its sales development. Regarding direct observation, IKEA’s monitoring of the franchisee sales can be seen as a part of this as well as the regular reviews. However Abelsson does not mention anything that indicates the use of incentives.

Karlsson states that to ensure that the local company cooperates there must exist a sense of closeness and that it is important to make the local company feel as they are a part of the mother company. This is ensured through various events such as conferences and seminars. He further mentions that Oriflame controls the financial activities of the local company by monitoring costs, profits etc. Apart from this there are contracts that regulate the local company’s rights and liabilities. These answers indicates that Oriflame in several ways through direct observation ensure that the local agent cooperates. This is supported by the statement of Castrogiovanni, Combs & Justis (2006), however Karlsson mentions nothing that points to the use of incentives.

According to Haglind the operation in Saudi Arabia is controlled through two types of audit. Tetra Pak also conducts a yearly self-assessment to ensure that policies and guidelines are implemented. Apart from this within every operation there exist a number of different key performance indicators. All these relates to direct observation discussed by Castrogiovanni, Combs and Justis (2006), however nothing indicates the use of incentives.

One would assume that IKEA and Oriflame are the two companies that have the highest level of control since they are franchising companies. The answers from the interviews support this point of view, indicating that IKEA and Oriflame use more tools to control the local company than Abetong. Although Tetra Pak also uses several tools of control, but in this case it is a matter of internal control since the local company is a wholly-owned subsidiary. Results indicate that all four companies use direct observation to a certain extent but nothing indicates the use of incentives in any of the companies.
Below Table 4 highlights the key points of the analysis of principal agent theory and control.

Table 4 Compilation of the Analysis of Principal Agent Theory and Control.

<table>
<thead>
<tr>
<th>Company</th>
<th>Principal-agent relationship</th>
<th>Exercise of effective control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abetong</td>
<td>No problems</td>
<td>Direct observation to a certain extent</td>
</tr>
<tr>
<td>IKEA</td>
<td>Difficulties due to language barriers</td>
<td>Direct observation to a certain extent (franchise contract)</td>
</tr>
<tr>
<td>Oriflame</td>
<td>No problems</td>
<td>Direct observation to a certain extent (franchise contract)</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>No problems</td>
<td>Direct observation to a certain extent</td>
</tr>
</tbody>
</table>
6 Conclusions and Discussion

The purpose of the study that was formed in the first chapter of this thesis will be fulfilled below as the research questions are answered one by one. The chapter also includes a section on reflections and critique and a section on suggestions for further research.

6.1 Conclusions

The conclusions chapter is divided in accordance with the research questions found in section 1.3. Each question is first stated and then a concluding discussion follows. After that a brief concluding remark summarizes the findings.

- To what extent have Swedish companies managed to maintain their corporate culture when operating in Saudi Arabia? And what adaptations, if any have been made?

IKEA, Oriflame and Tetra Pak have been able to maintain their corporate culture when expanding to Saudi Arabia to a great extent. This could probably be explained by the fact that these three companies all have a strong corporate culture. However the authors believe that Abetong’s corporate culture has been influenced by the national culture over the years, this since the company does not have an as distinct corporate culture and the fact that they have an IJV.

The authors can also conclude that none of the four companies have made any major adaptations. However Abetong, IKEA and Oriflame have been forced to make certain adaptations due to women’s role in Saudi society. As Tetra Pak has a wholly-owned subsidiary this could very well be a reason for why they have not made any adaptations regarding this. Abelslon (IKEA) mentions that adaptations also have been made in terms of Saudi legislations and religion. This is not mentioned by the other companies but the authors assume that this is as true for the remaining companies.

- What problems have the companies encountered in terms of psychic distance?

There exists a significant difference on how the companies have experienced problems or challenges related to psychic distance, however all of them have encountered it to some extent. Abelslon (IKEA) states that they have faced problems in all areas except economic development whereas the other three companies have encountered problems within one or a few areas. These are religion, political systems, culture and educational level. Due to the fact that the different respondents might have different insight to the national culture the authors believe that the problems exist to a larger extent than what is acknowledged.

Nevertheless, in general the Saudi economy is perceived as an advantage for foreign investors and this relates to a positive aspect of the term psychic distance. This is also highlighted by Holst (Abetong) and Abelslon (IKEA).

- What problems have the companies encountered related to the principal agent relationship in terms of asymmetric information and working towards mutual goals?

The problem with asymmetric information and mutual goals has not been as extensive as the authors expected. One would assume that this would be more apparent especially in the case of Abetong, IKEA and Oriflame with respect to their expansion strategies. IKEA is the only company that has encountered problems with asymmetric information, related to language barriers. The authors are surprised by the fact that this was not brought up by the other companies since this is something one would take for granted as being a problem.
Regarding working towards mutual goals, IKEA and Oriflame have both encountered problems. While Abellson (IKEA) also relates this to language barriers, it is in Oriflame’s case unclear what it is caused by.

- To what extent is effective control exercised in the local branch of the company? And by which means?

The findings from IKEA, Oriflame and Tetra Pak do not indicate any significant difference between the companies in terms of the extent of exercised control, disregarding the fact that IKEA and Oriflame are mainly controlled by their franchise contract. All companies are to some extent controlled by different means of direct observation. However, Abetong differs from the other companies in terms of having relatively few tools of control. This is surprising considering the nature of their expansion strategy.

As a concluding remark the authors can establish that there is nothing that indicates that a company’s corporate culture would be critically compromised by entering the Saudi market. However, one must be prepared to make minor adaptations in order to operate successfully.

### 6.2 Reflections and Critique

The authors have successfully been able to fulfill the purpose of the thesis, however as in all studies there exists some issues of critique one must take into consideration.

In retrospect, the authors have reflected on several issues that could have been done differently to increase the relevance of the findings. As already mentioned in the Methodology chapter (see section 3.5.2.1) the four companies included in this study can all be considered as “successful”, resulting in that the conclusions might indicate an overly positive tone. This in combination with the use of the word “problems” (also discussed in section 3.5.2.1) in the interview questions resulted in that the conclusions might be considered questionable.

The fact that Abellson, store manager at IKEA Riyadh, works for the franchisee can also be questioned since he has a different perspective. In spite of this the authors believe that Abellson has been very valuable and provided the thesis with the most credible inputs, this since he actually lives in Saudi Arabia and therefore understands the Saudi culture in a better and more “correct” way.

The authors have found this research highly interesting and are today more knowledgeable regarding Swedish companies that operate in Saudi Arabia. The findings of the thesis have been surprising and contradicting the authors’ pre-assumptions that the problems are greater than they actually turned out to be.

### 6.3 Suggestions for Further Research

There are several interesting suggestions for further research. Firstly it could be interesting to conduct a similar study but from a Saudi perspective to investigate to what extent they have experienced similar problems. Secondly, one could use other or combine several different methods in order to avoid common method bias and enhance the credibility of the findings.
A third alternative could be to investigate companies that have not been as successful in their operations in the Middle-East and more specifically Saudi Arabia. This would also eliminate the issue of success bias. Finally an alternative could be to research other culturally distant markets to see whether or not the problems are greater in those areas.
References


NE. (2009). *Mellanöstern*. Retrieved 2009-03-23, from [http://www.ne.se/l%C3%A5ng/mellan%C3%B6stern](http://www.ne.se/l%C3%A5ng/mellan%C3%B6stern)


Appendix A: Interview Template

Information about the respondent

- What is your name?
- What is your position at the company?
- Tell us about your career! Previous jobs, education etc.
- Would you like to stay anonymous?

- Vad heter du?
- Vad har du för position i företaget?
- Berätta om din karriär! Tidigare jobb, utbildning etc.
- Vill du vara anonym?

Information about the company/expansion/target market

- Can you give a short description of the company’s history? For example when it was founded, number of employees, number of countries where the company is present.
- What expansion strategy (Franchising, IJV etc.) did you use when expanding into Saudi Arabia? Why?
- How long have XX been established in Saudi Arabia?
- In what countries in the Middle-East are you located?
- Why did you choose to expand to Saudi Arabia?
- In what way do you think the Saudi market differs from the Scandinavian market?

- Kan du ge en kort beskrivning av företagets historia? När det grundades, antal anställda, antal länder som företaget finns representerat i?
- Vilken expansionsstrategi (Franchising, IJV etc.) använde ni er av när ni expanderade till Saudiarabien? Varför?
- Hur länge har XX varit etablerat i Saudiarabien?
- I vilka länder i Mellanöstern finns företaget representerat i?
- Varför valde ni att expandera till Saudiarabien?
- På vilket sätt tycker du att marknaden i Saudiarabien skiljer sig från den skandinaviska?

Questions about corporate culture

- What are the fundamental values of your company?
- What is corporate culture according to you? Do you think it is an important part of the company?
- Do you believe it is important to maintain corporate culture when expanding to a new market? Why? Why not?
How do you maintain corporate culture when expanding to a new market? In general and in Saudi Arabia. What adaptations have been made? To what extent have you been able to preserve your corporate culture?

Considering your company’s strong corporate culture and business model, how come you choose to enter a distant and different market? Could this harm the company’s image/brand/corporate culture? (For franchising companies)

Vilka är ert företags fundamentala värderingar?
Vad är företagskultur enligt dig? Anser du att det är en viktig del av företaget?
Anser du att det är viktigt att behålla företagskulturen när man expanderar till en ny marknad? Varför? Varför inte?
Hur bibehåller ni er företagskultur när ni expanderar till en ny marknad? Generellt och till Saudiarabien. Vilka anpassningar har gjorts? Till vilken grad har lyckats att behålla er företagskultur?
Angående ert företags starka företagskultur och affärsmodell, hur kom det sig att ni valde att expandera till en marknad med stora kulturella skillnader? Kan detta skada företagets image/brand/företagskultur? (För franchisingföretag)

Questions regarding psychic and cultural distance

How do you perceive the national culture?
What do you feel is important to consider when entering a new market? In general and in Saudi Arabia in particular.
Have you encountered any problems with respect to language, culture, political systems, educational level, religion, business language, form of government, economic development.
How have you dealt with these problems?
Have you experienced any advantages with being a Scandinavian company in Saudi Arabia?

Hur uppfattar du den nationella kulturen?
Vad anser du är viktigt att ta hänsyn till när man expanderar till en ny marknad? Generellt och i Saudiarabien.
Har ni stött på några problem relaterat till språk, kultur, politiska system, utbildningsnivå, religion, affärspråk, regeringsform, ekonomisk utveckling.
Hur har ni hanterat dessa problem?
Har ni upplevt några fördelar med att vara ett skandinaviskt företag i Saudiarabien?

Questions regarding principal agent theory

Have you had any problems with asymmetric information? What kind? One part have more detailed knowledge of the operation, one part is unable to interpret the information, could be due to different levels of economical development between the two markets (for example difference in regulation considering employments laws).
Have you encountered problems with working towards mutual goals?
How do you ensure that the local company cooperates?
Har ni haft några problem med asymmetrisk information? Vilken sorts? En part besitter mer detaljerad kunskap om verksamheten, en part är oförmögen att översätta informationen, kan också bero på skillnader i ekonomisk utveckling mellan de två marknaderna (till exempel skillnader i anställningslagar).

Har ni stött på några problem med att jobba mot gemensamma mål?

Hur säkerställer ni att det lokala företaget samarbetar?

Questions regarding control

Which activities in the local company do you control? To what extent? What control mechanisms are utilized?

What do you think is the most important aspects to control?

Have you encountered any problems to exercise effective control?

How is the franchise contract outlined? Does it entail strict control mechanisms? (For franchising companies)

Is the franchise contract different between countries? What adaptations have been made in Saudi Arabia? (For franchising companies)

Vilka aktiviteter i det lokala företaget kontrollerar ni? I vilken utsträckning? Vilka kontrollmekanismer använder ni?

Vilka tycker ni är de viktigaste aspekterna av kontroll?

Har ni stött på några problem vid utövandet av effektiv kontroll?

Hur är franchisekontraktet utformat? Innehåller det strikta kontrollmekanismer? (För franchising företag)

Skiljer sig franchisekontraktet mellan olika länder? Vilka anpassningar har gjorts i Saudiarabien? (För franchiseföretag)
Appendix B: Previous Research

This appendix presents previous research made within the subject. Below the authors will present a compilation (see tables 5-7) of the studies’ problem, method and result. Secondly a more thorough presentation is given.

Table 5 Previous Research - The Influence of International Franchising on Corporate Culture.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Problem</th>
<th>Method</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Influence of International Franchising on Corporate Culture.</td>
<td>* How international franchising influences the franchisor’s corporate culture.</td>
<td>* Qualitative case study of Max Hamburger-restauranger AB.</td>
<td>* Companies that use franchising as an entry mode are affected by internal and external factors.</td>
</tr>
<tr>
<td></td>
<td>* Why do companies use franchising?</td>
<td></td>
<td>* Managers that are employed from within the company, best preserve the corporate culture.</td>
</tr>
<tr>
<td></td>
<td>* How can the corporate culture be preserved?</td>
<td></td>
<td>* Within a franchised outlet, the franchisor easier implement its corporate culture if the two cooperating companies have the same or similar values.</td>
</tr>
</tbody>
</table>
### Table 6 Previous Research - Adaptable When Establishing Fast Food Chains in Saudi Arabia.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Problem</th>
<th>Method</th>
<th>Result</th>
</tr>
</thead>
</table>
| Adaptations when establishing fast food chains in Saudi Arabia. | * Identify adaptations that have to be made when establishing a fast food chain in Saudi Arabia, with respect to national regulations and cultural values.  
* How to act, adapt the way of working and run the organization?  
* How to adapt operations to the cultural and national differences in Saudi Arabia? | * Qualitative interviews | * Clear cultural differences.  
* Fast foods chains have to conduct themselves and adapt to these differences in order to establish successfully. |

### Table 7 Previous Research - Franchising with Two Cultures Under One Roof.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Problem</th>
<th>Method</th>
<th>Result</th>
</tr>
</thead>
</table>
| Franchising with two cultures under one roof. | *How control is perceived by the store managers in Saudi Arabia.  
*What are the consequences of control in a conservative and religiously founded culture?  
*How is the Swedish control system affected by the Arabic culture? | * Qualitative case study. Interviews with store managers of IKEA in Saudi Arabia. | * Cultural differences affects the management due to religion.  
* As long as IKEA is generous with doing exceptions, the franchise will not face any problem with adapting the concept. |
The Influence of International Franchising on Corporate Culture


The purpose of the study was to gain a deeper understanding of the concept of international franchising and how it influences the franchisor's corporate culture. The authors have developed three research questions to help them answer their purpose. The first question was developed to give an overall insight to why companies franchise and the two other questions focus on how corporate culture can be preserved.

Engman and Thörnlund choose a qualitative approach for their thesis as they wanted to gain a deeper understanding of how international franchising affect the corporate culture, but also as they found it the most suitable for answering their research questions. The authors also found a case study as the most suitable strategy for their thesis. They choose Max Hamburgerrestauranger AB since the company is located in Sweden and believed that it would be easier to come in contact and interview a Swedish company.

The results from the research was divided into three sections; How do different factors influence, how do managers maintain and how do franchisors implement. Results regarding factors that influence the choice of using franchising as an entry mode explained that internal and external resources are important in the decision-making process. When deciding to use franchising, culture also plays an important role. Results on how managers maintain corporate culture showed that to easier maintain corporate culture, managers must build an environment of trust and respect. The results also indicated that managers employed from within the company can influence the corporate culture to a larger extent. The corporate culture can easier be implemented if the franchisor and the franchisee have similar values and to make sure the corporate culture is preserved it is important for the franchisor to control the franchisee and its activities.

Adaptations When Establishing Fast Food Chains in Saudi Arabia


The purpose of the thesis was to identify the adaptations a fast food chain should do when establishing in Saudi Arabia, this with respect to the national regulations and cultural values. The authors also wanted to investigate how the fast food chain Max Hamburgerrestauranger AB should act and adapt their way of working and run the organization. Another issue was to look into how Max Hamburgerrestauranger AB should adapt their operations to the cultural and national differences they encounter in Saudi Arabia. The research questions developed to answer the purpose were; how should an international fast food chain adapt to the national and cultural conditions in Saudi Arabia? What adaptations does Max Hamburgerrestauranger AB need to do considering the cultural condition to increase their possibility of a successful establishment in Saudi Arabia?

The authors choose to use a qualitative approach for their thesis, this to be able to research the problem more in depth. The purpose with the interviews was to gather information on how these persons have worked and work with the issue. The two persons that were chosen were considered to have a lot of knowledge of the topic under study.

The results from the research conducted consist mainly of specific adaptations that must be made by Max Hamburgerrestauranger AB to succeed in their establishment in Saudi Arabia. This involves for example home delivery, more chicken products, more family
friendly premises and avoiding American associations. A fast food chain that seeks a successful establishment in Saudi Arabia must recognize and accept everything from cogent regulations to more voluntary adaptations.

Two cultures under one roof


The purpose of the study was to examine how cultural differences effects the management in a Swedish franchise company established in Saudi Arabia, since Saudi Arabia is a country based on religion. To help them answer their purpose, the authors have developed wide research questions; how is control perceived by store managers in Saudi Arabia and what consequences does the control have in a conservative and religiously founded culture? How is the Swedish control system affected by the Arabic culture?

Assaad and Mauricci (2008) choose to perform a case study on IKEA in Saudi Arabia, since they believed this to be most suitable as they only investigated three stores in depth within the same chain and same country. The authors performed interviews with three store managers at different locations and the owner’s son. Three of the interviews were conducted face-to-face since one of the authors lives in Saudi Arabia. The forth interview was conducted through e-mail due to the distance.

The results show that IKEA have made several adaptations of their concept when franchising to Saudi Arabia. This to be able to oblige the cultural differences that exist. The franchisees have however not experienced any major problems with getting the exceptions approved. The authors also found that the cultural differences affect how the franchisor controls the store. The culture of Saudi Arabia is mainly based on religion and this is the foremost issue that controls many of the adaptations. The simplicity and spiritual meaning of IKEA’s values are misinterpreted and thereby the efficiency of performance is slowed down. As a concluding remark Assaad and Mauricci (2008) argue that as long as IKEA is generous with doing exceptions, the franchisee will not face any problems with adapting the concept.