



INTERNATIONELLA HANDELSHÖGSKOLAN  
HÖGSKOLAN I JÖNKÖPING

# Get Taiwanized!

Swedish Firms' Change of Entry Mode

Bachelor's thesis within Business Administration

Authors: Nilsson, Karin  
Olofsson, Elisabet  
Sennevik, Marie

Tutor: Agndal, Henrik

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Tutor: Agndal, Henrik

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### Abstract

Expanding to foreign markets is increasingly popular for companies. The company has to decide which organisational structure, entry mode, to use in the new market. Factors affecting the change from one entry mode to another have obtained little attention. This thesis concerns Swedish companies' changes of entry mode in Taiwan. The purpose is to investigate which factors that serve as triggers respectively barriers for the change of entry modes, to be able to examine which theories that can be used to explain and support mode changes.

Different theories concerning choice and change of entry mode have been investigated. Based on the theories, a model including factors influencing entry mode changes was established. The model has contributed a foundation for the empirical findings as well as the analysis of the companies. As a method, a qualitative approach was conducted through interviews with five Swedish companies having a subsidiary in Taiwan. The criterion for the companies was that they should have a subsidiary in Taiwan, but entered the market with another entry mode. Considering the small number of companies and to obtain an understanding about the entry mode changes, a qualitative investigation was the most suitable.

Conclusions that could be drawn were that the competitive Taiwanese market had triggered some of the companies to change their entry mode to a subsidiary in order to be present in the market. Increased sales volume did also have evident affect on why the companies changed their entry mode. The investigation also gives indications that barriers tend to be of internal and firm specific character. Concerning the theories explaining entry mode changes, no complete theory could explain the changes, but parts from different theoretical fields could be applied.

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# 1 Introducing the Subject

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*The aim with this chapter is to present the background to the subject. It starts with an introduction about companies entering foreign markets, followed by an overview of the Taiwanese market and Swedish business relations with Taiwan. This is followed by a discussion about Swedish firms in the Taiwanese market and finally the purpose of the thesis is presented.*

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## 1.1 Entering Foreign Markets

It is more and more popular for companies to expand into foreign markets. This because former closed foreign markets are opening up and economies are globalising (Rasheed, 2005). After deciding which market to enter, the company has to determine the organisational structure, the mode, for entering the new market. There are several different alternatives for a company to enter a foreign market. The chosen entry mode is believed to be a critical determinant of the success the company will reach in the new market (Root, 1987; Davidson, 1982; Killing, 1992). Disregard of entry mode, the entry to a foreign market is believed to increase both sales and assets (Rasheed, 2005).

According to Sarkar and Cavusgil (1996) there are several different factors that influence the selection of entry mode. Kwon and Konopa (1992) claim that not only the characteristics of the company and its products need to be considered, but also the characteristics of the foreign market. These internal and external factors will have influence on the choice of entry mode. Not only one single factor will influence the decision, some factors may have more influence than others depending on the host country (Root, 1994). Hollensen (2004) argues that there can be risks involved in entering foreign markets. If the market fails or the company for other reasons has to withdraw from the market financial loss and damaged reputation can very well affect the company negatively.

## 1.2 The Taiwanese Market

Taiwan was for the five past decades a country of limited resources but plays now a major role in Asia's economy. However, the economic strength of the country did not get much attention before the Asian crisis in 1997. Taiwan did in a successful way minimise the impact of the crisis by using foreign reserves and implementing new economic policies (Wong, Maher, Nicholson & Chen, 2000).

Taiwan's economy is today one of the strongest in East Asia and with its free market economy it is one of the main trading countries in the world. The development of Taiwan has been rapid and the market is one of the most dynamic in the world (Swedish Trade Council, 2004). However, the economic performance in the country is heavily dependent on foreign operators from industrialized countries and their economies (Diwan, Ernst & Young, 2002). Taiwan is a small country with limited raw materials but has a well-educated population. Due to this, Taiwan put emphasis

on its high technology industry. The third largest high technology centre is located close to Taipei, the capital of Taiwan (Wong et al., 2000).

According to Trappey (1998) personal relationships with manufacturers, wholesalers, and retailers are of great value in order to be successful when doing business in Taiwan. Compared to Sweden there is a focus on personal relationships between actors in the market, which can create entry barriers for new retailers. Thus, companies from countries with different cultures need to absorb and adjust to the differences. The market is both demanding and exposed to competition, hence presence is a crucial factor in order to be competitive (Swedish Trade Council, 2004).

Since the end of the Second World War, Taiwan has been an independent nation after several years of Japanese governance. Taiwan is still a state belonging to Mainland China and is officially called Republic of China. The island is governed as an independent country with its own president, but Mainland China does not want to declare Taiwan independent. Taiwan struggles for sovereignty but Mainland China has more power and better military resources than Taiwan, which makes it hard for Taiwan to become independent. At the same time as Taiwan wants to become independent there is a reciprocal exchange between Taiwan and Mainland China, which implies that a war would be risky for both parts. The economic success, market competitiveness, and the industrial know-how Taiwan has developed, is viewed by Mainland China as a legitimate and proprietary source of global competitive advantage (Wong et al., 2000).

### 1.2.1 Sweden in the Taiwanese Market

Sweden and Taiwan has a reciprocal exchange, Swedish imports from Taiwan estimates to almost the same as Swedish exports to Taiwan (see Table 1.1 and Table 1.2). The main opportunities for Swedish export to Taiwan are within the IT/telecom, medicine, and bio technical sectors. Approximately 40 Swedish companies with subsidiaries are established in Taiwan, and Taiwanese agents or distributors represent around 500 Swedish companies. About 130 Swedish people are currently working in Taiwan (Swedish Trade Council, 2004).

Table 1.1 Swedish Exports to Taiwan (Swedish Trade Council, 2004)

	2000	2001	2002	2003	2004
<b>Swedish Exports to Taiwan (MSEK)</b>	6 280	5 651	4 819	4 555	4 466
<b>Total Swedish Exports (MSEK)</b>	791 556	794 247	795 625	814 966	888 252
<b>Share of Total Swedish Export (%)</b>	0,8	0,7	0,6	0,6	0,5

Table 1.2 Swedish Imports From Taiwan (Swedish Trade Council, 2004)

	2000	2001	2002	2003	2004
<b>Swedish Imports from Taiwan (MSEK)</b>	5668	4925	4640	4152	4242
<b>Total Swedish Imports (MSEK)</b>	641 816	634 554	632 652	657 129	711 011
<b>Share of Total Swedish Import (%)</b>	0,9	0,8	0,7	0,6	0,6

### 1.3 Swedish Firms' Mode Selection in Taiwan

Selecting an entry mode is a process that demands research and knowledge about the market to enter in order to select the most suitable mode. The factors that affect the selection of entry mode have received much attention, but there are also factors affecting the change from one mode to another. If one or several of the factors that affected the initial entry mode change, a need to adapt to the new circumstances might arise, hence, a change of the entry mode is crucial. This area has been less explored and offers interest for further investigation. Changing entry mode implies that the company needs to be prepared for changed circumstances arising with the new mode.

Taiwan's fast growing economy has provide the opportunity for companies to invest in the country, which involves continuous adjustments to the business environment (Diwan, Ernst & Young, 2002). Out of the 39 Swedish companies that currently have subsidiaries in Taiwan (see Appendix 1), 17 could be contacted. Out of these, five companies have changed their entry mode after entering the Taiwanese market. In this stage it could only be speculated what the changes may depend on. There may be similar factors for all companies or unique factors for each specific company that have implied the change. Similar factors could be cultural differences between Sweden and Taiwan whereas specific factors could be the amount of resources the company can commit to the market. Companies also have different strategies and goals to achieve. Different entry modes will generate different commitments and control. Companies will choose an entry mode that fits their main objectives with the foreign operation best. Some companies' objectives might be to expand and will thus have to change entry mode to fulfil this. Others may be forced to change mode due to uncontrollable external factors. Perhaps certain entry modes are better suited to certain countries, industries or companies.

The discussion above leads to the problem that there are many possible factors that may impact upon the change of entry mode. The factors might have different intentions for certain companies. The different factors may affect the company both positively and negatively. Some factors would generate changes to specific entry modes whereas others would prevent the change.

## **1.4 Purpose**

The purpose with this thesis is to investigate which factors that serve as triggers respectively barriers for the change of entry modes for Swedish companies in Taiwan and to be able to examine which theories that can be used to explain and support mode changes.

## 2 Frame of Reference

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*This chapter starts with introducing different types of entry modes. Further, different factors affecting the choice and change of entry mode are presented. Finally, a model summarizing the factors is used to illustrate the connection between the different parts.*

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### 2.1 Entry Modes

According to Root (1994) there are three basic approaches of market entry: export entry modes, contractual entry modes and investment entry modes. The first is referring to a short-term strategy without any systematic selection criteria. The company puts no effort in controlling the overseas distribution and has no market strategy. In the second approach the selection of entry mode is made in accordance with an existing market entry strategy. The third approach is connecting the company's overall strategy with the selection of entry mode. Companies using this approach are carefully comparing the different alternatives of entry modes available. The degree of resource commitment is increasing from the export entry mode to the investment entry mode.

Anderson and Gatignon (1986) stress that different entry modes, imply varying degree of control and that control has a large impact on the company when entering a foreign market. High control entry modes can increase both risk and return, while low control entry modes minimise the risk, but then often also the return. Further, he argues that it is more difficult to coordinate actions, and to accomplish and revise strategies without control. At the same time, control can be set with a high price. To take control, the company has to assume responsibility and be confident in making appropriate decisions.

#### 2.1.1 Export Entry Modes

To enter a market with an export mode means that the company's products are manufactured in the domestic market or a third country. Export mode is the most common strategy to use when entering international markets. Exporting is mainly used in initial entry and gradually evolves towards foreign-based operations. Exporting can be organized in many different ways depending on the type and number of intermediaries. When establishing export channels the company needs to consider which functions will be handled by the company itself, and which functions the external agents should be responsible for (Hollensen, 2004; Root, 1994).

#### Indirect and Direct Export Modes

Hollensen (2004) means that the products are transferred to the host market either by direct or indirect export. Indirect exporting is when the exporting manufactures are using independent organizations that are located in the foreign country. The sale in indirect exporting is like a domestic sale, and the company is not really involved in the global marketing, since the company itself takes the products abroad. Koch (2001) argues that indirect export is often the fastest way for a company to get its products

into a foreign market since customer relationships and marketing systems are already established. Reduced costs and risks connected to market entry will in most situations follow indirect export. This approach for exporting is useful for companies with limited international expansion objectives and if the sales are primarily viewed as a way of disposing remaining production, or as marginal (Hollensen, 2004). According to Root (1994) direct export requires higher resourced commitment than indirect export, thus indirect export may therefore be favourable by companies with minimal resources for an international expansion. They may not want to commit major resources and effort directly and instead start with a gradual entry and to test the markets. Exporting has the advantage of the least costs and risks of using any entry mode, but as a disadvantage of this, the company has almost no control over how, when, where, and by whom the products are sold. The disadvantage with indirect export is that this entry mode may never reach the true potential of the new market. Hindrances such as incompatibility of market objectives between exporter and intermediary, competition from products in the same distribution channel, and inadequate market coverage may have a negative effect on the entry mode.

Instead of using independent organizations to export the company can use direct export, which occurs when the manufacturer or exporter sell directly to an importer or buyer in a market area located abroad. The foreign sales are handled almost in the same way as the domestic, the global marketing is only made through the company that carries the products abroad. When the exporters grow they may decide to start to handle their own export. This engagement involves building up overseas contacts, undertaking marketing research, handling documentation and transportation, and designing marketing mix strategies. Direct exporting can be divided into export through foreign-based agents and distributors (Hollensen, 2004).

### **Distributors and Agents**

There are differences between distributors and agents. The basis of an agent's selling is commissions, while the distributors' income is a margin between the prices the distributor buys the product for and the final price to the wholesalers or retailers. In contrast to agents the distributors usually maintain the product range. The agents also do not position the products, and do not hold payments while the distributors do both and as well as provide customers with after sales services. Using agents or distributors to introduce the products to a foreign market will have the advantages that they have knowledge about the market, customs, and have established business contacts (Hollensen, 2004).

### **2.1.2 Contractual Entry Modes**

Sometimes there is not enough supply for the foreign markets from the domestic production. Root (1994) distinguishes contractual entry modes from export modes since their primary role is to transfer knowledge and skills. No full ownership is undertaken by the parent company; instead the ownership and control can be shared with the foreign partner. The most relevant arrangements of intermediate entry mode are licensing, franchising, and joint venture.

Licensing can be an effective alternative to contract manufacturing for introducing a product into a foreign market. Licensing allows the licensee to purchase a trademark, trade name, or technological know-how. Payment between a licensor and licensee is often made as a lump sum payment, a minimum royalty payment, or a running royalty payment. Licensing, like contract manufacturing, also provides a fairly safe means of entry into a foreign market that is politically unstable (Hollensen, 2004).

Franchising is a means of entry into a foreign market somewhat like licensing; however, it goes into much greater detail. Franchising does not only cover products but it usually contains the entire business operation including products, suppliers, technological know-how, and even the look of the business. Since franchising requires more capital initially, it is more suitable to large and well-established companies with good brand images (Hollensen, 2004).

Joint venture is an entry into a foreign market for companies that may have similar or complementary technology. A joint venture takes place when two companies invest capital, technology, and know-how into a newly formed company. Joint ventures are extremely common in countries that restrict foreign ownership because they provide a means of entry into these markets. Another reason why two companies would consider a joint venture is because one company may have expertise in marketing a product and the other partner may have expertise in producing the product. When entering into a joint venture it is important that both companies know who their partner is, so as to avoid potential future conflicts. Joint ventures are a more costly form of entry mode, however, they can have some of the greatest pay offs in the end (Hollensen, 2004).

### **2.1.3 Investment Entry Modes**

Root (1994) claims that an investment entry involves the transfer of an entire enterprise to a target country. Rasheed (2005) means that the optimal strategy to generate the highest level of economic profit is to establish a wholly owned subsidiary. The establishment of a subsidiary is expected to take longer than any other entry mode (Koch, 2001). This alternative has higher initial costs coupled with increased risks, but will in the long run produce a better strategic fit between marketing systems and market opportunities. Other benefits are closer market contacts and better access to market information.

Acquisition is the purchase of stock in an already existing company (Kogut & Singh, 1988). Acquisition as an entry mode can in many cases be beneficial. It is a quick and easy way to enter a new market. Often the management with all of its experience of the local market remains within the company. The company can also choose to establish a sales subsidiary meaning that the subsidiary in the host country has complete control of the sales function. Major reasons for choosing sales subsidiaries are the possibility of being close to the customers in the foreign country and possible tax advantages. In some cases acquisition of companies can be too costly and a sales subsidiary might not be enough in the long run. The company can then start from scratch and build operations from the ground up. This type of subsidiary is called Greenfield investment. Building a new production plant in a new country not only

means that the company is able to incorporate the latest technology and equipment but the company can easily resolve problems on an organizational level which can be difficult in a well established concern (Hollensen, 2004).

#### **2.1.4 Mode Combinations**

Petersen and Welch (2000) mean that the choice of entry mode has mainly been discussed as a choice between mutually exclusive alternatives, with the aim of understanding why companies choose one mode rather than another. They mean that companies may combine entry modes to enter or develop the business in a foreign market in four different ways: unrelated, segmented, complementary, and competing. Unrelated modes are when companies use more than one mode in a foreign market and there is no connection between the uses of the modes. This could be the case for a company having operations across different industries or markets. Segmented modes are used to serve different segments within the same industry or market. The aim of using complementary modes, is to in a combined mutually and supporting way achieve the company's objectives. Using competing modes means that the company uses modes that compete with each other. The modes perform the same business activities and target the same segments. What differs between the modes is the ownership and location. Further, Petersen and Welch (2000) argue that the use of entry modes is a dynamic process and is subject to modifications over time. Buckley and Ghauri (1999) claim that some mode combinations can be intentionally temporary, for example as companies try to better position themselves to move another mode in the foreign market.

## **2.2 Factors Affecting the Choice of Entry Mode**

### **2.2.1 Firm Characteristics**

Root (1994) urges that both internal and external factors influence the decision about which entry mode to choose. How the company responds to the external factors when choosing an entry mode depends on the internal factors. He further claims that the size of the company has an influence on the choice of entry mode. Large companies tend to use equity modes to a greater extent than small companies, which tend to favour exporting. This is also supported by Driscoll (1995) who that claims a company's size influences the decision regarding change of entry mode. Driscoll (1995) further argues that global corporate objectives and corporate policies also are internal factors that have an impact on the decision. Other internal factors that may have an effect on the entry mode decisions are: skills (Grønhaug & Kvitastein, 1993), risk tolerance (Hill, Hwang & Kim, 1990), and the flexibility of the company (Anderson & Gatignon, 1986; Klein 1989; Porter; 1976).

### **2.2.2 Transaction Cost Analysis**

Anderson and Gatignon (1986) stress the importance of a transaction cost framework that examines the extent of ownership required and the ability for a company to quickly and with minimal costs change entry modes. Williamson (1975, 1985) defines

transaction cost analysis whether specific activities are internalised or secured from the market. He further categorizes these costs as: information costs (the costs related to finding a contractual partner), bargaining costs (costs related to negotiating the contract), and enforcement costs (costs to enforce performance, renegotiate contracts and resolve conflicts). If there are low transaction costs in a foreign market, the activity should be purchased there. High transaction costs imply that the activity should be internalised. Anderson and Gatignon (1986) state that the transaction cost analysis unite factors of industrial organization, organisational theory, and law agreement to consider the tradeoffs to be made in vertical combination and by extensive degree of control decisions.

Williamson (1985) advocates that the transaction cost theory assumes that humans are bounded rational, but within limits. Bounded rationality may occur from insufficient information, limits in management perception or limited capacity for information processing. Thus, implying that there are rational economic reasons for organising some transactions one way, and others in another way. Another assumption made within transaction cost theory is that some individuals have an opportunistic behaviour.

There are multiple ways in which transactions can be carried out, this is due to the different proportions of transactions. The main characteristics of transactions that determine which entry mode that is most appropriate are asset specificity, uncertainty, and frequency. The relationship between these characteristics determines what kinds of organisational arrangements and governance structures that are the most efficient in a given situation. Asset specificity is defined as investments related to a specific transaction, including unique skills that allow the company to create and sustain its position in the market. They include physical and human investments and they are specialised to one or several uses or users (Anderson & Gatignon, 1986). Specific assets that are not crucial for the development of profitability are considered as assets with low specificity (Cox, 1996). Further, Williamson (1985) stresses that when assets with limited alternative applications are involved, it is harder for the actors to end the relationship. In transaction cost theory, uncertainty is closely connected to the bounded rationality and opportunistic behaviour. Bounded rationality is a problem when there is a high degree of uncertainty in the foreign market; this is named as behavioural uncertainty. Generally, the behavioural uncertainty will decrease as an industry matures. Uncertainty is also a problem in the context of contracting since the uncertainty can make it difficult to predict the desirable performance. Frequency is how often the transaction is performed. Transactions can be performed once, or repeated frequently for a longer period. Actors in a long-term relationship that frequently interact do not need formal and detailed agreements. This is due to the fact that some routines and mutual understandings are usually developed over time. Transactions that are high assets specified are likely to be carried out internally instead of governed by the market. To integrate vertically, large fixed costs are involved. By frequent transactions these fixed costs are easier improved.

### **2.2.3 The Internationalisation Process Model**

The internationalisation process model has its theoretical foundation in the behavioural theory of the firm (Cyert & March, 1963) and in the theory of growth of the firm (Penrose, 1959). The process between these two theories creates an interaction between the knowledge development about foreign markets, operations and the increasing commitment of resources to the market abroad. Johanson and Vahlne (1990) mean that internationalisation has its base in state aspects and change aspects. The state aspects consist of the market commitment and market knowledge, and the change aspect refers to current business activities and commitment decisions. Market commitment and market knowledge are affected by current activities and commitment decisions. Market commitment and market knowledge, in turn, are assumed to have an effect on decisions concerning commitment of resources to foreign markets and how current activities are carried out.

Further, Penrose (1959) divides knowledge in two different kinds, objective and experiential. The objective knowledge is knowledge that can be skilled whilst experiential knowledge can only be acquired through personal experience. Market knowledge is gained mainly through experience from current business activities in the market. Experiential market knowledge will generate in business opportunities, which in turn will be a driving force in the internationalisation process, but is also a way of reducing market uncertainty. The market commitment in the internationalisation process model is made in steps with three exceptions. Firstly, according to Johanson and Vahlne (1990), commitments are believed to be small when firms have large resources. Thus, it is expected that large companies or companies with several resources make larger internationalisation steps. Second, in a stable and homogeneous market, relevant market knowledge can be gained in other ways than through experience. Finally, when the firm has significant experience from markets with similar environment, a generalisation of the experience to the specific market may be possible.

According to Johanson and Wiederheim-Paul (1975), two patterns of internationalisation of the firm can be explained in the internationalisation process model. The first pattern is the engagement that the firm does in the specific target market. The engagement is developed according to an establishment chain, which means that the company's commitment to the foreign market will gradually expand due to increased knowledge and experience. This sequence of stages indicates a growing commitment of resources to the market. It also shows which current activities that differ considered to the market experience gained. The first stage gives almost no market experience. In the second stage the firm seems to have an information channel to the market and information about the market conditions, fairly regular but superficial. Business activities that are performed subsequent in the market lead to more differentiation and wide market experience. This means that companies begin with exporting as entry mode before proceeding to other forms of involvement in the market. The second pattern is that companies primarily target nearby countries, and then enter foreign markets with successively greater physic distance. Physic distance is described as factors such as differences in language, culture, and political systems, which disturb the flow of information between the

company and the market (Vahlne & Wiederheim-Paul, 1973). Thus, according to Johanson and Vahlne (1990), companies start the internationalisation process by entering markets that are easy to understand and have a low perceived market uncertainty, as this will help the company to identify different opportunities easily.

Johanson and Vahlne (1990) stress that these patterns are indicators of the internationalisation process of the firm. They mean that the process is a theoretical model based on assumptions about the correlations between market commitment, knowledge about the market, current business activities, and commitment decisions. They further mean that other indicators than the stage process and the physical distance are possible. Market commitments can for example be indicated by the size of the investment in the market or the degree of vertical integration, meaning the strength of the links with foreign markets.

### **2.2.4 The Eclectic Paradigm**

Cantwell and Narula (2003) mean that the eclectic paradigm provides a framework for a comparison between the different theories concerning foreign direct investment. It provides a means to determine which theories and which level of analysis that is most suitable regarding foreign-owned production. Dunning (1988) claims that the aim with the eclectic paradigm is to offer a holistic framework and thereby make it easier to identify and evaluate the importance of the factors influencing the choice of entry mode for foreign production, as well as the growth of such production. Foreign owned production is dependant on particular types of foreign value-added activities (Dunning, 2000).

Dunning (2000) advocates that the eclectic paradigm implies that the extent, geography and industrial composition of foreign-owned production is determined by three sets of advantages. The first set refers to competitive advantage related to *ownership* specific advantages. Within this set of advantages, international experience, host country experience, mode experience, product experience, and the relative size of the company are determined as ownership specific variables (Bell, 1996). Dunning (1988) distinguishes between advantages coming from structural and transactional market imperfections. The former is relating to, for example, superior technology, while the latter implies that the company can take advantage of lower transaction costs. The greater the competitive advantages of investing companies relative to those of other companies, the more these companies are likely to engage in, or increase the foreign production. The second set concerns competitive advantage based on the attractiveness of alternative *locations* for foreign-owned production. As variables within this set of advantages, cultural differences, host country risk, host government policy, and the level of welfare in the country can be distinguished. Locational advantages can also be of structural and transactional type. Structural advantages relate to differences in factor costs. Transactional advantages are those that enhance arbitrage and leverage opportunities. The more immobile assets in a foreign market, the more companies will choose to enhance or exploit the ownership specific advantages. The last set is *internationalisation* advantages and refer to the capability to transfer owner specific advantages across national borders, and this within the

company's own organisation rather than selling the advantage to actors in the foreign market.

### **2.3 Factors Affecting the Change of Entry Mode**

Calof and Beamish (1995) claim that the internationalisation process is dynamic, with changes occurring over time. The reasons why firms change entry modes are varied and complex. To understand the mode changes many researches have focused on the relationship between the specific mode chosen and a variety of firm factors. The dominant approach used to explain and understand why firms change modes is through sequentially movement throughout different stages when developing the international activities (Johanson & Wiedersheim-Paul, 1975; Cavusgil, 1984; Johanson & Vahlne, 1977), where each stage involves an increased commitment to international activities. When the company learns more about the new market the commitment increases, and as a result the company becomes less uncertain about the foreign markets (Johanson & Vahlne, 1977; Cavusgil, 1984).

A study including 38 companies carried out by Calof and Beamish (1995) generated 121 mode changes over a period of ten years. The majority of firms, 71 percent, made the decision to move towards foreign direct investment, 38 percent changed to a sales branch, 24 percent to a wholly owned production subsidiary and 19 percent to a joint venture. The remaining firms changed to non-foreign direct investment modes. The major pattern among the studied companies was to change from export to sales subsidiary. Most of the mode changes were of stage variety, meaning single step with incremental changes, but half of the change decisions failed to follow this stage pattern.

Calof and Beamish (1995) categorize factors effecting the mode change decision as attitude based, internal environment based, external environment based and performance based stimuli. The external environment consists of factors outside a company's direct control, such as government policy, competitive environment and acquisition opportunities. Factors that are within a company's control, such as strategy and financial sources, are seen as internal environment. The largest contribution affecting the change of mode came from factors in the internal environment, and the greatest percentage was changes in the company's strategy, and the second greatest change in the company's resources. For the external environment the most dominate factor was the opportunity for an acquisition. Half of all mode changes were evident performance based stimuli with observations as good performance accounting for 24 percent of the mode changes and poor performance for 26 percent. Attitude stimuli had the least effect on the change of entry mode; the most commonly cited factor was associated with the stage school of internationalisation. The change occurred because the companies felt more comfortable with the market, and believed there was time to change for a higher commitment mode. Many of the factors that affect the mode change decisions are often caused inter-relationships between factors in the different categories. For example a mode change may occur due to strategic changes, being of internal

character, but this change might in reality depend on external environment based stimuli, which in turn led to the change in strategy.

According to Calof and Beamish (1995) resource based reasons play a major role regarding mode change decisions. For example, the company might not have enough and sufficient resources to change to a higher investment mode such as wholly owned production. A change can also appear from that the company from the start chooses an entry mode and after some time started to feel that the mode had served its purpose. The choice of mode can be attributed to the outlook of potential sales volume in the foreign market. Different modes generate different sales volume, for example export modes will generate the lowest sales volume whilst a wholly owned production subsidiary the highest. The determination of the mode choice appears by the interplay of different variables. One variable is the ability for the firm to manage a particular mode depending on the company's skills and financial resources. Another variable is the variety in strategic considerations and environmental restriction, for example if the foreign government does not allow full ownership by a foreign actor.

Rosson (1987) made an investigation why firms change distributors. He found out three major arguments: dissatisfaction with the distributor, changes in the company itself, and changes in the environment. Ford et al. (1987) conducted a similar investigation regarding the change from export mode to sales subsidiary. The investigation showed that the companies were dissatisfied with the agent, the changes were crucial to a more effective development of the market and that changes in the external environment such as government policy or competitor activity also played an important role. They also found that the decision to change mode was based on individual circumstances such as intuitions and attitudes that it was the right time for a change.

## **2.4 Theory Summary**

Based on the factors that affect the choice of entry mode, a model for the change of mode was created (see Figure 2.1 Factors Influencing the Change of Entry Mode'), showing the factors having impact on the change of entry mode in three main categories: internal factors, external factors and experience from previous entry mode. There is an interrelationship between the categories in the sense that the factors in one category may affect factors in another. Depending on the situation and company the factors may act as either triggers or barriers for the change. Factors can affect both the decision to change and which entry mode to select. For example one factor can trigger the need for a change while other factors may affect which entry mode to choose. The decision which entry mode to change to will in turn be affected by the company's capability to handle risks, how flexible the company is and the skills the company has. The selected entry mode will generate in a change of mode.

### **Research Question**

Do changes in the factors that affected the initial entry mode generate in a mode change?

# Frame of Reference

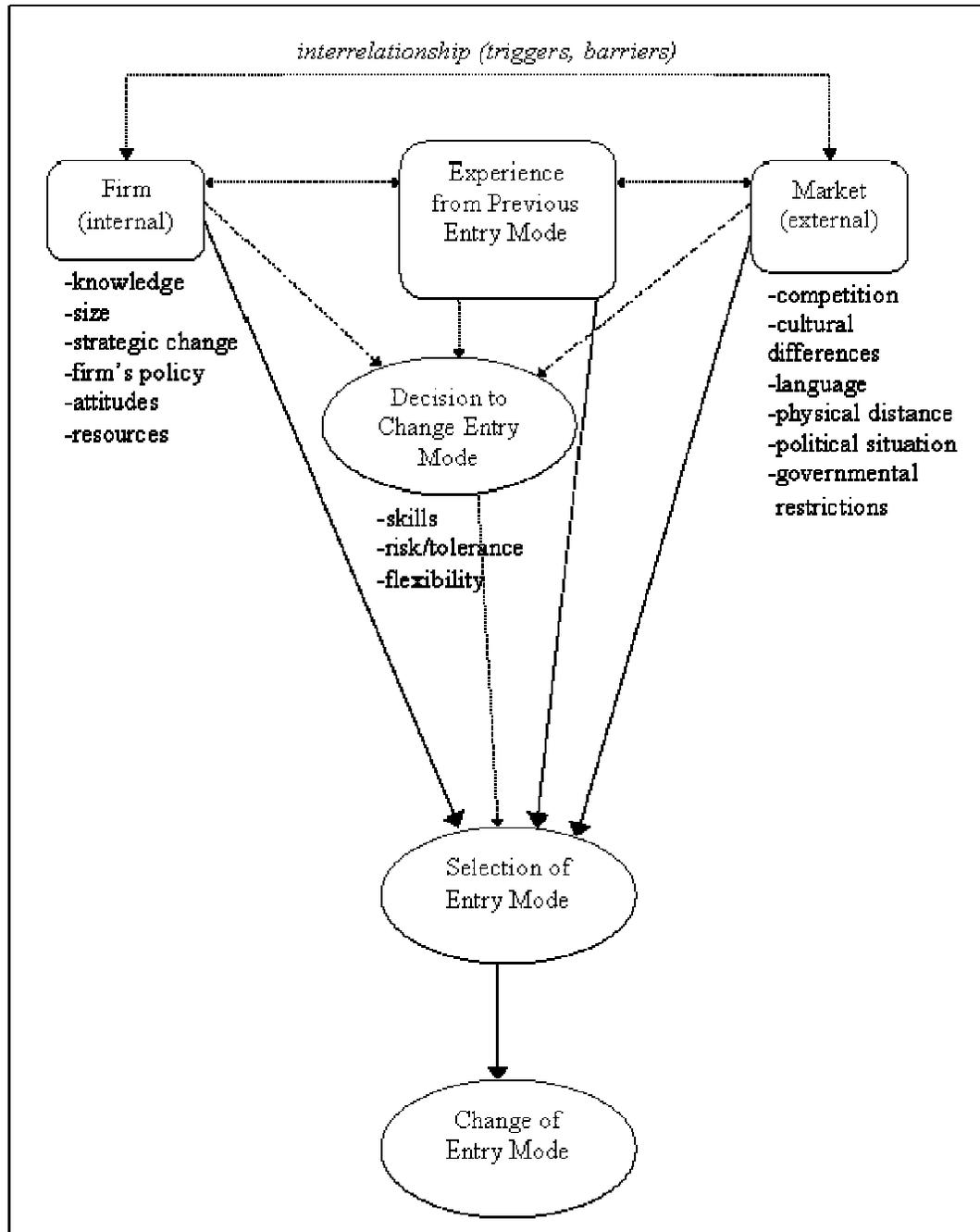


Figure 2.1 Factors Influencing the Change of Entry Mode

### 3 Methodology

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*This chapter describes the method that has been used for the investigation. First, the process how the companies were selected is described, followed by the chosen method and how the information was collected. Finally it is described how the analysis was carried out.*

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#### 3.1 Selection of Companies

The chosen companies are Swedish companies that have subsidiaries in Taiwan. The companies were found at the Swedish Export Council's website, including 49 Swedish companies with subsidiaries in Taiwan. The objective was to contact all of these companies and ask whether or not they started up with a subsidiary directly or if they had used another entry mode when first entering the Taiwanese market. The reason why all these companies were supposed to be contacted was to find out how many of them really had changed their entry mode, which also had the base in the choice of method. The criteria for the companies were that they had to be Swedish companies which had changed their entry mode to subsidiaries in the Taiwanese market. The reason for these criteria is that the information on the Swedish Export Council's website was that all 49 companies listed had subsidiaries. The companies' location in Sweden was no selection criterion, neither was the business areas of the companies.

It was a time consuming process to get hold of the right persons in each of the companies. We wished to speak with representatives in the Swedish offices but there were no Swedish telephone numbers posted on the website. Swedish telephone numbers could only be found to 39 of the companies (see Appendix 1). Contact with persons possessing the right knowledge could not be established with 22 of the 39 companies. Further, eight of the companies where contact could be established, had not done any change of entry mode and four companies did not have and had never had a subsidiary. This resulted in five companies suitable for a deeper investigation: Amersham Biosciences AB, Höganäs Taiwan Ltd., M2 Engineering, Micronic Laser Systems, and SCA Hygiene Products AB.

#### 3.2 Method Chosen

According to Lundahl and Skärvad (1999) there are two different methods that can be used when collecting data: quantitative and qualitative. Whereas data in quantitative studies deals with numbers and statistical results, data in qualitative studies deals with meanings (Dey, 1995). The purpose with a qualitative research is to get a more deepened knowledge than the one that is reached with the use of a quantitative method, and to struggle to understand and analyse as a whole (Patel & Davidson, 1991). This investigation could be carried out by a quantitative approach. If all or a large majority of the companies had changed entry mode, there could be reason to conduct a quantitative study, but with the limited number of only five companies, it can be argued that a qualitative approach is preferred in order to gain a deeper understanding about each specific company.

Lundahl and Skärvad (1999) mean that interpretation and understanding are the most essential concepts in qualitative research. There are no guidelines or rules as in a quantitative study on how the information should be interpreted. The aim with this study is not to generalise the information as quantitative studies do, but to gain a deeper understanding about the factors that trigger and prevent the change of entry mode. Therefore, a qualitative study is suitable in order to obtain a greater understanding into the research subject. We also argue, considering the number of companies, that a qualitative study would generate more interesting results. If there had been a larger number of companies, the statistical data gained from a quantitative investigation would be more useful since reliable conclusions and generalisations cannot be drawn from such a research small sample as in this thesis. Aczel (2002) stresses that to be able to draw reliable conclusions and make generalisations there has to be a sample of at least 30 participants.

The phenomenon itself, what affects companies' entry mode changes, is also to highlight regarding the choice of a qualitative approach. A qualitative study would generate an understanding why these factors affect mode changes and not generate in statistical results as in a quantitative study. A qualitative approach would make it easier to understand how the different factors have affected the change of entry mode.

### **3.3 Collection of Information**

Collection of information was conducted through interviews. According to Berg (1995) an interview is a conversation with a purpose, where the purpose is to gather information. Ejvegård (1996) argues that by using interviews, the respondents can easily express their opinions and knowledge within the area in question. An advantage with interviews is the verbal communication between the interviewer and the respondent, which opens up for a deeper insight into the subject (Lundahl & Skärvad, 1999).

There are different types of interviews. To distinguish between them Lundahl and Skärvad (1999) mean that the degree of standardisation is a good starting point. When the degree of standardisation is high, the questions are compiled in advance and the interviewer is bound to follow these questions. The structure and order of the questions need to be the same in all interviews. When conducting non-standardised interviews, the questions do not need to be compiled in advance to the same extent as in standardised interviews. Also, the order of the questions can be decided gradually. This type of interview is more flexible and the questions can be adjusted to the answers that are given by the respondents. When the interview is neither standardised nor non-standardised, but a mix of the two, it is called semi-standardised. When conducting this type of interview, some of the questions asked are compiled in advance, and these questions are asked to all respondents. At the same time, depending on the answers to these questions, follow-up questions are asked in order to get the respondent to develop and provide clearer answers. Usually, more or less standardised interviews are used in quantitative investigations, and non-standardised in qualitative investigations. The type of interview that is best suited to this thesis is a semi-standardised interview. The questions should to a certain extent

be standardised in order to be able to compare the triggers and barriers for different companies, but it should at the same time be possible to adjust and come up with new questions depending on the answers from each respondent to better understand the specific case. A semi-standardised interview allows the interviewer to ask more specific questions in cases where in-depth answers are required. The interview guide can be found in Appendix 2 and 3.

The interviews in this thesis were conducted via telephone interviews and interviews through the Internet telephone program Skype. The reason why we chose to conduct the interviews this way, is due to time restrictions and limited resources to travel to each of the five companies located in diverse places within Sweden. Also people in Singapore, Mainland China and Taiwan have been contacted because of difficulties to get hold on of persons with the appropriate knowledge in Sweden. The respondents interviewed had positions as for example Asia manager and product responsible for the Taiwanese market. Before starting the interview the respondents were asked if they agreed to let the conversation be recorded, and all of them did. In a face-to-face interview both the interviewer and the interviewee can clarify the verbal communication with for example the body language, face expressions or pictures, which simplifies the interpretation and understanding. In a telephone interview the only way of expression is through the voice and the use of different tones to for example underline certain things. In a telephone interview, greater effort from the interviewer is required in order to maintain the flow of conversation and as not interrupt the interviewee. The interview material has to be of reasonable length and the interviewer has to emphasise the most central parts and select main factors that the interviewee mentions.

### **3.4 Analysis Approach**

As starting point for the analysis of the factors, Figure 2.1 Factors Influencing the Change of Entry Mode' was used, including internal factors, external factors, and the experience from previous entry mode. Analysis of the factors that has functioned as either triggers or barriers was examined at each company and then the main factors for all companies were identified. Only the factors relevant for this specific investigation are discussed in the analysis. Finally, the triggers and barriers are analysed based on the theories from the 'Frame of Reference' explaining changes of entry modes.

## 4 Empirical Findings

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*In this chapter the five companies are described. The presentation of the empirical findings is based on the internal and external factors, and the experience from previous entry mode in Figure 2.1 Factors Influencing the Change of Entry Mode'.*

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### 4.1 Amersham Biosciences AB

The information below is based on the interview conducted 2005-05-03 with Lorentz Larsson at Amersham Biosciences AB.

Amersham Biosciences AB is a world leader in medical diagnostics and life sciences, which together with Amersham Health AB constitute the whole Amersham Corporation. The company provides technologies for gene and protein research, drug screening and testing, and protein separations systems for manufacturing of biopharmaceuticals ([www.amersham.com](http://www.amersham.com)). When the company entered the Taiwanese market, Amersham Biosciences AB first used a distributor for many years and changed in 1990 to a sales subsidiary. Years of acquisitions and mergers has characterised the company and formed it to what it is today.

#### Internal Factors

Nowadays, Amersham is a part of General Electric Healthcare, as the result of an acquisition. In comparison to the industry, Amersham Biosciences AB is a relatively large company. The size of the company had no evident affect on the change of entry mode, except the infrastructure that always gets comprehensively affected in organisational changes. The decision to change entry mode was made of a committee in the General Electric concern and consist of an assembly of different people from companies in what they name Greater China. The deployment of Greater China consists of Taiwan, Hong Kong and Mainland China and is done because of the similarities the countries have in language and culture. The goal and vision for General Electric Healthcare is to expand within Greater China, and they have a positive view on the structure of the company when it comes to employment and increase of sales.

*“When the sales volume and market growth reach a certain point, a distributor is no longer an option.”*

#### External Factors

The company itself is most affected by the external market situation and the business environment and bioscience is nowadays a positive trend.

*“We grew out of the shoes we had and grew into a new size, where we needed more people present in Taiwan.”*

There is strong competition in their field of business and Amersham Biosciences AB has almost the same competitors regardless which county they operate in. In Taiwan they have great advantage with their long historical presence there and the fact that

they are physically located in the market. The political tensions between Taiwan and Mainland China have not affected Amersham Biosciences AB directly, which the company also tries to stay away from. They are to a small extent affected by the tension but it does not hinder their business. There are no restrictions for international companies that had impact on the change of entry mode. Neither is there any troubles with the import and export rules. The cultural differences between Sweden and Taiwan are an issue that Amersham Biosciences AB is aware of and respect. There is a mutual understanding and many of the employees that work and have worked in Taiwan have learned how to cooperate and understand the people. The physical distance is today no problem due to the highly developed technology, the only thing to keep in mind is the time difference of six to seven hours.

### **Experience from Previous Entry Mode**

There is much competence in the company concerning past experiences, which is well documented. Amersham Biosciences AB had a large amount of knowledge when they first entered Taiwan. This has been helpful and important for the coming changes that have been done. The change of entry mode and the fact that the company officially is located in Taiwan has led to a greater feeling of safety for customers and employees. It creates better possibilities to provide added service and help for their customers. The main consequence that the subsidiary has brought, is the increase paper work.

## **4.2 Höganäs Taiwan Ltd.**

The information below is based on the interview conducted 2005-05-13 with Gunnar Skoglund at Höganäs Taiwan Ltd.

Höganäs AB is world leading in the production of iron and metal powders. Their most important customers can be found in the component manufacturing, welding, chemical and metallurgical industries ([www.hoganas.com](http://www.hoganas.com)). The company entered the Taiwanese market in the late 60's represented by the agent Gadelius. Gadelius was a Japanese company established by a Swede in the end of the 19<sup>th</sup> century and operated in many important Asian countries but is now a part of the Swedish company ABB. Höganäs AB had a good cooperation with Gadelius and used the company as an agent in Taiwan, Singapore, Korea and Japan. They have had Gadelius as agent to all their current subsidiaries in Asia.

### **Internal Factors**

The sales subsidiary in Taiwan was established in 1990 under the name Höganäs Taiwan Ltd. The company has production in Shanghai but not in Taiwan. When the subsidiary started they had a Swedish boss with seven Taiwanese employees. Today, they have one Swedish boss for Mainland China and Taiwan. The company established their first subsidiaries in the 70's in countries located nearby Sweden.

The company expanded due to increased turnover. This made them consider changing their entry mode to a subsidiary to keep the costs down.

## Empirical Findings

*“When the turnover reaches a certain point, it is less expensive to have a subsidiary.”*

The decision to change entry mode to a subsidiary was carried out by the board in Sweden. Before they established the subsidiary in Taiwan they had around seven subsidiaries located in other countries.

When the subsidiary in Taiwan was founded, a lot of employees from Gadelius having knowledge about their products and the market began working with the subsidiary.

### **External Factors**

Since Höganäs Taiwan Ltd cooperates a lot with their subsidiary in Shanghai, the tension between Mainland China and Taiwan has not affected their company. This can also be seen in that many of Höganäs Taiwan Ltd customers have started their own production in Mainland China and invested in Taiwan. Höganäs Taiwan Ltd have about five competitors in Taiwan, but they are relatively small compared to them. Höganäs Taiwan Ltd also has a strong position in the Taiwanese market, so the competition there is not as strong as in other countries.

Since there has always been a Swedish worker in the subsidiary in Taiwan, cultural differences have not been a problem. The same staff has been working there since the foundation of the subsidiary, except for the change of CEO a year ago. However, an interpreter is needed when they visit other Taiwanese companies, to prevent misunderstandings. Only at two companies they speak English, and it is only to these companies that no interpreter is needed.

Due to the political tension between Taiwan and Mainland China the Taiwanese employees in Taiwan do not want the employees from the subsidiary in Mainland China to get hold of too much information about the subsidiary in Taiwan. Only the top management is invited to attend business meetings.

### **Experience from Previous Entry Mode**

Höganäs Taiwan Ltd had a close relationship with their former agent they used for 40 years in Taiwan. They could thereby obtain useful knowledge about the Taiwanese market as well as Asian markets in general.

## **4.3 M2 Engineering**

The information below is based on the interview conducted 2005-05-09 with Andreas Andersson at M2 Engineering.

M2 Engineering is a company with 130 employees located all around the world. They are dedicated to providing their customers with the most reliable, cost-efficient and productive optical disk and media production solutions for CD, CDR, DVD, and DVDR media production ([www.m2e.se](http://www.m2e.se)). M2 Engineering was founded in 1995 and started with an agent to reach the Taiwanese market in 1997. The company was then one third of what it is today.

### **Internal Factors**

With the increasing organisation and the vision to become even bigger in the region M2 Engineering decided at the end of 2001 and beginning of 2002 to add a sales subsidiary to the already existing agent. They had a really good relationship with their agent but felt there was a need for a subsidiary when the organisation increased. The decision to add a subsidiary was made by the CEO in Sweden together with the Asian CEO. There are no special policies whether to use agents or subsidiaries in the company. Each decision is made for the single case what entry mode to use.

The agent and the subsidiary have separate customers, where the subsidiary handles the larger customers. The agents are more independent and their main purpose is to take care and stay close to the customers. They should provide the company with knowledge and increase the integration with the market, this gives the company less workload. With the subsidiary on the other hand, larger decisions are made from the office in Sweden. This results in irritations among employees on divisions that handle project management of delivery projects, shipping and spare parts. There are only Taiwanese people that are working at the subsidiary in Taiwan. A good and strong agent consequently makes the management more convenient and they do not take as much responsible as required. A subsidiary involves more responsibilities and conflicts can easily appear. Larger customers often want to purchase directly from the subsidiary instead through agents.

*“The greatest reason for the change was to reach out to the largest customers which the agent did not succeed with.”*

When purchasing through agents the price will be more expensive due to the provision. This may always not be true, but anyhow buying from the subsidiary will generate in a closer relationship to the service and development department and which in turn create the possibility to influence future machines.

### **External Factors**

The tension with Taiwan and Mainland China does not affect M2 Engineering. The company has many customers that work throughout Asia without any communication problems. Many of their customers in Taiwan often have factories on the mainland.

The optical disc branch is one of the most competitive markets in Taiwan. M2 Engineering's Japanese competitors are one of the strongest in the market and for Taiwanese people it is some of a tradition to use Japanese equipment. Also many local low price segment manufactures have started to climb upwards in the market and M2 Engineering felt the need for presence in the market to have a direct contact with the large companies.

The cultural differences have caused communication problems. The company has both Chinese management and customers in Taiwan and Chinese people have an ability to be a bit secretive and do not want to show some machines and test results. They are scared that the information will reach competitors or the wrong person.

When meetings are held it is only the top management that is allowed to be present and it is difficult to gather feedback from meetings. At the management level all communications are held in English and the engineers, agents and sales people in Taiwan speak Mandarin. The physical distance between Sweden and Taiwan, cause problems in the R&D and management. The long time demanding flights, generate less visits, than if the two countries were situated closer to each other.

### **Experiences from Previous Entry Mode**

M2 Engineering has always been an international company and their first customer abroad was actually Taiwan. The high degree of internationalisation dependent on Sweden's small market and as much as 99 percent of their turnover is export. Most of the decisions were made in Sweden but in the last year a transfer of the business has been made, and the decisions are mainly made in Asia.

When M2 Engineering entered the Taiwanese market they had a limited knowledge about market and culture. After the increasing relationships between the two countries a better understanding has been created, especially around the people in the organisation that have direct contact with Taiwan like sellers. The board still has limited knowledge but they are working on it.

## **4.4 Micronic Laser Systems**

The information below is based on the interview conducted 2005-05-10 with Magnus Råberg at Micronic Laser Systems.

Micronic Laser Systems is a world-leading manufacturer of laser pattern generators for the production of photo masks. Micronic Laser Systems work both with agents and distributors, which are responsible for customer contacts and they work closely with Micronics sales and marketing organization and technical staff. Through subsidiaries in Japan, USA and Taiwan, Micronic Laser Systems offers customer support ([www.micronic.se](http://www.micronic.se)). Micronic Laser Systems has today both agents and a subsidiary in Taiwan. The agents work with all their customers, and the subsidiary is for handling administration. Today they are about five times bigger then when they entered the Taiwanese market in 1994. They then started with only agents, but four years ago, 2001, they started up a subsidiary in Taiwan.

### **Internal Factors**

The size of the company, has not directly had an impact on Micronic Laser Systems choice of entry mode. The one who took the decision to change the entry mode was the CEO who is located in Sweden. No problems or dissatisfaction in the company arose when the subsidiary was founded. The subsidiary was established when Micronic Laser Systems changed agents.

### **External Factors**

The language sometimes causes problems, since misunderstandings arise and it is often a challenge to understand each other. The people working in the subsidiary in

Taiwan are Taiwanese, but no one in the Swedish company has a good command of mandarin. Micronic Laser Systems does not have any policy that has had any impact when deciding to change the entry mode. They decide this country by country. Due to the distance between Sweden and Taiwan it is time consuming to send spare parts between the companies. However, since Micronic Laser Systems does not have any customers in Sweden, only a few in Europe, south East Asia, and USA, the distance is not a big problem for them. The political situation with the tension between Mainland China and Taiwan has not been a problem or anything Micronic Laser Systems has considered when entering the Taiwanese Market. Their biggest competitors are Chinese companies through the semi conducting industries, but they also have Japanese and American competitors. Taiwan is a fast growing market. Now the subsidiary is only used for administration but they also want to be established there due to the fast growing market. If the market expands heavily they want to be able to decide and run the business on their own.

*“The subsidiary is founded on strategic reasons for the future, to be prepared for a rapid expansion of the market.”*

### **Experiences from Previous Entry Mode**

The Asian experience before entering the Taiwanese market was limited. Before Micronic Laser Systems only had a subsidiary in Japan, but agents all over the world. Since Taiwan is a small market for Micronic Laser Systems, they are grateful to have agents there, since they consider it a tough market.

## **4.5 SCA Hygiene Products AB**

The information below is based on the interview conducted 2005-05-03 with Gunnar Preifors at SCA Hygiene Products.

SCA Hygiene Products AB is a part of the SCA (Svenska Cellulosa Aktiebolaget) concern specialised on absorbent hygiene products such as feminine hygiene products, baby diapers, incontinence products, and tissues. The other two main divisions of SCA sell packaging solutions and publication papers ([www.sca.com](http://www.sca.com)). The head quarter of the Asia region is located in Shanghai in Mainland China. SCA Hygiene Products entered the Taiwanese market with a joint venture for almost 30 years ago. In 1999 the company changed entry mode from 20 years of a 50-50 joint venture to a sales subsidiary. During the years in Taiwan SCA Hygiene Products has acquired many other companies around Asia

### **Internal Factors**

The company has good knowledge and experiences from doing business in Asia. For SCA Hygiene Products AB, Taiwan is used as the competence centre for incontinence products and as a platform organisation with distribution to for example Malaysia and Korea. SCA Hygiene Products has always had joint ventures as a part of their strategy. When searching possible partners for future relationships, SCA Hygiene Products look at strong local partners. SCA Hygiene Products

## Empirical Findings

provides the products, brands, technology, and product development, whereas the partners supply sales force, factories, and management. The reason for the change was not followed by any contradictories among the employees. Even if they did not like the change to a subsidiary from the beginning, they understood that there was simply no choice.

*“We were forced to change, otherwise we would not have done it.”*

SCA Hygiene Products, did not come encounter any substantial problems with the entry mode change; the organisation is stable and was capable enough to handle such a situation.

### **External Factors**

The company is one of few companies that successfully and over a long period of time have survived with joint a venture as an entry mode and the decision to change was hard but there were no other alternatives for staying competitive. The underlying reason for the change of mode, was the Asian crises that started in 1997 lasting for two years. Companies went bankrupt and many countries had problems with decreasing exchange rates and devaluating currencies. SCA Hygiene Products’s joint venture partner in Taiwan was one the companies that could not handle the unstable economy that the crisis brought. The partner went bankrupt and SCA Hygiene Products had no other alternatives but to acquire them in order to survive and stay competitive in the market.

The company has been growing with the fast growing Taiwanese market and do not consider the market as insecure. The tensions between China and Taiwan have very little impact upon the business. This is mainly because SCA Hygiene Products does not have any production located in the Taiwan. Further expansions in the Chinese market would not affect the subsidiary in Taiwan, since the relation between China and Taiwan is becoming smaller and smaller for the company.

There are no special restrictions for international companies that have affected SCA Hygiene Products. They mean that Taiwan has a liberal economy and is highly internationalised for international businesses activities. The physical distance between Sweden and Taiwan is not seen as a problem. SCA Hygiene Products thinks that Taiwan is strategically geographically located, since the company has operations in many other Asian countries. There are well-educated people and it is easy to recruit new people. People with the right knowledge and experiences are important in the highly competitive Taiwanese market, where SCA Hygiene Products has two major competitors.

There are no major communication problems. SCA Hygiene Products has found competent people to work with and the education of new employees has worked out fine. The only misunderstandings are due to the fact, that the country has two official languages: mandarin and Taiwanese. Mandarin is most common in the area of Taipei in north of Taiwan where SCA Hygiene Products is located. When doing business with people in the south some misunderstandings can arise, and then the

## Empirical Findings

misunderstandings are between Taiwanese people from the north and Taiwanese people from the south.

### **Experience from Previous Entry Mode**

The experience gained from the joint venture has helped SCA Hygiene Products to understand the market and the acquisition of the former partner implies that SCA Hygiene Products can continue to benefit from the knowledge and experience the partner possessed.

## 5 Analysing the Factors

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*This chapter analyses the triggers and barriers that has affected the changes of entry mode. The first part of the analysis is based on the factors in Figure 2.1 Factors Influencing the Change of Entry Mode'. The triggers and barriers are thereafter analysed based on theories explaining mode changes.*

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### 5.1 Internal Factors

#### 5.1.1 Triggers

According to Penrose (1959), increased knowledge about the market reduces market uncertainty and is seen to be a driving force when internationalising. When establishing the subsidiary, Amersham Biosciences AB already had much competence and knowledge of Asia and has a long history in the market, and this has helped the changes concerning the entry mode. Calof and Beamish (1995) mean that changes to modes with higher market commitment are often due to the fact that companies feel comfortable with the market, and are ready to take one step forward. Höganäs AB has much competence and knowledge about Taiwan since they have been participating in the Taiwanese market for many years. Due to that, their agent's, Gadelius, employees started to work for Höganäs Taiwan Ltd. They could keep the knowledge and competence in the company, which was an advantage for Höganäs Taiwan Ltd.

Both Root (1994) and Driscoll (1995) claim that the size of the company has a great influence when choosing entry mode. Also the global corporate objectives influence the choice of entry mode (Driscoll, 1995). Amersham Biosciences AB are a part of General Electric Healthcare, whose main goal is to expand within Great China. Also M2 Engineering has a vision to become larger in the region, hence increasing the sales volume. M2 Engineering, decided to start a subsidiary when their business and sales volume increased. This was also the case for Höganäs AB, where the increasing sales and made it more expensive to keep their agents which triggered the decision to change to a subsidiary. Calof and Beamish (1995) argue that which entry mode to undertake can be related to the potential sales volume. They mean that modes generate different sales volume and that a subsidiary generates the highest. Also Rasheed (2005) stresses that a wholly owned subsidiary is the entry mode that generates the highest level of economic profit. In a study by Calof and Beamish (1995), the major pattern concerning changes of entry mode was to change from export to a sales subsidiary.

Micronic Laser Systems started a subsidiary due to strategic reasons. They wanted to be prepared for an expansion in the Taiwanese market. This strategic change was in turn affected by the characteristics of what the market looks like. This will be further discussed under 5.2.1 Triggers.

### **5.1.2 Barriers**

M2 Engineering had limited knowledge about the Taiwanese market when entering. We believe that little experience and knowledge about the Taiwanese or Asian markets in general can be a problem since the Swedish and Taiwanese or Asian cultures are different. When doing business in Taiwan there is, according to Trappey (1998), a focus on personal relationships. This can be connected with the value of starting in a new market with an agent or distributor. It is then easier to get into the market with new products. An advantage can be to use agents according to Hollensen (2004), and they can then introduce the product in the new market, since they possess knowledge about the market and the customs, and also have business contacts.

SCA Hygiene Products AB has a policy to have joint ventures when entering a new market. Driscoll (1995) argues that corporate policies are internal factors that have impact on the decision which entry mode to choose. In this case, the policy of SCA Hygiene Products AB could be seen as a barrier to change to a subsidiary, but their only option to stay competitive was to acquire their partner due to the Asian crisis. The acquisition let them continue working with the same people, with the added benefit that the knowledge and experience remained within the company. Hollensen (2004) argues that acquisitions are an easy way of keeping the management with its experiences within the company.

## **5.2 External Factors**

### **5.2.1 Triggers**

The Taiwanese market is a growing and dynamic market. In order to stay competitive, companies have to adjust to the market (Swedish Trade Council, 2004). Both Amersham Biosciences AB and M2 Engineering felt that their present entry mode could not support the company in the way they wanted. The physical presence in the market is seen as an important factor for the two companies to provide better relationships and services direct to the customers. According to Swedish Trade Council (2004) presence in the Taiwanese market is closely related to competitive advantage. With the present entry mode Amersham Biosciences AB and M2 Engineering felt an absence from the Taiwanese market and a need to be more competitive. We believe that when the company is not present in the market, it is more difficult to coordinate actions. An entry mode with higher control and commitment gives the company more independence and the possibility to manage and control the market themselves (Anderson & Gatignon, 1986).

The Taiwanese market is characterised by high technological products (Wong et al., 2000). Micronic Laser Systems, as well as Amersham Biosciences AB and M2 Engineering operate within industries where technology plays an important role. For these companies, competition was a major factor for the change. Also SCA Hygiene Products consider the Taiwanese market as highly competitive, but as mentioned, this was not a major reason for their change.

M2 Engineering wanted to reach out to the large customers that want the possibility to influence the products and better service. The way M2 Engineering uses this mode combination is categorized as segmented, where the modes are used to serve different segments within the same industry or market (Petersen & Welch, 2000). This makes the company competitive in two different ways, the agent takes care of the smaller customers and the subsidiary of the larger. Micronic Laser System uses their mode combination in a complementary way. The agent and the subsidiary are combined in a supporting way where the subsidiary's main objective is to take care of the administration. If the market would expand, a change of the mode combination would probably occur. A possible outcome could also be that they choose to only run the subsidiary and not use the agent anymore.

### **5.2.2 Barriers**

A subsidiary includes a closer contact with the physical presence in the market (Swedish Trade Council, 2004). All the subsidiaries have a mixture of both Taiwanese and Swedish employees except Micronic Laser System. In Micronic Laser System the employees in Taiwan are all Taiwanese and the management in Sweden do not speak Mandarin. Differences in language and cultural understanding are by Vahlne and Wiederheim-Paul (1973) stressed as factors that disturb the flow of information between the company and the market. This is evident for Micronic Laser Systems, which is the only company that sees the differences in languages as a small barrier. Making business in Taiwan compared to Sweden are two complete different processes. The Taiwanese business process is built more on close contacts and personal relationships. A business decision often takes more time because of this, which is important to take into consideration. To run a subsidiary in Taiwan and to be successful requires a mutual understanding and adaptation to the culture (Swedish Trade Council, 2004). Höganäs Taiwan Ltd has solved their communication problems with interpreters when visiting other companies. Even though Höganäs Taiwan Ltd is using interpreters to facilitate the communication between Swedes and Taiwanese problems may arise. The relationships will never be as personal with an interpreter as when speaking directly with each other since some information may be left out.

The tension between Taiwan and Mainland China has had a modest affect on the companies and their change of entry mode. The companies that have experienced problems with the tense situation are Höganäs Taiwan Ltd and M2 Engineering. In Höganäs Taiwan Ltd the Taiwanese employees do not feel trust for the employees in the Chinese subsidiary due to the circumstances. M2 Engineering has experienced similar problems where the Taiwanese employees are secretive and feel insecure to share information.

### **5.3 Experience from Previous Entry Mode**

The companies had different levels of experience when establishing the subsidiary. The company that had most experience from the Taiwanese market is SCA Hygiene Products AB that with the former joint venture obtained useful experiences that

could be of great value in the subsidiary. With the joint venture they were already established in the market with employees both from Sweden and Taiwan. When the subsidiary was founded, the employees with experience from the joint venture were still in the company. Also Amersham Biosciences AB had good experiences from their distributor in Taiwan. This helped them to be prepared for the establishment of the subsidiary. M2 Engineering has a good relationship with their agent that has been of great value when the subsidiary was established. Micronic Laser Systems have experience from using agents all over the world, but limited experience from subsidiaries. However, the agent in Taiwan is still used to reach the customers and when the market for Micronic Laser Systems expands, the subsidiary will be used for other purposes than only administration. Höganäs Taiwan Ltd had a close relationship with their agent, which they also used in other Asian countries. The long relationship with the agent has resulted in useful knowledge about the Asian and Taiwanese market.

#### **5.4 Main Factors**

The highly competitive market has been a major factor that has triggered the companies to change their entry mode. The competitiveness has made it crucial to be physically present in the market. High technology is a large part of the Taiwanese market and to be able to compete with the domestic brands, there is a big advantage to be present in the market in order to be close to the customers. Hollensen (2004) argues that the possibility of being close to the customers in the foreign country is a major reason for choosing a sales subsidiary.

Another main factor that has acted as a trigger is the increasing sales volume. As the company grows and reaches a certain sales volume, using an agent or a distributor is no longer profitable for the company. The company will benefit more by having a subsidiary. The growing market can make the companies feel that the current entry mode is not fulfilling the company's visions.

Knowledge about the market to enter is a prerequisite before starting a subsidiary. If there is a large difference between the cultures, there can be an advantage to let people from the host market introduce the product since they have knowledge and experience. All five companies entered the Taiwanese market with the help from Taiwanese people. All companies used Taiwanese distributors or agents except SCA Hygiene Products AB that started with a joint venture as a part of their corporate policy. This implies that most of the companies wanted to grow with representatives until they had enough knowledge and had reached a certain sales volume.

#### **5.5 Theories Explaining Entry Mode Changes**

Transaction cost theory states that the decision of which entry mode to choose, is determined by the ownership required for each transaction. There are rational economic reasons why transactions are organised in the way they are. The company should be able to change entry modes quickly and with minimal costs. The relationship between the specificity, uncertainty, and frequency of transactions

determine which organisational structure that is the most efficient in a given situation. The transaction activities should be performed in markets where the company can benefit economically (Anderson & Gatignon, 1986).

Cost efficiency in the Taiwanese market has not played a major role for any of the five companies. The reason for entering the Taiwanese market was not based on economic benefits, but to grow and reach out to an important market. However, when changing entry mode, two of the companies based their decision on economic reasons. Due to the increased sales volume, establishing a subsidiary would generate in lower costs than keeping the Taiwanese representatives.

The internationalisation process model implies that entry modes are reflected by the knowledge development of the foreign market and commitment of resources. The market commitment is made in steps, where the knowledge and experience about the market gradually increases with each step. However, large companies tend to make larger steps, as they have more resources than small companies. Companies with experience from similar markets can make generalisations of the experience to the target market and can therefore take larger steps. It is also stated that companies start the internationalisation process by entering markets with low uncertainty and markets that are closely related to the company's home market concerning language, culture, and political systems (Johanson & Vahlne, 1990).

Since entering the Taiwanese market, all companies have expanded and increased their market commitment. Their knowledge about the market has increased since they first entered the market. No gradual expansion has been made. For all the companies only one mode change has been undertaken, with the change being to a subsidiary. Four of the companies changed directly from a direct export mode to an investment mode. The companies had enough resources that made it possible to change to a subsidiary without following every step. The fifth company did not change from a joint venture to a subsidiary due to increased knowledge and experience, but because they had no choice in order to survive in the market. This supports the argument above that large companies do not go through every step when internationalising. One of the companies had Taiwan as their first foreign market to enter. This is a contradiction in the fact that companies tend to start by entering markets that are closely related to their home market. However, none of the companies consider Taiwan to be an insecure market. Three of the companies operate within high technology industries and Taiwan is a leading market in this area. Therefore, to reach out to this important market and to establish a subsidiary, the differences in culture and language did not play a major role as a barrier.

The eclectic paradigm offers a holistic framework of factors influencing foreign-owned production. It is based on ownership, locational, and internationalisation advantages, including factors that influence the choice of entry mode (Dunning, 2000). None of the companies studied have production in Taiwan, but we argue that some parts of the eclectic paradigm can be applicable to sales subsidiaries. Factors such as international experience, mode experience, host country experience, and the size of the company are referred to as ownership advantages (Bell, 1996). These are factors that have affected the companies in their change of entry mode. Their

experiences from the Taiwanese market as well as other international markets have increased. The experience from their previous mode has been helpful in the way that the former representatives in the market have provided them with knowledge. The size of the company, measured in sales volume, has also had an evident affect on some of the companies' mode changes. Locational variables as cultural differences, host country risk, governmental policy, and the level of welfare have not had a clear affect on the mode changes for the five companies. Obviously, there are differences between the Swedish and Taiwanese culture, but this is not a factor that explains the change of entry mode. It could be speculated that the cultural factor might have had an affect when first entering the market when four of the companies chose to use representatives that knew the culture and the market. The companies do not consider the Taiwanese market as risky, hence this factor did not influence the change. Internationalisation advantages are concerned with the capability of transferring specific advantages across national borders within the company's own organization. Since none of the companies have production in Taiwan, they are not exposed to any risks from the transfer of advantages such as firm specific know-how to actors in the market.

## 6 Conclusions and Final Discussion

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*In this chapter the main conclusions are presented, together with a final discussion about the proceeding and the credibility of the thesis. Finally, further studies are suggested.*

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### 6.1 Conclusions

The purpose with the thesis has been to identify factors that has either triggered or served as barriers in changes of entry modes and to examine which theories are most suitable to explain mode changes. The conclusions are based on the analysis and stated below.

#### *Presence in the market*

A competitive market within high technology, has affected three of the companies to establish a subsidiary in order to be present in the market. The other two companies operate within fields with less competition. This indicates that the high technology field and its competition is a factor that has triggered these companies to change their entry mode.

#### *Increased sales volume*

The investigation shows that when a company reaches a certain sales volume, it becomes no longer profitable to operate with agents or distributors. This is why the sales volume has been a contributing factor for the change of entry mode for two of the companies.

#### *Internal barriers*

The investigation points towards that there are no concrete barriers in the Taiwanese market that have hindered the change of entry mode. The barriers have been of internal firm specific character and relatively small.

#### *Theories explaining mode changes*

It is difficult to completely reject a theory concerning the entry mode changes. It is not possible to apply all parts of a theory to one company, since there are various parts from different theories that can explain one company's change of entry mode. However, the 'internationalisation process model' and the 'eclectic paradigm' are theories where all company changes can be explained by some parts. The 'transaction cost' theory could only be applied to two companies, since they changed entry mode due to economical benefits of having a subsidiary.

### 6.2 Final Discussion

The process with the thesis has worked without any substantial problems. It was not problematic to find information about entry modes, but increasingly difficult to find information about the change from one entry mode to another. Another difficulty

was to get hold of the right person at the various companies. With increased time to dispose, additional time to contact the companies could have been spent and personal interviews could probably have been conducted. By personal interviews the empirical findings could have been deeper. The interviews could have been further detailed and thereby contributed to enhanced comprehensive results.

### **6.2.1 The Credibility of the Thesis**

To emphasise the credibility of an investigation, the concepts reliability and validity are discussed. Reliability is used in order to see how reliable the report is and mainly corresponds to quantitative studies. The purpose is to see if the measure will yield the same results on different occasions, and if different researchers can make similar observations on different occasions (Saunders, Lewis & Thornhill, 2000). According to Patel and Davidson (2003) reliability is seldom used in qualitative studies since the aim is not to measure. The results from a qualitative study will generate information about the specific subject studied and may be affected by circumstances at the time the investigation takes place. Hence, the aim is not to prove that the investigation can be repeated but to understand specific phenomena. It is difficult to say anything about the reliability in this thesis since the respondents only have been interviewed once, and even if they would have been interviewed more than once, it is not certain that the exact same answers would have been generated. Validity deals with whether the findings are actually what they appear to be about and that the right phenomenon is studied. Using suitable theories, measuring instruments and precision when collecting data can verify this. Patel and Davidson (2003) advocate that in qualitative studies consideration needs not only to be put in the collection of data, but throughout the whole investigation. The validity is connected to how the researcher can grasp what may be of various meanings and perhaps contradictory. The different interpretations are of importance for the validity and the researcher needs to reflect whether they bring knowledge about the subject or not.

The fact that the interviews were recorded contributes to a higher validity since it makes it possible to verify the answers from the respondents. The interviews were put together directly after each interview and sent via e-mail to the companies for approval, in order to prevent misunderstandings and/or wrong information from being distributed. In the case of vague information or complementary questions, the companies were contacted again, either via telephone or e-mail.

### **6.2.2 Suggestions for Further Studies**

Examples for further studies could be to conduct a deeper investigation concerning one or two of the main factors found in this thesis or to apply the model to another foreign market.

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## **Appendix 1 – Swedish Companies With Subsidiaries in Taiwan**

1. ABB
2. Alfa Laval AB
3. Amersham Biosciences AB
4. ASSAB
5. Astra Zeneca
6. Atlas Copco AB
7. Axis Communications AB
8. Bombardier Transportation
9. Ekman AB
10. Ekipac China AB
11. Electrolux, AB
12. Elof Hansson AB
13. Envac
14. Ericsson AB
15. Fläkt Woods AB
16. GAC cargo
17. Gambro AB
18. Höganäs AB
19. IKEA
20. Kährs AB
21. LightLab AB
22. Lux AB
23. M2 Engineering AB
24. Metso
25. Micronic Laser Systems AB
26. Pharmacia Diagnostics AB
27. ROCA Industry AB
28. Sandvik AB
29. Sandvik Hard Materials AB
30. SCA Hygiene Products AB
31. Scandinavian Health
32. Seco Tools AB
33. SKF AB
34. SWEP International AB
35. System 3R International AB
36. Tabo Incenirator AB
37. TCO
38. Tetra Pak
39. Volvo AB

## Appendix 2 – Interview Guide

### Internal Factors

- How big was the company when entering the Taiwanese market and how big is it today?
  - Small, medium sized, big?
  - Has the size of the company affected the choice/change of entry mode?
- Who made the decision concerning the choice/change of entry mode?
  - Made together in the company, the CEO, the company's representatives in Taiwan, the parent company in Sweden.
- Have the company's policy had any influence on the choice/change of entry mode?
- What kind of knowledge and experience did you have about the Taiwanese market before entering?
  - Previous experience from internationalisation in Asia?
  - Disadvantage/advantage?
- How have the attitudes in the company been concerning the internationalisation in Taiwan?
  - Positive/negative, no differences noticed?
- Has dissatisfaction or problems with the former entry mode contributed to the change? - How?

### External Factors

- Has the political situation in Taiwan affected your choice/change of entry mode?
  - Does the market feel insecure?
  - No influence, consciously chose an entry mode with less risk and commitment, consciously chose an entry mode with more risks and commitment.
- How is the competition on the Taiwanese market, how has it affected the choice of entry mode?
- Are there any restrictions for international companies in Taiwan and in case how have these affected the choice/change of entry mode?
- Has the cultural differences between Sweden and Taiwan been considered when choosing entry mode?
  - Communication problems, language, religion, climate.

## Appendixes

- The physical distance between Sweden and Taiwan?

*What do you consider have had the greatest influence on the change of entry mode? Why?*

## Appendix 3 – Intervjuguide

### Interna Faktorer

- Hur stort var företaget när ni gick in på den taiwanesiska marknaden och hur stort är det idag?
  - Litet, medelstort, stort?
  - Hur har storleken på företaget påverkat val/förändring av organisationsstruktur?
- Vem tog beslutet om val/förändring av organisationsstruktur?
  - Gemensamt beslut i organisationen, VDn, företags representanter i Taiwan, moderbolaget i Sverige.
- Har företags policy haft inverkan i val/förändring av organisationsstruktur?
- Vad hade ni för kunskap och erfarenhet om den taiwanesiska marknaden innan ni gick in på den?
  - Tidigare erfarenheter av internationalisering i Asien?
  - Nackdel/fördel?
- Hur har attityderna inom företaget varit angående internationaliseringen i Taiwan?
  - Positiva, negativa, inte sett någon skillnad
- Har missnöje eller problem med tidigare använt organisationsstruktur bidragit till en förändring?
  - Hur?

### Externa Faktorer

- Har det politiska läget i Taiwan legat till grund för ert val av organisationsstruktur?
  - Känns markanden osäker?
    - Ingen påverkan, medvetet valt en organisationsstruktur med mindre risk, mindre bunden, medvetet valt en riskfylld organisationsstruktur, mer bunden.
- Hur ser konkurrensen ut på den taiwanesiska markanden, hur har det påverkat valet av organisationsstruktur?
- Finns det några restriktioner för internationella företag i Taiwan och i så fall hur har det påverkat ert val/förändring av organisationsstruktur?

## Appendixes

- Kulturella skillnader mellan Sverige och Taiwan, har detta legat till grund för ert val av organisationsstruktur?
  - Kommunikationsproblem, språket, religion, klimatet.
  - Avståndet mellan Sverige och Taiwan?

*Vad anser ni har haft störst påverkan på förändringen av organisationsstruktur? Varför?*