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A Subcontractor's Dilemma

Two Case Studies of Subcontractors' Internationalisation

Master's thesis within Business Administration

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Jönköping June 2005



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Underleverantörens Dilemma

Två Fallstudier av Underleverantörers Internationalisering

Ekonomie magisteruppsats inom företagsekonomi

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Jönköping juni 2005

Master's Thesis in Business Administration

Title: A Subcontractors Dilemma
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Date: 2005-06-03
Subject terms: Subcontractor, Internationalisation, Customer Relationship

Abstract

Subcontractors today find themselves in an increasingly fierce competitive environment, much due to the famous or should we say infamous globalisation. When the big important clients of subcontractors expand over borders the subcontractor might be obliged to follow them, especially if holding competences of particular value to the outsourcing principal. A subcontractor that thus follow a client abroad might take a great leap, both in regards to what cultural differences or geographical distance might exist as well as the risk associated with such an investment. In this thesis we have highlighted the situation of these so-called client-following subcontractors. The purpose is to investigate how well client-following subcontractors take advantage of opportunities in a new market and how the relationship with the client has affected this.

We found that a qualitative study would best serve our purpose and to be more specific we chose the method of case studies. Two Swedish subcontractors was selected through certain criteria and contact via an outsourcing principal. These two cases was researched through in-depth interviews but also by gathering secondary data such as financial reports. To further increase our understanding of the research area we put significant focus on building a sound frame of reference. Three main theoretical areas was emphasized; first the internationalisation process, second customer relationship and trust, and third strategic choices for subcontractors.

In conclusion we found distinct differences in the underlying strategies of the two cases that could be connected to just what laid behind the decision to internationalise. We could develop this picture by looking at the relationship between the subcontractor and its major client in both instances. A relationship in which more long-term objectives are taken into account had a positive effect on the expansionary strategy of the subcontractor.

Magisteruppsats inom företagsekonomi

Titel:	Underleverantörens Dilemma
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Handledare:	Leif Melin
Datum:	2005-06-03
Ämnesord	Underleverantörer, Internationalisering, Kundrelationer

Sammanfattning

Underleverantörer idag möter allt hårdare konkurrens vilket till mångt och mycket beror på den välkända, eller ska vi säga den ökända, globaliseringen. När stora och viktiga kunder till underleverantörer expanderar över gränserna kan underleverantörerna vara tvungna att följa efter, speciellt i de fall där dessa har kompetenser av särskilt värde för uppdragsgivaren. En underleverantör som följer efter sin kund kan därför ta ett stort steg, både gällande kulturskillnader och geografiskt avstånd men också den risk som är förknippad med en sådan investering. I denna uppsats har vi belyst situationen för dessa så kallade klientefterföljande underleverantörer. Syftet är att undersöka hur väl klientefterföljande underleverantörer utnyttjar möjligheterna i en ny marknad och hur relationen med klienten har påverkat detta.

Vi fann att en kvalitativ studie bäst tjänade vårt syfte, för att vara mer exakt valde vi att göra fallstudier. Två svenska underleverantörer valdes utifrån vissa kriterier och via kontakt med en uppdragsgivare. Dessa var sedan undersökta genom djupgående intervjuer men också genom sekundärdata som exempelvis finansiella rapporter. För att ytterligare öka vår förståelse av ämnet lade vi extra vikt på att bygga en gedigen referensram. Tre teoretiska huvudområden identifierades; först själva internationaliseringsprocessen, sedan kundrelationen och tillit, och sist strategiska val för underleverantörer.

Sammanfattningsvis fann vi distinkta skillnader i de underliggande strategierna av de två fallstudierna vilka kunde kopplas till vad som låg bakom beslutet att internationalisera. Vi kunde utveckla bilden genom att titta på relationen mellan underleverantören och dess huvudkund i båda fallen. En relation som tog mer hänsyn till långtgående mål hade en positiv effekt på den expansiva strategin hos underleverantörerna.

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1 Introduction

This introduction gives a background to the situation of subcontractors following clients abroad. From the discussion of this situation we derive the purpose of our thesis. Finally we illustrate how the reader will be guided through the paper and the reasoning behind the design of the thesis.

1.1 A Subcontractor's Dilemma

In the global economy of the twenty-first century companies are in a higher degree forced to internationalise their operations to remain competitive. One way to explain internationalisation is to say that it is to carry out upstream or downstream activities with partners located in different countries or markets (Agndal, 2004). Upstream activities are research and development, and production while downstream activities are marketing, and sales and augmented services (Hollensen, 2001).

Instead of making everything themselves many companies today buy products or services from subsuppliers. For example a car manufacturer may buy the seats from a smaller company that specialises in making car seats. The car maker takes thus on a role as contractor. In the literature and in this report the contractor is called original equipment manufacturer, henceforth abbreviated OEM, and the subsupplier is called subcontractor.

Johanson and Mattsson (1988) mentions that a number of studies have showed that industrial markets often exhibit long-term relationships between suppliers and customers. Anderson, Blenker and Christensen (1992) distinguishes between five different levels of relationships between subcontractors and OEMs. The more advanced relationships are characterised by that both parties see the partner as strategically important and there is a risk of decreased competitiveness if the relationship is dissolved. Because of this, OEMs in these relationships find it in their interest not to switch subcontractor when moving into foreign markets.

Andersen, Blenker and Christensen (1997) point out four kinds of subcontractor internationalisation routes. These are not mutually exclusive but can overlap each other and there can exist combinations of them. The first route is when the subcontractor follows the domestic customer, as mentioned above, and the deliveries required by the OEM result in the establishment of subsidiaries of the subcontractor in the new market. The second is when the subcontractor internationalise through the supply chain accessed in dealing with the OEM. The third, which is quite similar to the second, is when the subcontractor gains access to international markets through the network of global contractors. The fourth route is independent internationalisation by the subcontractor.

We have chosen to focus on the first route which Hollensen (2001) compares to the so-called late starter case in Johanson and Mattsson's (1988) internationalisation model. The 'late starter' is said to be 'pulled out' to foreign markets by customers or suppliers and the step abroad can be quite big i.e. the physical and psychic distance can be rather large (Johanson & Matson, 1988). Physical and psychic distance are ex-

plained further when we address internationalisation in our study of literature. The authors continue the discussion with emphasising the late starter's bond with its customer. This is the case with the internationalisation of subcontractors following OEMs. Anderson *et al* (1992) acknowledge the importance of fostering the relationship between the subcontractor and its client – the OEM. Consequently we see that subcontractors that follow an important client abroad have recognized the value of a strong relationship.

1.2 Discussing the Problem and Reaching a Purpose

We can see that subcontractors to OEMs have different ways of expanding their activities to foreign markets. With more advanced relationships between the OEM and the subcontractor, long-term planning and mutual strategic importance are shown to be present. The OEM's growing commitment to new markets might then require the subcontractor to develop its fit to the new market, thus pulling them abroad. In these more advanced relationships with coordination through dialogue, the subcontractor holds competences of strategic value to the OEM. The subcontractor is then convinced to dedicate resources abroad with the promise, often contractual, of future procurement till its investment is paid of (Hollensen, 2004). With this guarantee the subcontractor can devote otherwise disproportionate resources to internationalise.

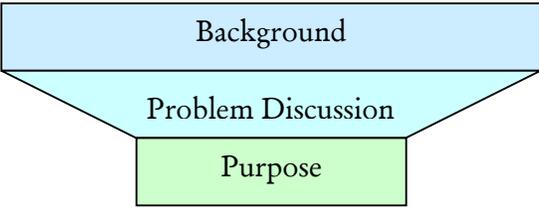
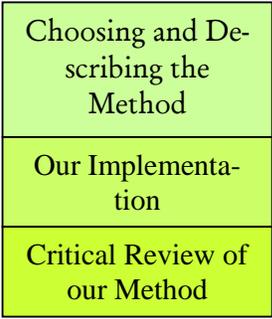
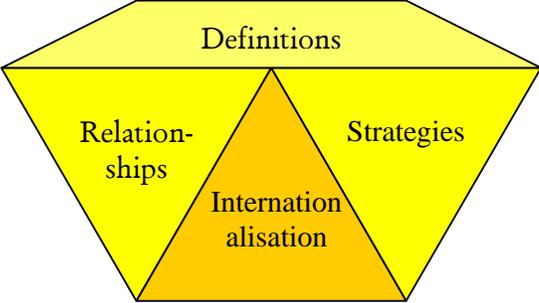
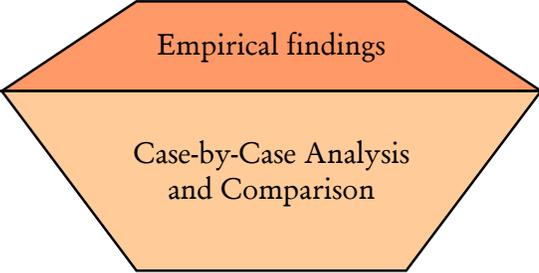
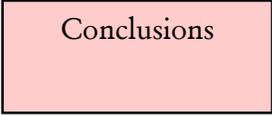
But what if the OEM divests from the new market or the procurement contract ends before all costs are matched? We have seen examples of this as results of the tech bubble that burst in Sweden in the beginning of this decade. By following the OEM and with the characteristics of a 'late starter' the subcontractor can be ill prepared for being 'abandoned' in the new market. There are examples of this regarding Swedish subcontractors where the divestment have had various effect, from loss of profit to bankruptcy. Axelsson and Johanson (1992) argue that the progress of a firm's internationalisation is heavily dependent on its current network position. They claim that the more international connections the company has the more of an advantage it has when it comes to further expansion, and the opposite is true for companies with fewer international connections in their network. With this in mind it is of interest to see how and if the subcontractors can take advantage of the OEM's network and further position themselves as an international actor in the world market. As the subcontractor follows its large customer abroad it might find it difficult to position itself in the new market. This could stem from too few international connection as might be the case if the large OEM is the only client in the new market. These difficulties can be dealt with in different ways and one way of developing the market position is to increase the commitment to the new market and seek out new clients. We can then see a subcontractor's internationalisation through an OEM as a base for new opportunities in the new market.

Introduction

As our intentions are closest related to the situations faced by subcontractors in the more advanced relationships and on the first route to internationalisation, we shall put our focus on these; we will call these subcontractors *client-following subcontractors*. For them the situation in the new market might be similar of those identified as 'late starters' by Johanson and Matsson (1988). In addition, we have also identified the relationship between the subcontractor and its client as an important factor. With the background mentioned above we developed this purpose:

We will investigate how well client-following subcontractors take advantage of opportunities in a new market and how the relationship with the OEM has affected this.

1.3 Reader's Guide

	<p style="text-align: center;">Introduction</p> <hr/> <p>In the opening chapter the reader gets an introduction of the subject and the problems that we have generated the purpose with our paper.</p>
	<p style="text-align: center;">Method</p> <hr/> <p>In the following part we motivate our approach to the problem. The reader is introduced to the method of case studies; its implementation, pros and cons. We will also describe how we have implemented it and reassess critically.</p>
	<p style="text-align: center;">Study of Literature</p> <hr/> <p>The paper continues with an exposition of the literature we have studied that shall be used as a framework in our analysis. We begin with defining the objects present in our area of research and continue with three main concepts.</p>
	<p style="text-align: center;">Empirical Findings and Analysis</p> <hr/> <p>Here we present the two companies that our case study consists of. The collected data is then analysed, first case-by-case then followed by a comparison.</p>
	<p style="text-align: center;">Conclusions</p> <hr/> <p>After the analysis we conclude the findings relating to our purpose.</p>
	<p style="text-align: center;">Final Discussion</p> <hr/> <p>In the final chapter we reconnect to our introductory problem discussion and evaluate our findings in a broader perspective.</p>

2 Method

In this chapter we will in relation to our purpose motivate and explain our choice of method. Yin (1994) says that a research design is the logic that links the data to be collected to the initial research question. As our introductory discussion suggests, our purpose is of a descriptive nature; we aim at describing through case studies how well subcontractors take advantage of a client-following mode of internationalisation.

2.1 Our Approach to the Problem

To begin with there are mainly two methodical approaches, namely quantitative and qualitative methods (Holme & Solvang, 1991). While quantitative studies are more formalised and structured, qualitative studies are less formalised and concentrates more on the understanding of the studied problem or subject. Holme and Solvang (1991) point out that the central in qualitative studies is to gain a deeper understanding through a closeness to what one studies. What we set out to investigate can be interpreted as how well client-following subcontractors take advantage of an internationalisation initiated by an client, this suggests that we gain a deeper understanding of what ought to be considered in the internationalisation process and we can thus see the advantages of a qualitative approach.

We now have a general idea of how we should approach the problem. However, there are several ways to conduct a qualitative research. Yin (1994) draws up prerequisites and appropriateness for some types of research such as experiment, survey, historical research and case studies. He points out that if a question of ‘how’ is to be answered, behavioural events cannot be controlled and there is a focus on contemporary events, the case study is the most appropriate method. We claim that our purpose fulfils these three features; we have a question of ‘how’, we cannot control the behavioural events that we aim to study and we set out to study contemporary events.

As our purpose with this paper is based on the question how well subcontractors take advantage of the situation when they follow a client abroad, we are interested in the processes connected to their internationalisation. Halvorsen (1992) mentions the focus on processes that the method of case studies have, thus this suits our purpose. Gummesson (1988) discusses some different views on case studies as research method. According to Alloway (1977) case studies are particularly useful in applied social science where the aim is to provide managers with tools. We might not be as over ambitious to say that we will provide tools for the managers of subcontracting firms how to successfully take advantage of the situation when following clients to a foreign market, but there is a resemblance in the purpose; we are trying to understand the underlying factors that will help subcontractors exploit the unfamiliar market. Saunders, Lewis and Thornhill (2003) also address the case study method’s ability to answer questions such as ‘why?’, ‘what?’ and as in our case: ‘how?’. Consequently, a case study method seems suitable to our purpose.

We now know how we should approach our problem so we shall therefore have a look at the pros and cons of case studies, how they should be conducted and what we ought to be aware of in our research.

2.2 The Case of Case Studies

Donald T. Campbell writes in a foreword that case studies typify the research strategy to attempt to validate assumption outside of a laboratory but at the same time keep the key essence of retaining the goals of knowledge (Yin, 2003a).

Yin says that there are five areas of higher importance when it comes to a case study design. They are:

- The questions of the study.
- Its propositions, if any.
- Its units of analysis.
- The logic linking of the data to the propositions.
- The criteria for interpreting the findings.

As mentioned in our approach to the problem the question style of using ‘*what?*’, ‘*why?*’ and ‘*how?*’ is the most common style to use in a case study, this is also pointed out by Yin (2003a). Yin continues with saying that as researchers, we have “*to be able to clarify precisely the nature of [our] study questions*” (Yin, p.22, 2003a). The nature of our questions will be based on the purpose mentioned earlier. That is, questions based on *how* certain aspects of the internationalisation are handled.

If using propositions, there should be one for each topic that will be investigated during the scope of the study or research. Even if the questions are based on *how* and *why*, things are done in a special way and that was what lead us to using a case study as our research method, but it does not specifically point out what we should study (Yin, 2003a). In order to more clearly focus on exactly what you are supposed to study you need to state some intentions with the questions and research in order to keep focused and moving in the right direction. There are also some situations that can give a legitimate reason for not having any propositions at all, and those are in experiments and surveys where a topic is the subject for investigation instead. Yin further claims that even in this later situation where no proposition is necessary there still exists a proposition but that it is more likely to be expressed in the purpose of the exploration paper. There should also be some way to measure the successfulness of the paper, which will be discussed when we address the trustworthiness of this paper. To conclude this part you can say that “*the more a study contains specific propositions, the more it will stay within feasible limits*” (Yin, p 23, 2003a). Because the purpose is narrowed down to be as precise as possible it helps us stay focused and within feasible limits.

What is a case actually? That is what the unit of analysis will help with defining. In the beginning the classical view on case studies said that a case was the view on an in-

dividual. The definitions have varied over time and have changed some, but you can explain in general terms what your case is depending on and how the initial research questions are defined (Yin, 2003a). Our cases will be companies that are suitable to investigate in order to fulfil the stated purpose. How we went about when we found the companies to be involved in our case study investigation will be described in chapter 2.5 Selection of Cases.

Linking data to the proposition and the criteria for interpreting the findings has not been as developed as the previous areas of interest concerning case studies. One approach that seems to have great potential regarding case study data linking is “pattern matching”. Pattern matching is an idea described by Campbell (1975) and is based on matching information from the case study to some theoretical proposition. If comparing the information to a defined theory how well does the information, translated from the data, have to suit the theory in order to say it is a match? The answer to that according to Yin (2003a) is to use two rival propositions and then compare to which one the information gathered from the case suits best. And thus can be called a match, in this study a comparison between the multiplication strategy and the springboard strategy, covered in our study of literature, could be an example of this.

In the preceding paragraphs we identified a number of components of the research design for case studies. Yin (2003a) states that these components help us to begin construct theory related to the topic of our study. With a clearer focus we can better scrutinise literature after relevant theories. The theoretical propositions give us a good foundation and a frame in which we can sort out key elements that test our findings against. This theory development is important in case studies and distinguishes this method from such as ethnography and ‘grounded theory’, however it is often overlooked as researchers might confuse these methods (Yin, 2003a). This discussion leads us into our model of analysis.

2.2.1 Analysing the Cases

Yin (2003a) mentions the pattern-matching logic as one of the most desirable techniques for case study analysis. Trochim (1989) describes this technique as matching or comparing empirically derived patterns with predicted ones. We have chosen to tackle this as a reciprocal process between the literature studied, theories formed in the introspective review and the research design. Finally in our analysis we will compare the collected data with the theories reviewed and look for matches or certain discrepancies.

2.3 Designing a Successful Study

It goes without saying that we want nothing less than a successful and rigorous case study and to develop such a study we will review some theoretical concepts that can be of assistance in our work. If we use theory in a good way it will help us design the case study and maximise its effectiveness (Yin, 2003b).

Yin (2003b) distinguishes between six different types of case studies derived from a two-by-three matrix; on one axis single- versus multiple-case studies, and on the other

axis case studies that are either exploratory, explanatory or descriptive. As our purpose is of a descriptive nature we need to determine the priorities of what data to be collected; we need to develop some theory of our descriptive case study in order to limit the scope of our study. As a descriptive study covers the scope and depth of a case, and not cause-effect relationships, we need to decide where our description should start and end, and what it should include and exclude (Yin, 2003b). As mentioned earlier, we have kept our purpose as narrow as possible and will therefore provide a guide to the scope and depth.

2.4 In Search for Reference Literature

Our search for relevant literature and information within the subject of this thesis began with a search for definitions. Our aim with the definitions was to clarify the different entities we were dealing with; the subcontractor, its clients and their relationship, and the differences between smaller or larger companies. Further as we searched databases, libraries and articles for issues related to subcontracting we started to build a foundation of key areas of interest and prominent researchers or scholars who had studied these. When reviewing literature we quite early saw that something many scholars put great importance on was the relationship between the subcontractor and its clients; the so-called OEMs. As our purpose deal with the internationalisation process of subcontractors we looked for specific literature and research on this phenomenon, however, we found quite few sources that specific. To broaden our perspective we also reviewed literature on more general processes of internationalisation that could be applied to subcontractors. From the studies available on the internationalisation process of subcontractors we derived theories on the strategic choices that they face.

2.5 Selection of Cases

“Selecting the cases for a case study should not simply be a matter of finding the most convenient or accessible site from which you can collect data.” (Yin, p. 10, 2003b)

Yin (2003b) continues with stating that the selection process needs to include the reasons why we need a certain group of cases. Screening potential cases also need to involve collection of enough information for us to decide whether a case meets predetermined criteria. Consequently, we need to establish criteria for the potential cases to fulfil, in our screening process match these and give the reasons for why we selected the cases we did.

The cases we will study should have the following criteria:

- They are subcontractors to an OEM within a capital intense manufacturing industry.
- They have internationalised because of an OEM.
- The internationalisation should have taken place relatively ‘recently’.

With these criteria in mind we screened companies for potential cases of interest and selected the ones that matched. This process is further described in chapter 2.7 Actual Implementation of Method.

2.6 Information Gathering

Denzin (1978) identifies four types of so-called triangulation: data, investigator, theory and method. Triangulation basically means the use of more than one source of data, several investigators, or multiple perspectives or methods. This is, according to Patton (2002), ideal as the use of combinations strengthen the study, however it might be too costly or too difficult to conduct. We can say that we have applied data triangulation. For the gathering of our information or evidence so to speak have we in our approach used data triangulations by having both open-ended interviews as well as a selection of documents.

2.6.1 Our Sources of Data

We have collected two out of three kinds of qualitative data leaving out time-consuming observations. We list the collected data under their respective kind of source:

- *Open-ended interviews*: Telephone interviews, face-to-face interviews and follow-up interviews. All with senior managers within the two studied organisations.
- *Documents*: Annual reports, financial statements, press material and releases, newspaper articles and information from the companies' websites.

How the sources will be handled and data collected are described in the following sections.

2.6.2 The Interviews

When using a qualitative approach for a research study it is generally recommended to use personal interviews in order to gather the relevant information (Hartman, 2004). Within the literature, covering the phenomenon of information gathering through interviews, many divide interviews into two different distinctions. These are standardized interviews and non-standardized interviews. The difference between these two approaches is that you are using a formal structured template for your interview with the standardized viewpoint and thus an informal way of conducting interviews on the other hand (Svensson and Starrin, 1998). The different interviews are used in quantitative and qualitative studies, where the "qualitative" expression comes from the Latin word "qualitas" that means "quality, nature and property" which makes a qualitative interview a method to discover the nature or characteristic of something (Svensson and Starrin, 1998). As previously mentioned we are taking a qualitative approach to this study and will therefore use a non-standardized interview guide.

Svensson and Starrin (1998) points out a number of distinctions that characterize a qualitative interview. The goal of a qualitative interview should be to provide an instrument to identify or discover not yet defined or unsatisfactory defined occurrences or meanings. The way to reach that goal is to use a non standardized interview style with a guided conversation. The interview is defined as a verbal interaction consisting of sequences with questions and answers that demand thoughtfulness from both the asking and responding part of the interview. The role of the interviewer is called a co-creator and should assist with the result of the interview with the help of the interaction with the interview object. The sign of a good interview is that the interviewed person is able to give a cohesive and coherent reasoning concerning the topic of interest.

2.6.2.1 Creation of Interview Guide

When creating our interview guide we built upon the purpose while keeping relevant theories in mind. With those in mind we started out by categorising the relevant information we thought were going to be useful in order to reach our purpose. We came up with these categories;

- Company background
- Internationalisation process
- Relationships and trust
- The market vs. the company
- Economical interest
- Specific theories on strategy (Springboard and Multiplication Strategy)

This way of action is recommended by Bryman (2001). He further recommends that you should use a language that is understood by the interview person, that is, do not use over complicated words or special terminology that is not commonly understood by the respondent. We also used the information provided by Repstad (1993) in the creation of the interview guide. He recommends that an interview should begin with general questions in order to make the interview subject feel comfortable. When the interview object is relaxed it is more likely to get truthful and in-depth answers. The interview guide can be found in Appendix 1 in its raw format. Questions are kept simple as for the interviewer to elaborate on depending on the answers from the respondent.

2.7 Actual Implementation of Method

So far we have gone through the method best suited to our purpose and we shall now describe how we implement it. As stated earlier, we use case studies to fulfil the purpose with our thesis and we chose two companies as the cases this study will be based upon. Through a guest lecturer knowledgeable within supply chain management we got information details for a few subcontractors to a large Swedish industry. After visiting the companies' websites, reviewing financial information and information available through press and business databases we chose two firms that seemed to fit our requirements. The companies are groups that can be characterised as large scale

enterprises according to the EU definition discussed in our study of literature. Contact was initiated first through email and followed up by phone. The respondents were to be top managers with enough background and insight in the organisations to be able to answer our questions.

2.7.1 Performing the Interview

When we initiated contact we described our study and ourselves and got a positive answer from both companies we were interested in.

At the first company we got hold of the president and CEO of the company group and due to a full schedule we booked a telephone interview with the possibility of several follow-up interviews if there were to be questions further down the road. The telephone interview was just under one hour and recorded directly on a laptop computer.

At the second company we booked a meeting for a face-to-face interview with the operational manager, also with the opportunity of a follow-up interview. The interview went on for little under one hour and was recorded on a portable digital audio player.

The follow-up interviews for both cases were, for convenience, conducted through email correspondence.

2.8 Is This Study Trustworthy?

The usage of a case study is based on logical statements and can thus be tested by certain logical tests. The validity that is the critical factor in many researches are there to see if the theories have a “good fit” to the reality. There are four tests that have been established to ensure the quality of the research for empirical social research which case studies can be seen as (Gummesson, 1988). The four different tests mentioned previous can be seen in table 1.

Table 1 Case Study Tactics for Four Design Tests (Yin, 2003a).

Test	Case Study Tactic	Phase of research in which tactic occurs
<i>Construct Validity</i>	<ul style="list-style-type: none"> • Use multiple source of evidence • Establish chain of evidence • Have key informants review draft case study report 	<ul style="list-style-type: none"> —→ Data Collection —→ Data Collection —→ Composition
<i>Internal Validity</i>	<ul style="list-style-type: none"> • Do pattern matching • Do explanation building • Address rival explanations • Use logic models 	Data Analysis
<i>External Validity</i>	<ul style="list-style-type: none"> • Use theory in single-case studies • Use replication logic in multiple-case studies 	Research Design
<i>Reliability</i>	<ul style="list-style-type: none"> • Use case study protocol • Develop case study database 	Data Collection

2.8.1 Construct Validity

The construction of the measurement of a case study is often under criticism. The main critics is that the investigator can not develop an independent way of collecting data and that a subjective judgement is used instead which will harm the validity of the research. In order to pass the construct validity of a test there is two steps that have to be covered. First of all you have to decide exactly what types of changes that are to be studied and secondly demonstrate that the selected measurements in fact reveal the unambiguous types of change that have been selected (Yin, 2003a). When you have these steps under control the first three case study tactics mentioned in table 1 will help increase the construct validity in the research.

Having a look at the case study tactics for strengthening the construct validity we have done our utmost to live up to the standards. In our study we have though had some problems in obtaining multiple sources of data in each case, this weakness will be further discussed in the critical retrospective review of the method. We have compensated the weakness in the first tactic by improving our methods in the other two. In establishing a chain of evidence, we have structured the paper so that the reader can follow a cohesive and coherent logic throughout each step, from initial purpose to our conclusions. The final step has been covered in sending a draft of the empirical information to the interviewees for a final review and feedback on possible misunderstandings to correct.

2.8.2 Internal Validity

Internal validity is only useful when the case study is meant to explain something by proving that a factor is directly affecting another factor. That is that a change in (x) will directly affect (y), a casual relationship between the factors. If you keep investigating the problem area with that as your guide and do not realise that in fact there is a third factor (z) that is the true catalyst for creating the change in (y) then you have a serious problem with your internal validity (Yin, 2003a). A crucial flaw with the statement above is that it is not applicable on descriptive or explanatory studies that does not try to make a general claim. The second point concerning the internal validity that Yin (2003a) writes about is the risk that the investigators will assume that a particular event is the effect of something that has been mentioned in interviews or found in documents. Is that assumption correct or could the event been caused by something that has not been covered or discovered? As Yin puts it, “*Have all the rival explanations and possibilities been considered?*” (Yin, p. 36, 2003a). To keep an investigation flawless is not an easy task and there will be risks of failure with the internal validity. However, by acknowledging the fragility of the internal validity we have come a long way and can bear it in mind as opposed to not recognising its importance at all.

As the internal validity tests are mostly concerned with causal and explanatory case studies, we have not put as much emphasise on the required case study tactics. Nevertheless, concerning the tactics, we have identified patterns in the theories examined and our empirical findings, and finally matched these against each other. We have also used two theoretical strategies, the multiplication strategy and the springboard strategy, as rivalling and assigned the most fitting one to the strategy applied by the company.

2.8.3 External Validity

This third test controls if the study’s result is generalizable. That is, are the result that comes from this case study useful in other and broader contexts, or is it only valid in this case and this case only? The general criticism against single case studies is that the results in general are not useful for generalisation (Yin, 2003a). This is also mentioned by Hägg and Hedlund (1978). Even with this criticism against case studies you have to keep in mind that with this sort of research it may not be statistically gener-

alizable but on the other hand it is analytically generalizable. This analytical generalization is good because with that you can simplify some specific result to some broader theories.

The external validity has been hard for us to control as it demands that we would compare our findings from the two cases with other companies in similar situations. As will be discussed in the final chapter of method, factors as limited time during this research have forced us to leave this tests aside. A potential future study made by other researchers could use our cases as a basis and see if replication logic is true. Our ambitions to make a clear chain of evidence throughout each step will also affect the reliability discussed further below.

2.8.4 Reliability

This final test is the one that is used by most researchers when doing their study. In short reliability is that if another research group followed our example they would receive the same result. The main goal with reliability is to increase the trustworthiness of a research by minimizing the errors and to reduce the biases that may occur during a case study. It is important that it is the same case that is being tested again and not another case that are supposed to end up with the same end result (Yin, 2003a).

As mentioned under the Construct Validity this research has a cohesive and coherent logic throughout each step, from initial purpose to our conclusions. This is a good foundation for reducing errors as we can follow each phase and see how the logic leads us from step to step. During the process of this study, we have described and accounted for these steps so that another case study research more easily can be conducted without much difference.

2.9 Critical Retrospective Review on Method

The fact that we have ‘only’ two cases that we build this study on may be criticized by some people that only look on the study as something that has to be statistically generalizable. We know about this problem as many would call it, but see this as an opportunity to more clearly focus on the empirical fact received from the two cases and the interview objects that were obtain from them. As this study do not claim to be statistical generalizable which was not our aim either we do not see the few number of cases as a problem. The goal with this research, as also can be seen in the stated purpose, is to give an analytical ‘tool’ and guidance in taking advantage of the situations in which subcontractors can end up in when being pulled abroad. We have also put more emphasis on developing a sound theoretical foundation to test our empirical findings against in order to balance the weakness in having only one personal interview in each case. We can say that the study has a stronger theoretical focus and the theoretical pattern formulated is then tested against two ‘mini case studies’.

The empirical data has been collected in various ways, all with their own strengths and weaknesses. The information gathered for Case Gamma where retrieved through phone interviews and secondary data. We know that a phone interview limits the

possibilities to fully take advantage of all the interview techniques that are usually at disposal during an eye to eye interview. The way we tried to avoid missing any information was to have a follow-up interview in order to cover all relevant aspects of this study and to fully reduce the lack of effectiveness that comes with a phone interview.

The follow-up interview consisted of an e-mail correspondence with the interview person where we further questioned some of the answers received from the first interview. We also made sure that we have interpreted the data collected from the first interview correctly.

The information gathered for Case Delta came from eye-to-eye interviews and was done in the way the method part describes how an interview should be handled. The interviews were conducted with two persons from the senior top management, in this study called person 'A' and person 'B'. By comparing both interview forms we could see that the personal eye-to-eye interview were to prefer but when taking into consideration the time spent preparing the interviews and the total usefulness of them the difference between them is marginal.

Finally both of the cases were complemented with secondary data collected from the companies homepages found on the Internet, and the annual reports of those companies. These sources of information was further backed up with press releases, newspaper articles and data from company and branch databases. The secondary information gave ground for further questions that were brought up during the follow up interviews. With these facts we would say that we have a high construct validity and reliability.

The reasoning behind having only one interviewed person per company is built upon many factors. When being in contact with the concerned parties at each company we brought up the ideas with multiple sources for our interview but the result was unanimous: Why should we interview more people, you will get time with the person that possesses the most knowledge about the area of interest. There is no point in interviewing any other person because they will provide us with similar data but not as in depth as the person selected for the interviews. However, as Yin (2003a) has stated, multiple interviews are to be preferred no matter what in order to strengthen the construct validity. More interviews and longer interviews would have improved our research and given a deeper understanding of the subject. The reluctance from the companies in combination with both theirs and ours limited time was one of the main reasons why the case studies consist of 'only' one interview per company.

3 Study of Literature

In this chapter we motivate our choice of references and theories. We begin with a brief definition of subcontractors, original equipment manufacturers and the relationship between these. After that we move into theories concerning internationalisation with a special focus on the industrial network approach, and strategy theories that helps with the analysis of the selected cases.

3.1 Definitions

As we will throughout this paper talk about subcontractors and original equipment manufacturers we find it very useful to get to the bottom with what these concepts really means. Further more, the companies that was chosen for this research are categorised as Large Scale Enterprises (LSE) as well as Small and Medium Sized Enterprises (SME) and therefore we will also point on the special characteristics that are connected to LSEs and MSEs. Based on relevant literature we will define the subcontractor and the OEM in a concise way, and point out important characteristics of the relationship between the subcontractor and the OEM.

After the definitions we will continue with theories of internationalisation which we define as increasing international involvement of a firm.

3.1.1 The Subcontractor

A subcontractor is an individual or company hired by a general or prime contractor to perform a specific task as part of the overall project. Lehtinen (1991) draws up the subcontractors position in the vertical production chain as in Figure 1.

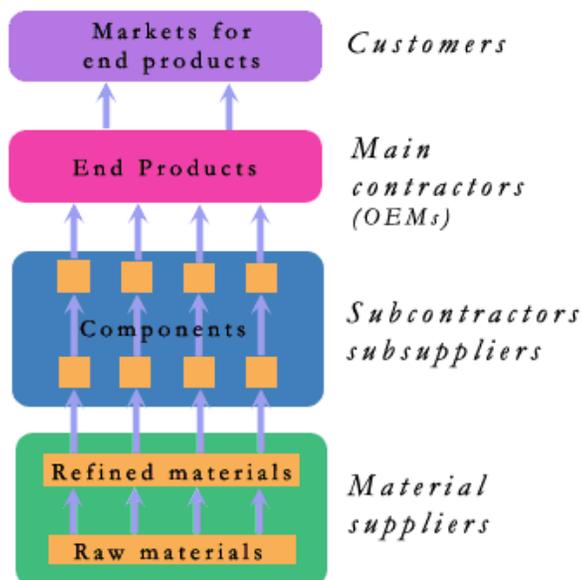


Figure 1 The Subcontractor in the value chain (Lehtinen, 1991, p. 22).

3.1.2 The Original Equipment Manufacturer

The definition of a Original Equipment Manufacturer is quite ambiguous and has actually been used to describe two different meanings, initially an OEM was a company that supplied products or equipments to other companies so they could resell it under their own name (searchDataCenter, 2005). This definition is still used by some companies today. However, the usage of the term OEM has changed recently. Companies now use it as a definition of a company that purchase products or equipment from a supplier to incorporate it in the products it produces and sell those under its own brand name, they therefore enjoy a special relationship with the supplier (A Dictionary of Computing, 1996).

When we talk about the OEM in this paper we sometimes also use the term contractor if we want to stress the role as a customer to the subcontractor.

3.1.3 Their Relationship

Andersson *et al* (1992) gives their interpretation of the relationship between an original equipment manufacturer and its subcontractor. They say that the relationship can be of different types depending on the task complexity and the degree of coordination, see Figure 2. The first elementary types of subcontracting are labelled standard subcontracting and simple subcontracting. These types do not involve very complex tasks and the products or services are not highly specialised for the OEM. If you move higher up in the matrix the relationship between the OEM and the subcontractor becomes stronger. Three more typologies for strong relationships are identified: *expanded subcontracting* contains some mutual specialisation and the exit costs are higher for both parties, single sourcing are thus more beneficial here than multisourcing; in *strategic development subcontracting* the activities are coordinated through dialogue and with long-term planning, here the subcontractor possesses competences of great value to the OEM; *partnership-based subcontracting* is based on strong mutual strategic value and dependency.

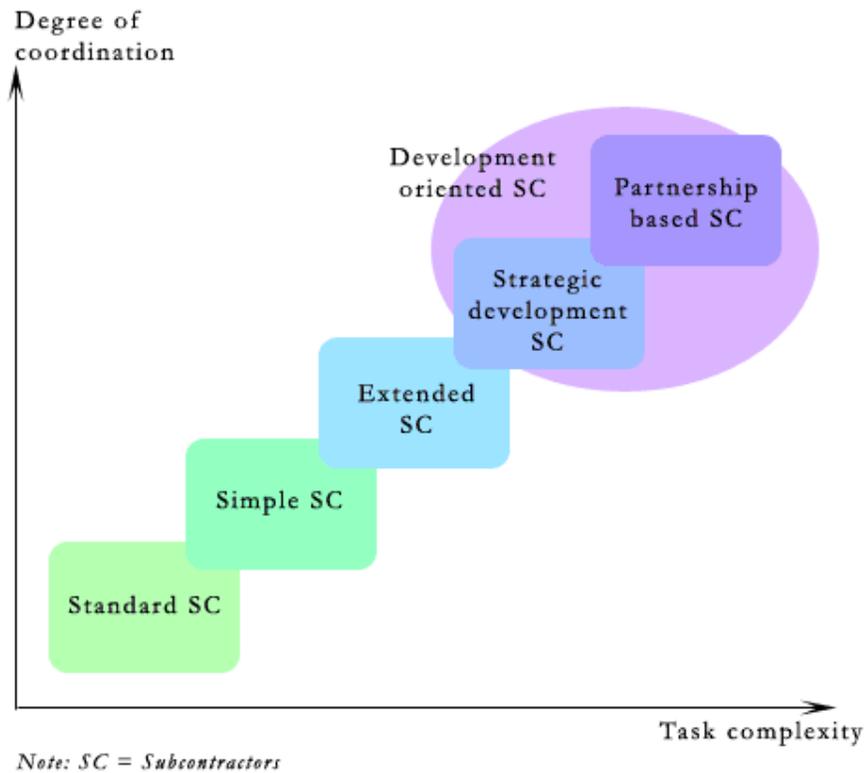


Figure 2 Typologies of subcontractors (adapted from Andersen & Christensen, 1998, p. 43)

For the subcontractors pulled abroad by their contractors they are more prone to have one out of the two more advanced relationships, strategic development subcontracting and partnership-based subcontracting, where the task complexity is high and the degree of coordination is high. Andersen and Christensen (1998) assign these two relationships to a type of subcontractors they name development oriented subcontractors [in the original text in Danish: udviklingsorienterende underleverandører]. True for these subcontractors is that they have very tight ties with their contractor. We will therefore discuss the relationship with focus on trust further down.

3.1.4 Large Scale Enterprises versus Small and Medium Enterprises

According to the EU SCADPlus definition a LSE has more than 250 employees and the turnover should exceed 40 million Euro or their annual balance-sheet total should be over 27 million Euro (SCADPlus, 2003). The characteristics of LSEs differ from those of Small and Medium sized Enterprises (SMEs). Hollensen (2001) points out seven categories in which we can find the typical the differences between LSEs and SMEs, these are shown in the table below.

Table 2 The characteristics of LSEs and SMEs (Hollensen, 2001).

	LSE's	SMEs
<i>Resources</i>	Many resources Internalisation of resources Coordination of: Personnel, Financing and Market knowledge	Limited resources Externalisation of resources (Outsourcing of resources)
<i>Formation of strategy/decision-making processes</i>	Deliberate strategy Adaptive decision-making model in small incremental steps.	Emergent strategy formation. The entrepreneurial decision-making model. The owner/manager is directly involved and will dominate all decision making throughout the enterprise.
<i>Organisation</i>	Formal/hierarchical Independent of one person.	Informal. The owner/entrepreneur usually has the power / charisma to inspire / control a total organization.
<i>Risk taking</i>	Mainly risk averse. Focus on long time opportunities	Sometimes risk taking/sometimes risk averse Focus on short-term opportunities.
<i>Flexibility</i>	Low	High
<i>Economies of scale and scope</i>	Takes advantage of	Only limited abilities to take advantage of
<i>Use of information sources.</i>	Use of 'advanced' techniques: Databases External consultancy Internet	Information gathering in an informal manner and an inexpensive way: - Internal sources - Face-to-face communication

By knowing the characteristics for LSE it will make it easier to understand why the senior management has acted in a certain way during special circumstances and make the analysis of it more accurate when it comes to the final part of this research. Even though the companies investigated are LSEs, their separated business units can have SME characteristics and that is why the theories concerning both LSE and SME is of importance in order to help us analyse the findings. The question of size is further discussed in a more critically view when we review our literature study in chapter 3.5.

3.2 Internationalisation

The internationalisation process can be seen from different perspectives; Agndal (2004) defined internationalisation as carrying out upstream and downstream activities with partners located in other countries. We adopt this view with some minor changes and say that internationalising in this study is the increase of commitment in foreign markets by the establishment of company owned, wholly or by a majority, operations. As Hollensen (2001) acknowledges the similarities between subcontractors that follow their contractors and the ‘late starters’ of the industrial network approach we will examine this a little more closer; what are the similarities and how do the characteristics of the ‘late starter’ apply to subcontractors.

The matter that makes the client-following subcontractor appear like the ‘late starter’ is that they are ‘pulled out’ by their customer i.e. the OEMs, and that the step to the new market can be quite large, both physically and psychologically. By physical distance we mean the geographical distance, in short, how far to go. Psychic distance is defined by Vahlne and Wiedersheim-Paul (1973) as differences in terms of language, culture, political systems and so forth.

3.2.1 The Industrial Network Approach

Johanson and Mattsson (1988) writes about four typologies identified using their industrial network approach and from the discussion above we shall put our focus on the so-called late starter and what distinguishes such firms. As we can see in Figure 3 the ‘late starter’ is in a situation when they themselves have a low degree of internationalisation while they operate in a market with a high degree of internationalisation. In the case of client-following subcontractors, the step abroad is often quite large compared to how exposed the firm is to international markets. Hence, the client-following subcontractor can be seen as a ‘late starter’.

		Degree of internationalisation of the market	
		<i>Low</i>	<i>High</i>
Degree of internationalisation of the firm	<i>Low</i>	The Early Starter	The Late Starter
	<i>High</i>	The Lonely International	The International Among Others

Figure 3 The four typologies from the industrial network approach (Johansson & Mattsson, 1988, p. 298).

In the situation of the ‘late starter’, it differs depending whether the firm is considered to be a small or medium sized enterprise (SME) or a large-scale enterprise (LSE). Johanson and Mattsson (1988) distinguish between these by saying that SMEs proba-

bly have highly specialised products or services while they are able to stay flexible to fit into a highly international market. LSEs on the other hand are probably less specialised than SMEs, and with them being less flexible the situation becomes more complex.

Consequently, when a small or medium sized subcontractor is being pulled abroad, it is mainly for their competences or highly specialised products or services. With this niche the firm can stay competitive in the new market despite the fact that positions in the net of distributors and suppliers are already fiercely guarded. For larger subcontractors the focus must then be on finding a niche perhaps through joint ventures or acquisitions.

Johanson and Mattsson (1988) also identifies that the customer relationship is very important for the competitiveness of the 'late starter' and that they have to stay very flexible to keep up with changing needs. Thus an important issue for the 'late starter' and analogously the client-following subcontractor is their relationship with their customer, i.e. the contractor. Therefore we find it interesting to take a look at what could be learned from businesses literature covering customer relationship.

Johanson and Mattsson (1988) compare the industrial network approach with two other models of internationalisation, namely the theory of internalisation and the Uppsala internationalisation model. The first model mentioned, the theory of internalisation, is not intended to explain processes but rather the specific economic institution of the multinational enterprise (Buckley and Casson, 1976; Johanson and Mattsson, 1988; Rugman, 1982). The theory, which sometimes is called transaction cost theory, focuses on resource transfer and the transaction cost associated with this. A multinational company might want to protect intangible assets and thus are faced with high 'contracting costs', which leads to a vertical or horizontal integration internationally (Johanson and Mattsson, 1988). Caves (1982) mentions that this internalisation is predicted to start in 'nearby' markets and Johanson and Mattsson (1988) believe that the explanatory power of this theory is greater in the situations in which the market has a low degree of internationalisation. As our cases has leaped farther than to just 'nearby' markets and to markets that are to a higher degree internationalised, though China's situation as a highly internationalised market may be discussed we will explain our reasoning for accepting China as a highly internationalised market in the introspective review and thus not go any deeper into this theory at the present stage.

The second model compared with the network approach is the Uppsala internationalisation model, sometimes just called the internationalisation model, which will be described and compared to the network model in the following section.

3.2.2 The Uppsala Internationalisation Model

The Uppsala model, as we shall call the internationalisation model in short form, describes the internationalisation process as a gradual step-by-step commitment to sell and manufacture internationally (Johanson and Mattsson, 1988; Johanson and Vahlne, 1993). The model make a distinction between state and change aspects of in-

ternationalisation. State aspects are market commitment and market knowledge and change aspects are the current business activities and commitment decisions. Johanson and Vahlne (1993) are saying that the market knowledge, that is to say the knowledge of the 'new' market, and the market commitment, to be exact the resource commitment in the 'new' market, are both affected by the firm's current business activities and the commitment decisions. This means that the process is seen as causal cycles, as shown in Figure 4. Penrose's (1959) theory of the growth of firms distinguishes two kinds of knowledge: objective knowledge that can be seen as explicit which can be taught, and experiential knowledge that can be seen as tacit which can only be acquired through personal experience. Johanson and Vahlne (1993) makes the important assumption that market knowledge, including perceptions of market opportunities and problems, is mostly experiential and acquired through experience from current business activities in that market. The authors continue with stating that the experiential market knowledge is the driving force behind the internationalisation process as it generates business opportunities. This market knowledge is also assumed by the authors to be the primary way to reduce market uncertainty and consequently, a firm present in a specific market or country can be expected to make incremental resource commitments as it gains experience through current activities and increases its market knowledge. Another important assumption is that the experiential market knowledge is rather country-specific which makes it hard to generalise to other markets.

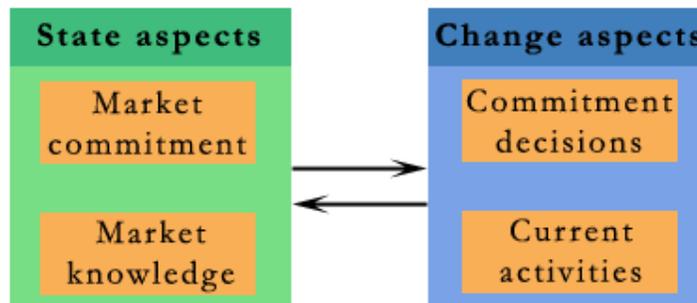


Figure 4 The internationalisation process of the firm (Johanson & Vahlne, 1993, p. 45)

As we can see, the Uppsala model suggests that additional market commitment are made in small incremental steps. Johanson and Vahlne (1993) however, mention three exceptions: first when the firm has large resources from being a large company or having a resource surplus, second if the market conditions are stable and homogeneous so the knowledge can be acquired in other ways than experiential, and third if the firm has considerable experience from markets with similar conditions which makes the experiential knowledge generalizable.

The Uppsala model has its theoretical roots in the behavioural theory of the firm, with prominent scholars within the area as Cyert and March (1963), that views the firm as a loosely coupled system in which different actors have diverse interests and ideas about the firm's development. This has implications for the internationalisation model which concordantly assumes that the internationalisation process, once

started, tends to proceed regardless of strategic decisions are made in that direction or not. Johanson and Wiedersheim-Paul (1975) say that the model can explain two patterns in a firm's internationalisation: firstly that it follows a specific chain with exporting leading to more resource commitment being developed such as subsidiaries, and secondly that the firm enters markets with increasingly greater psychic distance as it reduces uncertainty and discovers new opportunities. We can just say in conclusion that the Uppsala model focuses on the interplay between knowledge development and resource commitments (Johanson and Vahlne, 1993).

We will further discuss the impact of the Uppsala model when comparing it to the strategic choices a subcontractor can do. There we will explain how the theories are connected to each other and any questionable enigmas concerning them.

3.3 Trust in Relationships

Johanson and Mattsson (1988) recognises the importance of the relationship with the contractor or customer and so do the scholars focusing on subcontracting, e.g. Andersen *et al* (1997), Andersen and Christensen (1997) and Anderson *et al* (1992). Since we see that relationship management can be a key issue for subcontractors to address, we will explore some of the literature concerned with customer relationship bearing in mind the situation of the client-following subcontractors.

In today's society where competition almost always is fierce, it is of importance to keep your customers and partners satisfied in order to retain their business, because of that, companies have started to focus more and more on the value creation among the demand and supply chains (Chan, 2005). One way of improving the value chain is by creating and maintaining good relations. Along with the relations that are created among the companies the different parties will develop confidence and trust for each other, a trust that will lead to a higher degree of willingness to fulfill their commitments (Johanson and Mattsson, 1988).

We will need to develop some sort of definition of trust to better understand a continued discussion on the subject. We have looked at Morgan and Hunt's (1994) definition that conceptualise trust as present when one partner has confidence in another partner's reliability and integrity. They in turn have drawn this definition on Rotter (1967, p. 651) who says that trust is "*a generalised expectancy held by an individual that the word of another... can be relied on*". Anderson and Narus (1990, p. 45) discuss trust for businesses and define trust as "*the firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes*".

A research made by Kumar (1996) identified that the key word when discussing relationships is trust. Kumar further questioned what trust meant for several managers and the most common response was that dependability was a large part of what they thought trust meant. By dependability they said it was that the partner should honor and carry out their part of the deal (Kumar, 1996). If a company has plans for long time relationships with its subcontractors or vice versa the relationship should be built on trust. According to Kumar (1996) the ability for the companies to make a

leap of faith is based on whether the relationship is in fact built on trust or not. That *leap of faith* is what makes them consider their actions in relations to what kind of impact that will have on the other company that are committed to the relationship.

One misconception when it comes to trust in a relationship is that if one partner trust the other, then the reverse is also true. That is not the case when looking at the research made by Kumar regarding manufacturing firms and retailers. The companies could grade their business partners on a seven point scale were seven indicate the highest trust and zero indicates lack of trust. In the research 429 retailers for one spare part manufacturing company participated. It turned out that the manufacturer had a high level of trust, 5.8 on the scale, in 218 of the retailers that distrusted the manufacturer, an average of 2.6 on the same scale (Kumar, 1996). So it is not always true that trust goes both ways. To further stress the importance of trust and how important it is to find out if the subcontractor or OEM feel the same trust in each other can be comprehended when further looking into the research mentioned above. Out of the 218 companies that did not trust the manufacturer many of them were actively looking for an alternative source of supply, the manufacturer on the other hand was not looking for any new alternatives because they thought the trust was mutual (Kumar, 1996). The above information was regarding a manufacturer and its retailers, but it is not a far stretch to see how this situation may arise and damage subcontractors when they deal with their OEMs.

The scenario that we discussed is very important when it comes to subcontractors that have most of its business with just one OEM and are therefore forced to follow them on an international expansion. As the subcontractor might have the impression that the trust, contractual as well as non-contractual, is mutual, the OEM might be distrustful and be open to alternative subsuppliers to take over the subcontractors role. We have touched the subject of trust in relationships and seen that it is something subcontractors need to consider. Whether or not the subcontractor is being 'pulled out' by their OEM or not, which relates to the importance of trust in the relationship between the subcontractor and the OEM, the subcontractor needs to address strategic issues in relation to the internationalisation process. We have for that reason reviewed strategic choices for subcontractors derived from a qualitative study by Winkelmann (1995) at University of Göttingen in which 18 suppliers to OEMs was studied in in-depth interviews.

3.4 Strategic Choices for Subcontractors

Subcontractors that enters the international market, independent of OEMs or because of pressure from OEMs, needs a well founded strategy in order to cope with the complexity that exists with new threats and possibilities (Scholl, 1989). One way of coping with this new situation is to create relations with other firms that have knowledge of the new situation, or as Johansson and Mattsson say "*To become established in a new market – that is, a network which is new to the firm – it [the firm] has to build relationships which are new to itself and its counterparts*" (Johanson and Mattsson, 1988, p. 292). We have to be careful here as the subcontractors we investigate all internationalise due to a client and thus the relationships are not completely new. We can say

that the relationship with the OEM that drove the subcontractor abroad could intensify but other relationships in the new network, such as local suppliers and such, are not developed and thus can these fall under what Johanson and Mattsson calls ‘new’.

When the subcontractor has to choose what kind of internationalisation strategy they want to use they first have to decide at what level they want to penetrate the foreign market. According to Winkelmann (1995) there are four general strategies that cover the different tactics small and medium sized suppliers, in this case subcontractors, can use when they internationalise their organisation. These four different ways is illustrated below in Figure 5.

		Foreign Market Entry Strategy	
		<i>Cooperation with present outsourcing principals</i>	<i>Direct or indirect acquisition of new outsourcing principals</i>
Foreign Market Penetration	<i>Low single/few outsourcing principals in each target country</i>	Strategy I Multiplication of existing supply relations	Strategy IV Selective outsourcing principal acquisition
	<i>High numerous outsourcing principals in each target country</i>	Strategy II Springboard strategy	Strategy III Broad outsourcing principal acquisition

Figure 5 Matrix of Internationalisation Strategies (Winkelmann, 1995, p. 10).

When looking deeper into these strategies we came to the conclusion that Strategy III and Strategy IV was not of interest when it came to the focus of this research. That is because those strategies implies that the company are more of a independent actor which is not the case for a client-following subcontractor in the initial stage of the internationalisation process.

3.4.1 Strategy I – The Multiplication Strategy

When a supplier takes advantage of the Multiplication strategy they use previously established networks and relations in order to succeed with their internationalisation. For the supplier to be able to use this they should have a good cooperation with the company or companies that belong to the network. Usually this strategy is buyer oriented and its primarily used for suppliers that provide buyer specific products. The OEM has usually a very important part in the decisions for how the internationalisation process will proceed for the supplier. Another important aspect of this theory is that the supplier does not try to expand their customer network when they

have succeeded with their internationalisation, they are mostly satisfied with their primary customer that they followed abroad in the first place. All of these characteristics are common for the subcontractors of the vehicle and consumer electronic industries (Winkelmann, 1995). Another possible advantage for the supplier, that is usual the weaker part with this theory, is the transformation to a reciprocal dependency between the OEM and the supplier. According to Winkelmann the interdependencies between the companies is increased because of the good intention the subcontractor is showing by their willingness and attribution to the internationalisation process. If the subcontractor feels that they are being forced out to a foreign market, because of external pressure, it may not be suitable to bring that up to the OEM because that would diminish the perceived contribution to the process. In order for the subcontractor to be able to trust the OEM's commitment the dependency between them should be of such magnitude that a termination of the buyer-seller relationship should cause severe disturbances and changing costs from the OEM's perspective.

The financial aspect of the implementation of the multiplication strategy have many strong sides. First of all we have to realize that this strategy can create financial benefits for both the supplier and the OEM. The reason is that this strategy will lead to a higher degree of cooperation and coordination because of inter company logistic systems that most likely is implemented during a foreign market entry (Winkelmann, 1995). Winkelmann further stresses that the relationship between the companies, if not already good, must be developed and thus create a better understanding between the companies. More specific will the multiplication strategy due to increased utilization of corporate specific assets lead to economies of scale and a increased corporate related turnover.

3.4.2 Strategy II – Springboard Strategy

There are many similarities between the springboard strategy and the multiplication strategy but also key differences. This strategy is based on a cooperation between the supplier and the OEM like the multiplication strategy. However when a successful internationalisation is completed the supplier does not stop there. The company who pursue the multiplication strategy is satisfied when they have accomplish the first step of the internationalisation, but the ones that have decided to follow a springboard strategy take advantage of the new situation and try to reach a deeper market penetration in the new market. Hence the name of the strategy, they use the OEM as a springboard in order to gain access to a larger customer base (Winkelmann, 1995).

Companies that choose to use this strategy do it because they fear the isolation that may be the effect from buyer concentration; that is, that one company, usually the OEM, stands for a large percentage of the suppliers total sales. With the help of this strategy the goal is then to diversify the customer base and thus reduce the risk of the buyer concentration effect (Winkelmann, 1995).

The financial aspect of this strategy is harder to pinpoint. First of all if the subcontractor have had interest to internationalise their organisation they can by using the springboard strategy reduce some of its own costs connected to the market entry related investments by cooperating with the OEM. That is to share some of the costs

with the OEM because of their mutual gain in the process. When the suppliers increase their networks and thus spread their sales to a larger number of customers they are reducing some financial risks. Because of the wider sales network a loss of one customer will not have the same impact on the total sales percentage because it is spread over a larger number of customers. Another aspect of a financial gain that comes with this strategy is that the subcontractor can take advantage of the original OEM's knowledge about the new foreign target market. So by adapting and utilising the knowledge they do not have to spend so much money on it themselves (Winkelmann, 1995). This can be seen through the light of the LSE definition mentioned earlier, in comparison with SMEs. The LSE uses advanced information gathering technologies that usually is more expensive than the ones the SMEs uses, and hopefully it gives more correct information (Hollensen, 2001). In this situation the SME can take advantage of the increased information flow that exists within the OEM at a reduced cost and apply it in their own search for new customers.

3.4.3 Internationalisation Models and the Strategic Choices

The Uppsala internationalisation model describes two different patterns; the first pattern covers the firm's engagement to the internationalisation whereas the other one explains why companies go to specific countries (Johanson and Mattsson, 1988; Johanson and Vahlne, 1993). Even if it is not said explicitly that risk is strongly connected to the thoughts behind the Uppsala model it can be read between the lines. In the first pattern the firm start out their international business by exporting to the country and then step by step increasing their internationalisation until they can establish a production unit of their own in the foreign market. The second pattern is focusing on the perceived market knowledge and that a firm chooses a foreign country or market which they most easily understand. Both of these patterns can be seen from a risk point of view, which is that the companies choose the alternative that minimizes the risk.

In the multiplication strategy the subcontractor utilize previously established networks and relations in order to succeed with their internationalisation. As mentioned before the subcontractor does not try to get a deeper market penetration but is satisfied with providing products for the OEM that it followed abroad. This situation is similar to the way a company act according to the second pattern in the Uppsala model. That is that a company that use the multiplication strategy understands how their OEM like to do business and therefore focus on just that customer, some sort of safety mechanism comparing to a company that feel the need to fully understand another country in order to commit themselves to a internationalisation process.

When comparing the Uppsala model to the springboard strategy which has been explained earlier we can see some resemblance in the underlying ideas. The first pattern in the Uppsala model explains that the internationalisation process can be seen as a gradual step by step commitment. That is that you gain deeper understanding of the market and how business is done before you fully carry out the internationalisation plan. In the springboard strategy the subcontractor follow the OEM abroad as the

first step, after establishing themselves in the new market, and thus gain important knowledge, they continue to target new customers in their second step

Even though the different internationalisation theories found in the literature explains many different factors to consider when internationalise, it is evident, that they all have strong similarities, or as Andersen (1993, p. 212) puts it:

"Except for the initiating mechanism, the differences between the models seem to reflect semantic differences rather than real differences about the nature of the internationalization process".

The similarities may also become a criticism against the theories when considering what is going on in the world today. A general criticism against most internationalisation models and theories are that the world in itself has become more homogenous. That fact undermines the logic behind many of the models and theories, the Uppsala model in particular, because companies are more willing to enter directly into markets that are farther away geographically but they do not remain so far away culturally (Nordström ,1990).

3.4.4 Risk Takers versus Risk Averse

Companies are usually sorted into two categories when it comes to taking risk. They are either risk averse or risk takers. Of course there is a scale of risk that range from high to low. According to Hollensen (2001) there are special situations when a company is more willing to take risks than usual, and that is for instance when the existence of the company is in jeopardy. Another factor that may create a situation of increased risk willingness is when the decision maker(s) do not have access to all the information or may have miss-interpreted the information. There is also situations when SMEs become risk averse and that is when previous decision has backfired and caused damage to the company or just to the self confidence of the decision maker(s). This is not true for LSE that usually have more than one decision maker which reduces the "self confidence" issue affecting SMEs.

3.5 Introspective Review on Our Frame of Reference

Theories and models are not a perfect reflection on how the real world work or behaves during certain circumstances. For a theory to be useful it has to be simplified and that makes the models or theories incorrect in many situations. For instance, a model or theory seldom contains all the characteristics of the reality that it is supposed to describe and can thus not give a 100% perfect picture of the subject researched. Ghauri, Grønhaug and Kristianslund (1995) protect this by saying that theories and models are just tools that help us extract patterns and similarities from small details in the investigation.

When we review the theories distinguishing between SMEs and LSEs we can see that it is hard to exactly pinpoint in what category our investigated companies belongs. When matching some theories with the cases, the companies seem to have acted as

SMEs while in other instances they have acted as LSEs. This makes us think whether it really is a matter of size such as number of employees and turnover, or if it is a matter of ownership and corporate governance. Without losing ourselves in a too deep and wide debate over this we can perform our analysis while keeping the issue in mind and relating back to the ownership versus size conundrum.

As we have lead the discussion above about client-following subcontractors seen as 'late starters' we have automatically taken the new market as a market with a high degree of internationalisation. But what if the new market is one with a low degree of internationalisation? Earlier in this paper we shortly discussed on how to characterise the Chinese market. That is, has the Chinese market a high or a low degree of internationalisation. A specific definition that explains when a market can be considered highly internationalised does not exist or the definitions that are being considered are not commonly accepted. Instead there is a common factor that can be seen as a guideline for deciding if a market is highly internationalised. Some of the factors mentioned are that the economic significance of national borders has been reduced and an increase in the flow and stock of Foreign Direct Investment (FDI) is true (Bora, 2002). To say that the Chinese economy has switched from a domestic to an international direction because of heavy FDI is not an exaggeration. From the information gathered when researching about our topic of interest regarding subcontractors we have seen even more fact that points to a heavy increase in the FDI in China. Because of these events we have drawn the conclusion that the Chinese market can indeed be considered a highly internationalised market.

Reviewing some of the critique on the three internationalisation models in relation to each other we come across Reid (1983) who argues that the Uppsala model is too deterministic and general. Reid says that the expansion and entry choices of a firm are more selective and context-specific, and that they can be explained by heterogeneous resource patterns and market opportunities. Consequently will firms use multiple modes of internationalisation and Reid advocates a transaction cost based view instead of the Uppsala model with experiential knowledge and incremental steps.

Other critique aimed at models building on incremental and slow processes of internationalisation come from Hedlund and Kverneland (1984) whose investigation on Swedish firms in Japan suggests that internationalisation is changing towards more rapid and direct modes of entry.

As we have developed a theoretical foundation from the industrial networks approach and also the Uppsala model the above mentioned critique can be interesting when we reach our analysis and draw our conclusions. We can then see if the theories contra the critique holds.

The main areas in our frame of reference are; the internationalisation process, customer relationship and trust, and strategic choices for subcontractors including the multiplication strategy and the springboard strategy. They are our key sources too be used during the analysis phase of this thesis.

4 Empirical Findings and Analysis

Here we start with introducing company Gamma and company Delta that make out our two cases. This introduction will be done under the first part and encompass a short background with business concept, mission, structure and history. After the reader has gotten to know the companies better we describe the findings of our research, primarily the interviews but with supporting information from secondary sources, and analyse the information in the light of our frame of reference.

4.1 A Presentation of the Cases

Firstly we will give a brief introduction of the companies studied in the two cases and their background. The companies studied wish to remain anonymous, as do the interview respondents so we will simply call the companies Gamma and Delta and the respondents 'A' and 'B'. We will start by presenting company Gamma; what they do, their concepts, philosophy, structure and history and then follow up with a similar presentation of company Delta.

Both cases concern company groups and when we say company Gamma or Delta we mean the whole group. One difference is though that for the first case the internationalisation process we wish to study has occurred at several business areas within the group while they have been concentrated to one business area for the second case.

4.1.1 Case Gamma

The group is a high-tech developer and manufactures polymer components and product systems. Its leading customers are working within telecom, household, vehicle, consumer electronics, medical technology, and some other selected industrial segments. The group has operations in China, Estonia and Hungary, besides Sweden.

4.1.1.1 Business Concept

Gamma's vision is to be a leading, global, high-tech partner within polymer materials to selected clients. The concept is that customers should gain competitive advantages from choosing Gamma's products and services, the employees should feel stimulated, and the stockowners should see a healthy growth of the value. The overall strategies are: customer focus, delivering whole systems, efficiency, and expansion within the current structure.

From a down-to-earth, ethical and businesslike philosophy, six so-called Basic Principles have emerged which are common foundation for all operations within the Delta group, and these are: being businesslike, long-time customer relationships, expertise, decentralisation, being well-organised, and safeguarding the environment.

4.1.1.2 Group Structure

Basically the group has three legs to stand on, as 'A' puts it, and those are telecom, industrial, and medical, representing the three different areas that the customers are working within. In total there are 20 companies within the group and these are di-

vided into four business areas: Telecom, Industrial Sweden, Industrial Central Europe, and Medical. Industrial Central Europe is operating in Hungary and Telecom has operations in the Estonia and China. Each of the 20 companies handle their own sales, according to 'A', and the organisation is built around the customer segments with key account executives in high positions that transcend the borders of the different companies.

4.1.1.3 History

We will take up some of the historical milestones for Gamma that also help us get a clearer picture of the company and our study.

- 1938 – The first company founded in the south of Sweden.
- 1984 – Up to now a few companies within the same field has been acquired and is listed at the Stockholm Stock Exchange.
- 1998 – More acquisitions have been made and by now the first overseas operations are launched in USA with the establishment of a factory.
- 1999 – Operations in Estonia are established.
- 2000 – An American company is acquired as well as a company in Hungary.
- 2001 – Production facilities was set up in China and all US operations discontinued.

Today the group employs over 3200 people, of whom more than one third are employed outside of Sweden. Operations in China have approximately 1600 employees where most of them are working in the production sector, in Estonia around 250 and in Hungary around 300 are employed. More than two thirds of the group are currently employed within the telecom area and around one quarter within the industry area. Sales within telecom make up over half of the groups total, sales within industry about one third and the rest within medical.

4.1.2 Case Delta

Delta is a group of companies that develop, test, manufacture and market products and systems for auto, small engine and engineering industries and other industries such as energy, food, timber and aircraft maintenance. The part of Delta we focus on concentrates on developing and manufacturing electronic ignition systems used in engines found in cars as well as small 2-stroke engines.

4.1.2.1 Business Concept

Delta's corporate vision is to build a profitable international industry with products and systems that help improve the environment. The mission is to, with unique technical systems and products, contribute to the reduction of environmental damage and improve health and safety. This translates into a business concept that states that Delta shall achieve good profitability as a single supplier by developing, manufactur-

ing and marketing unique technical systems and products for customers in the auto and engineering industries.

4.1.2.2 Group Structure

Delta is divided into two main business areas: mechanics and electromechanics with five companies in the first area and three in the latter. Mechanics have a marketing and sales division in USA but the only international production is within electromechanics in China. The Chinese plant was built in 2004 and production started later the same year, Delta is counting on that production enters full capacity in early 2005. The new factory in China is only producing ignition systems for smaller 2-stroke engines and basically for only one large customer.

4.1.2.3 History

Delta group is proud to have more than 90 years experience from their business as they started with ignition apparatus when the import of such products stopped during World War I. We will list some important milestones in Delta's history.

- 1916 – First company founded in the southwest of Sweden, the main product was ignition devices.
- 1970s – Electronics was introduced and since then electronic ignition systems has dominated the manufacturing.
- 1990s – The group added heat exchange technology and compressor technology to its portfolio under the business area of Mechanics.
- 1998 – The group was listed at Stockholm Stock Exchange.
- 2003 – The board of directors announced that operations were to be set up in China.

Today the group has approximately 300 employees and a production plant for small ignition systems has been built in China. Now in early 2005 the Chinese plant is expected to have full capacity and employ around 100 people.

4.2 Analysing the Cases

When we discussed the method of case studies we cited Yin (2003a) and Throchim (1989) who talked about the pattern-matching technique. As we now has reached the element of analysis we shall look for patterns in the data collected and match these with the predicted patterns. From the review of our literature study we derived three main areas of interest that we form our predicted pattern after; these are the internationalisation process, customer relationship and trust, and strategic choices for subcontractors. The analysis is divided into these three areas and each case investigated separately. After these three sections we will review the two cases together and identify similarities and differences between them.

To begin with, there are differences in the theory depending on how big the company is. We shall have a look at our cases considering this.

As 'B' said, each company in the Delta group is responsible for their own sales and the whole organisation is decentralised, there is for example a constant competition between the different companies. The only hierarchical aspect is that the group has a management according to Swedish business law with company group executive. Also the group has global key account executives that transcend the company borders. Now we see that the companies can have characteristics of both SMEs and LSEs; perhaps an organisation with more resources and a deliberate strategy while keeping the ability to be flexible and specialise products.

For Gamma group, the different companies are in a similar way very self-sufficient and here the companies have their own budget, structure and strategy. 'A' says that Gamma group is very decentralised and each company is on its own. Meaning that the same, both SME and LSE characteristics, can be applicable for Gamma.

4.2.1 Internationalisation Process

We will go through the two cases, Gamma and Delta, and derive the focal points of their processes when establishing operations abroad. Also we will see how they have acted may have been affected by the theories mentioned in the Uppsala model.

4.2.1.1 Case Gamma

Group Gamma has during the last five years acquired and built production plants in Estonia, Hungary and China. It started in late 1999 with the establishment of a factory in Estonia that was to complement the telecom production in Sweden with low cost assembly. In Hungary a client's plant was acquired in order to take over the production line and in connection to that Gamma also built another factory in Hungary. Gamma built their Chinese factory from scratch during 2000 and 2001. The Estonian operations were merely a cost based decision while behind the decisions to go to Hungary and China was large customers that concurrently were either present in or in the process of moving to those markets. 'A' concludes their internationalisation choices when saying that

"as subcontractor, we have to be where the customer is [...] if the customer moves we have to follow".

Even if the internationalisations has involved low-cost countries 'A' states that

"we do not move primarily to increase the profitability but to keep the business".

Gamma group has clearly felt it necessary to follow important customers abroad in order to retain business with them. Gamma has also had operations in USA during the late 1990s but those were discontinued as the customers moved their operations to Asia, according to 'A'. We can see that this might also have been supporting the decision to move to China; both the large customer from Sweden moved to China as well as the American OEMs.

Reviewing the internationalisation process of Gamma we see that they may very well fit the characteristics of a client-following subcontractor and consequently a 'late

starter'. Gamma has followed important clients in order to keep them as customers and thus faced a condensed internationalisation with a large step, both physically and psychologically. 'A' says that Gamma

"had well-known grounds when it comes to technology and the products but unknown grounds when it comes to geography and culture".

So when Gamma felt insecure regarding the new market they could gain confidence from their expertise in what they did; the products and the technology. Bearing in mind that Gamma has highly specialised products we can see a resemblance between the small or medium sized 'late starter' as those often has specialised products to be competitive in an unknown market. Even though Gamma is, according to the EU definition, characterised as a LSE it can sometimes act as a SME because the organisation is decentralised in the way that each company operates on its own. Further ahead in our analysis we will again take up the fact that Gamma has chosen to have complete companies and not just production plants abroad.

When 'A' talks about the insecurity that existed concerning the Chinese market, the confidence in themselves, the product and technology being used in the market convinced them that it was possible, we can see an indirect connection to the first pattern found in the Uppsala model. Gamma has made three previous internationalisation steps when moving production units to Estonia, Hungary and USA. These three previous experience have helped Gamma in gaining a deeper understanding on how business is made. The first three countries can be seen as closely linked to Sweden in geographical sense concerning Estonia and Hungary and in cultural similarities concerning USA. None of that could be said for China but as Nordström (1990) claims; the environment that we exist in today is becoming more homogenous and countries that used to be considered culturally far away is not that any more. This statement is also supported by what our respondent 'A' said about bridging the cultural differences in China:

"There are many people [in China] that are educated in the western countries, so the cultural differences are not that big. I think that we have not experienced any cultural problems with our unit in China".

4.2.1.2 Case Delta

During the interview with 'B', operational manager at Delta, we discussed the reason for the internationalisation, why it happened and how the reasoning before the decision was.

From the interview we found important information regarding the internationalisation and what factors that affected the company and the management in deciding that an internationalisation was the alternative of choice. The background for the internationalisation started five years ago, in 2000, when Delta decided to take over a new production line for a large manufacturer of outdoor power products. This OEM had previously had that production at one of its subsidiaries, but after recognizing that this subsidiary could not perform at satisfactory levels a competitive bidding was initiated among some companies that was ready to take over the production line. The

bidding was won by Delta's offer and the necessary investments, for example new machines, for the new product line where made. Unfortunately the offer by Delta turned out to be too 'generous' and thus very bad for the company.

"We built the business, invested a lot of money. Sadly it showed that the profitability became very, very low not to say catastrophic."

These events had its effects and consequently the CEO was replaced after two years. The new CEO made a quick analysis of the situation and came to the conclusion that the situation was impossible. Something had to be done, and done quickly. As sub-contractors the price pressure is always fierce and thus an increase in the price level were not an option. The analysis showed that it was not a matter of low profitability, but actual big losses that were generated on this new product line. The idea about trying to streamline internally was discussed but it was evident that they could not do it in the extent that was necessary in order to turn the losses into profit. Instead three alternatives were brought to the table.

"There was three alternative on the agenda. The first alternative was to try to sell it [the production line] to a competitor. One alternative was to shut it down, plain and simple. The third alternative was to move the production unit to a low-wage country."

All alternatives were explored. The idea of just shutting down was not found very attractive and the proposals from competitors was not as promising as moving to a low-wage country (the business would have been lost forever). The new CEO had previous experience from doing business in China and therefore had well-established contacts there.

"If [the new CEO] did not have had the connections in China I do not think they would have dared to [move abroad]."

As we can see, the new CEO's contacts was what made the difference in deciding whether or not to move the production unit to China, a choice that in hindsight has proven to be a good decision.

Even if the company was not pulled along to China because of a move there by the OEM, the decision was based on the economical pressure they experienced from the OEM, a sort of push abroad, as moving to a low-wage country was the only realistic alternative to keep the business with the OEM.

Considering how the Uppsala model was connected to the multiplication strategy it may have affected *why* internationalising, beside the external pressure, but more of interest *how* the firm internationalised. As a company is most likely to choose the alternative in which they perceive to have the greatest market knowledge and thus the lowest risk, according to the Uppsala model, Delta acted in such a way. Their market knowledge comes from previous established contacts as mentioned earlier and without these it is highly doubtful that the internationalisation had taken place at all.

4.2.2 Customer Relationships and Trust

As we earlier recognised the relationship between the subcontractor and the OEM as important we will investigate how the two studied companies see their relationship with their customers, the OEMs. We put extra focus on the large clients that stand for a large piece of the turnover.

4.2.2.1 Case Gamma

The customers that Gamma has followed abroad are large customer that Gamma has had a relationship with for a long time, says 'A'. Gamma has a 80/20 situation as 'A' puts it, with 20 per cent of the customers accounting for 80 per cent of the turnover. As mentioned, Gamma has key account executives that are globally responsible for each important customer and as 'A' phrase it transcends the borders of the group companies. When asked about the perspective of planning and communication with the customer, 'A' says that

"in the subcontractor role one has monthly meetings with the customer when one goes through what is going on and on the factory level this exists more or less on a daily basis [...] but one also has monthly and quarterly meetings with more strategic contents"

According to 'A', it is evident that a subcontractor closely follows what its clients are doing. In Gamma's case the parties have some sort of long-term strategic planning together. Because it would be a huge loss to lose an important customer and finding a good substitute would take time, 'A' stresses that a subcontractor cannot make systematic or recurring mistakes. Therefore, the subcontractor must have a good dialogue with their customer so mistakes can be corrected, as rivalling subsuppliers are always eager to take ones place. Gamma has since internationalising, intensified the dialogue with their large customers. This has occurred on all levels as questions cannot be dealt with only on top management level but must be understood throughout the organisation and in each individual company.

Gamma has highly specialised products and acknowledges that a proper technology level is crucial for retaining the large customer's business. Gamma recognises a mutual dependency between themselves and the large customers and 'A' says that both parties wants to see Gamma taking a larger responsibility in the OEM's value chain.

When discussing trust in the customer relationship 'A' say that there are no guaranties in their business, long contracts are rare and it basically comes down to a trust in themselves:

"trust in ourselves [...] that we are competent and competitive and attractive as a subsupplier"

Gamma has, as we can see, recognised the importance of keeping the customers satisfied with specialised products, high levels of technology and an expanded responsibility in the value chain. They also maintain a continuous dialogue with the important customers and tries to stay integrated with frequent strategic meetings. However,

Gamma is also aware of the possible lack of trust between a subcontractor and OEMs; as 'A' says, trust in yourself is the only trust one can really depend on.

4.2.2.2 Case Delta

The business environment that surrounds Delta consists of five large customers of which all are international with contacts all over the world. The market also consists of a handful of competitors that compete to take over the other companies businesses. In order to keep the business, good relations is one way to handle that.

Delta only has business with one of the five main actors on the market and actually do not have that close relations to them. The business with the OEM started around 2000, all previous business has been insignificant and there had not been any close contact between them. Since the contractual business between Delta and the OEM started, their business has grown and the OEM now stands for approximately 30 % of the total business, which makes them a large and important customer to Delta.

“No, no we don't do that together, it is a customer- supplier relationship in a traditional meaning. Then because we are such a big supplier to them and they are a big customer for us there is frequent communication and meetings between us, but from previous experience I can still say it is at arms length distance. They are extremely cautious with sharing their strategies. Both commercially and at a technology level. Very, very cautious.”

Even though Delta and the OEM only have had businesses with each other for five years and the relationship has not developed more then usual buyer-seller relationship Delta does not feel threaten at the moment. First of all with the new wholly owned production unit in China they can deliver the product to the cheapest price. They do not feel threaten by the other competitors that act in the same market segment.

“There is only one alternative that can beat us now. That can become cheaper, and that is a domestic Chinese production, there is no other that can find a cheaper production unit then us. Or I can think that someone may be more efficient then us, but that is insignificant.”

Secondly they have a contractual agreement with their OEM that lasts for some years, this contract ensure that Delta can focus on delivering a top quality product and at the same time focus on research and development without being afraid that the OEM will start business with one of the competitor all of the sudden. After the contractual arrangement ends, both Delta and the OEM are free to walk away and a new negotiation will start regarding a new contract. The interviewee, because of confidentiality reasons, does not further discuss the contractual arrangement between Delta and the OEM.

Relationships are based on trust and trust is based on the ability to perform the task that a person or company has accepted to do. The relation between the companies can best be described as strictly professional and sharing of strategies and technology is kept on arms length. This of course puts a constraint on informal and perhaps also

deeper relations. The positive viewpoint on this problem is that both companies know the position of the other part. They trust and respect the expertise of the other part but the strategy of the OEM is of such a nature that it prevents them make a so-called 'leap of faith' that may be the result with a deeper relationship and understanding of each other's situations. Both are looking for better opportunities in order to further increase their profit or market share, the OEM by trying to press down the price more and more and are actively seeking new subcontractors that can do that in the best possible way, Delta by looking for other OEMs that can become a new potential large customer for them.

"The OEM is actually only after one thing in the long run; low price but high quality and deliverance accuracy as everyone else. So they are mainly chasing a low price, the lowest possible".

Even though the relationship is not as close as the theories suggest the relationship between an OEM and a subsupplier should be, Delta can still find good things with a demanding OEM.

"Of course we feel controlled by the OEM. They affect us, in good and bad ways. The advantage is that a good and demanding customer propels our business forward".

4.2.3 Strategic Choices

We basically aim at finding certain pattern in the two cases' decisions and strategies. These patterns will be matched with the so-called Multiplication strategy, the Springboard strategy and the companies' attitude towards risk.

4.2.3.1 Case Gamma

Gamma had a deliberate strategy of increasing their customer base in the new markets before taking the decision to go there, some contacts had even been made beforehand. 'A' answers on the question whether they aimed at new customers abroad:

"Yes, we have gained [new customers] and that was in the original plans when we established ourselves [abroad]".

Gamma seeks actively after new customers and this is one of the reasons why they have chosen not to have mere satellite factories but complete companies abroad including sales department. However, they do not wish to have a vast amount of small customers but a few larger ones and it is these that they are actively seeking. 'A' sees it as

"an advantage to follow [customers abroad] as one gets a foundation and do not start at zero [...] the advantage is that you have a customer to the new factory".

Internationalising is risky but 'A' says that as a subcontractor one has to take calculated risks, especially within telecom, which is a fast moving market, but they would never just take a chance, each risk is calculated.

Gamma has had a so-called springboard strategy for its internationalisation, meaning that when they have internationalised with the help of an OEM they actively seek out additional customers, principals, for the new operation. Even if Gamma has not directly reduced costs by following OEMs abroad, they have had a customer to the new operations, which has reduced some of the risk in investing abroad.

Considering risk, Gamma takes, as 'A' puts it, calculated risks. Reviewing the strategy of gaining new customers and expanding capabilities, Gamma seems to have a longer perspective that is closer to the practice of LSEs. This makes sense as the mother company is the owner and basically sets the guiding strategies for each individual company. Nevertheless, opening up operations in new markets, for example China, is always associated with risk and there are certain situations in which companies might be more willing to take risks than they usually are. The risk of losing an important client because they do not follow abroad might weigh more than the risk of actually going abroad.

4.2.3.2 Case Delta

The situation that preceded the decision of going abroad was an economical failure and the choice of internationalisation was not a decision that had been contemplated over a long time but rather forced upon them because of external circumstances. They moved the production line to China because, as they saw it, there were no other plausible alternatives that could have worked if they wanted to keep the OEM as a customer.

The first priority for Delta is to get the production unit up and running and then to be able to start delivering high quality products to a lower price than the competitors. Firstly their business is only concentrated towards the OEM and attempts to find new customers will wait until the production in China is running smoothly at a high rate. Delta says on their website that the Chinese company also is responsible for marketing in the Chinese market. How far this marketing has proceeded is however questionable as 'B' describes the current situation as they have not actively been seeking out new potential customers at the moment but because of the few actors that exist on the market they still have a good view on who to target in the future. With the new production line in mind 'B' says:

“So we have a low-cost production unit established, so of course have we thought that it should be a platform for further expansion.”

With this statement we followed up and asked if they planned on pursuing a deeper market penetration in the Chinese market, for example delivering systems for Chinese manufacturers, which would be the case if a springboard strategy were used by Delta. 'B' answers:

“It is not possible, that market is gone for us, for a long time period. That is my belief.”

So with the current situation, Delta do not have any plans for a deeper market penetration in the new country and thus it appears that they do not fit the theories sup-

porting the springboard strategy. As it is now, they are more in sync with the multiplication strategy. That is to 'follow' the OEM and focus on supporting the OEM as the main customer, or principal, for the new production unit. Even though the OEM has not in fact moved its production to China the fact that the OEM is already buying its products from international companies, some of them with production in China, makes the move by Delta indirectly a natural move comparable to the move of a client-follower.

4.2.4 Comparing the Cases

As we have seen when analysing our cases so far, there are some differences and some similarities between them. Below we will try to clarify the most important differences and similarities that we have found. We will also connect those differences to the relevant theories we have had as background when collecting the relevant data for this research. We hope by dividing it up into the three main areas make it easier for the reader and create a better overview of the findings we have found. With a better overview we hope that the reader may absorb the information better.

4.2.4.1 Internationalisation Process

Beginning with the internationalisation process we can see a distinct difference between the two cases even if both went abroad to retain the business with an important OEM. Gamma followed their main OEM because of their long-term relationship which has been a foundation for keeping the business. 'A' spells it out when saying that to keep the business a subcontractor has to be where the customer is. Delta on the other hand, though also internationalising to keep the business, faced a different dilemma. In this case the OEM did not move to the new market but had a contractual agreement with Delta that hurt Delta financially thus forcing them to seek a new labour market. Looking at these two instances we can say that Gamma has been 'pulled' abroad by an OEM while Delta has been 'pushed' abroad. Both situations has in the end put the two companies in the role of a 'late starter'; both companies operate in a highly internationalised market while themselves initially having a low degree of internationalisation. Furthermore, both companies have built their competitiveness on highly specialised products. A difference though, is that Gamma has used its specialisation to open up the new market through the OEM they followed whereas Delta has not been able to utilise the OEM in the same way but has been forced to depend on their internal resources. The two companies used each of the two selected theoretical strategies – the multiplication strategy and the springboard strategy. The two patterns explained by the Uppsala model does show some parallels with the two case's internationalisation but we cannot see a 'classical' example of step-by-step internationalisation. Even if they are closely linked a small difference still remains. The first pattern regarding the step-by-step increase in the firm's international commitment fits better in with the case of Gamma that has had a strategy of expanding the business in China from the start capitalising on the large client to get a good foundation to build on. Delta on the other hand has not the same expansionary plans. The second pattern, concerning the accumulation of market knowledge that leads to reduced uncertainty and discovery of new opportunities, can be seen in both cases.

Gamma has, as a company, built up enough knowledge to facilitate a move to China through activities in Europe and USA. Delta has done this more so through the personal activities of the new CEO than through the company's activities. Finally we can just underline that in both cases there has been quite a leap to the new market, which seemingly contradicts the logic of the Uppsala model.

4.2.4.2 Customer Relationships and Trust

As we mentioned in the previous passage the relationship with the customer, OEM, affects the way subcontractors behave. Gamma has a close relationship with its customer and because of that both parties take each other into consideration in a more long-term strategic perspective. That is shown by planned meetings and a proactive way of handling problems that may occur during the business together. Delta in contrast, has an arms-length contractual relationship with its OEM based on skeleton agreements. So even if there is no long going relationship they have created a safety net by a more traditional way, a written contract that determines what each parties' obligations are. Gamma has a deeper relationship which leads to, even if 'A' only emphasises the trust in oneself, more trust between the parties and a higher degree of willingness to fulfil their commitments. Thus one view of the differences between the companies is that Gamma's commitment stretches farther when following the OEM to a new market whilst Delta's contractual agreement forced them to internationalise. Had Delta developed more than an arms-length relationship with the OEM, more long-term strategic consideration had perhaps helped Delta avoid such a financial predicament that they ended up in. It would also have propelled an internationalisation process in a more proactive way than the case was now. A more open view on relations in the eyes of the OEM, concerning the business they had with Delta, may have created an opportunity for Delta to keep more business in Sweden instead of the forced internationalisation. This deeper relationship, which is the goal of many partnership nowadays, usually brings positive effects on both the supplier as well as the OEM in the long run.

A way of highlighting the importance of the relationship between the supplier and the OEM is by comparing the profitability in both Gamma and Delta before the internationalisation. Gamma had and still have a good profitability in their Swedish operations whilst Delta made a loss on their. Gamma moved to China in order to better provide their OEM with more competitive products but Delta were forced out to China because the contractual agreement turned out to be less profitable than expected. With a more developed relationship between Delta and the OEM another solution could have been reached.

4.2.4.3 Strategic Choices

When looking into Gamma's and Delta's strategic choices we also find some key differences. Both companies internationalised because of an OEM and due to that found themselves in a new market that was internationalised to higher degree than they were. The underlying strategies of their choice to internationalise do differ. Gamma had an intention to broaden their customer base and reach a deeper market penetration from the very start following the OEM abroad. Delta did not have such an in-

tention and has at the moment no plans to do so in the near future. We have to take into consideration though, that Delta has started to look for new customers globally but have no plans for a deeper market penetration in the new market. With the background of the two previous theoretical areas as well as the differences mentioned above, we can identify what category the two cases fit best into regarding their strategic choices. By comparing the two strategies discussed earlier, multiplication strategy versus springboard strategy, we can see what special characteristics are found in each case. Gamma has had a springboard like strategy taking into account the fact that they originally had a plan to actively seek out new customers and a deeper market penetration. Delta has had a multiplication like strategy because their original plans did not include a deeper market penetration when using their previously established networks in order to succeed with the internationalisation.

5 Conclusions

In this chapter we will draw conclusions from the empirics collected from Case Gamma and Case Delta. With that as a background and connected to the theories we will explain what important information we can derive from this and what may be useful in order to answer the purpose of this research.

The purpose of this research was to investigate how well client-following subcontractors take advantage of opportunities in a new market and how the relationship with the OEM has affected this. From the information in the previous chapter we have seen that there are a number of similarities as well as differences between the two cases, both on how they internationalise their businesses as well on what they did after the internationalisation was completed.

Gamma seeks actively after new customers and a deeper market penetration and this is one of the reasons why they have chosen not to have mere satellite factories but complete companies abroad including sales department. Delta, that is not after a deeper market penetration yet, has built up what they call a production company which implies that the primary focus is low-cost production. Gamma's case shows similarities with the springboard strategy as the firm has sought a deeper market penetration since internationalising was brought to the table. Delta's on the other hand shows similarities with the multiplication strategy, however the connection is not as clear as with Gamma. Gamma used its relationship with its OEM when internationalising, an aspect of the multiplication strategy, but did also want to have more clients in the new market, thus fulfilling the characteristics of the springboard strategy. Delta did move to the new market due to the OEM and continued its contractual business relations after the internationalisation. This might seem as a vague connection to the multiplication strategy but can be reinforced if we consider that the internationalisation provided Delta with the cost structure it needed to be able to fulfil the agreement with its OEM.

As we can see there are differences in the underlying factors of Gamma's and Delta's internationalisation. Much of these can be connected to the relationship that the firms had and have with their main OEM. Delta's skeleton agreement did push the company to internationalise to cut costs but can also be seen as a sort of security after the launch of the abroad operations. Delta knows that the contract runs over a specified time and can from that calculate the risks and returns of the new factory. This was also true in the case of Gamma that had its OEM as a security for the new operations. Gamma could forecast a certain business from the OEM and thus calculate the risks and returns of internationalising. Lastly we can say that the arms-length business relationship between Delta and its OEM is not negative but can pose certain difficulties when one party or both have a too short-term perspective. Gamma's relationship with its OEM seem to take a more long-term approach in the strategic planning.

6 Final discussions – Wrapping It Up

In this our final chapter we go back to the introductory discussion that we began this paper with. As we narrowed down that discussion to a specific purpose we will here backtrack that process and put our findings in a wider perspective. We will also assess our paper as to what weaknesses and strengths it might have.

6.1 Is There More To It?

In our introductory part we discussed the subcontractor's dilemma when being forced to internationalise due to an OEM. We identified through our preliminary research that subcontractors that *follow* an OEM could be vulnerable in the new market and find it hard to position themselves. From our case studies we have now found that subcontractors also can be *pushed* abroad by their obligation to an OEM. Our study suggests that between the two situations, following an OEM to a new market is associated with less risk than being pushed abroad by an OEM. This implication is based on that subcontractors following OEMs have an initial customer in the new market in the OEM, this does not seem to be true for subcontractors pushed abroad as their main customer is not present in the new market. We have seen that depending on the strength of the relationship the degree of risk regarding the internationalisation process varies. Gamma that had a strong relationship with its OEM perceived a lower degree of risk compared to Delta's situation. Delta on the other hand had to rely on managing the risk with the help of previously established networks.

It is obvious that the relationships affect the subcontractor and the OEM in various degrees. For Gamma that had and still have a deep relationship with its main customer made their internationalisation with the support from the OEM. Even if they did not have any previous experience acting in the Chinese market they could still establish a fully operational unit there and not just a satellite factory. The confidence to build a factory from scratch might come from previous good experience from other foreign markets like Hungary and Estonia. The previous success but even the 'failures' from the USA market have also had an impact. Instead of an already built network they depended on previous experience, their trust in themselves as well as the trust in their relationship with the OEM in order to get through the first phase in the new market. Delta however, has not had its OEM as a large customer for very long thus has not had the opportunity to develop a strong relationship. This is further complicated by the fact that the OEM oppose closer cooperation with strategic or technological content. In addition to the simpler relationship, Delta had less experience from international operations; the whole group has only had a marketing office in USA while the companies involved in this internationalisation process had no prior experience from expanding abroad.

Finally, as we reviewed the Uppsala model of internationalisation, we shall have a look at how well it can be used to describe the scenario of our two cases. We can see that the critique by Reid is quite relevant in regards to our two cases. The Uppsala model indeed seems too deterministic when we fit the cases into it. Perhaps a transaction cost approach might better be suited even though its theoretical base of the multina-

tional enterprise does not seem to fit these types of cases. Nevertheless, what the Uppsala model helps us to understand is the value of market knowledge and how it is accumulated through experience. In our cases the market knowledge was gained through diverse activities, not only in similar markets and such as the model predicts. We can see that Reid also seems to be right about that the entry-modes are more selective and dependent of resource-patterns and market opportunities. Both cases for example needed to internationalise in order to retain business and in Delta's case the choice was highly affected by the severity of the situation. As we mentioned when discussing risk; in a pressured situation, for example if the existence of a company is threatened, risks that otherwise would seem to high might be justified. Also the critique by Hedlund and Kverneland seem valid as the entry-modes of our cases has been more direct and taken great leaps when viewed from a step-by-step perspective as in the Uppsala model.

6.2 Contemplative Review of Our Study

An obvious weakness with our approach is the lack of a deeper empirical foundation. We have tried and hopefully succeeded in balancing that with a greater focus on key elements regarding the theoretical frame created in our *Study of the Literature*. By focusing more on building a sound frame of reference instead of chasing after doubtful sources of information we believe that we have reached a far more interesting result compared to a research trying to cover to much ground.

The issues regarding trust and how it affects a certain decision is and will probably always be a very subjective matter. There is no definite truth or template to follow. We can just hope that we have been able to extract as much useful information as possible from the interviews and deciphered it correctly.

A important discovery as we see it is the connection found between the two strategic choices Winkelmann presented and that is used in this research and the Uppsala model. It continue to build upon what Andersen (1993) said about the internationalisation theories being alike. Maybe a newer and more developed theory should be constructed. Taking into account the new globalised world we are living in.

Looking on the method in the four measurements used to see if a qualitative study is trustworthy we would say that we have reached fairly high construct validity with this report. Of course there has been some varies depending on which case we are talking about. The first case most of the information is gathered from just one person and secondary data, in order to reach high construct validity Yin (2003) says that multiple sources of evidence is of importance. We know about this but chose to reach a person with the most insight in the subject of interest instead of many people with various insights in the topic. If we would have chosen more interview objects it is most likely that we would get the same information as we got from 'A' but not just as deep and detailed information. We think that by going to the main source of information and by following up with secondary interviews as well as weigh the information given against the secondary data collected would proved a complete "picture" of the topic of interest. Furthermore we let the key respondent review the draft of the report in order to make sure no mistakes has been "conceived" from misinter-

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pretation between the interview object and us, the interviewers. The help of digital storing of the recorded media made those mistakes a minimal problem as well.

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Appendix 1

Interview Guide

When creating this interview guide we had the important factors in mind covered in the method part in order to make an interview guide that would provide a good and solid empirical base so we could fully analyse our selected area of interest.

Below is the questions that were used as a general guideline, for us the interviewers, when we collected the empirical evidence for this paper. More in-depth questions were asked if we felt it was of significance.

Introduction Questions

What is your position with the company?

How long have you worked here?

Are you enjoying your position at the company?

Company Background

How many employees does Company Gamma/Delta have?

Would you describe your organisation as a flat or hierarchical one?

When considering risk, is it the company policy to accept a higher degree of risk in order to receive a higher payoff or is it better to “play it safe” that in turn would provide a lower yield?

When looking at the strategic goals of the company, how much are they affected by recent events?

The Internationalisation

When did the internationalisation take place?

To what country did the company move its production?

Was the internationalisation an idea that came fully from the company or where the decision affected from external sources? For instance the OEM?

What was the goal with the internationalisation process? What were used to measure if the internationalisation was successful or not?

Relation and Trust to the OEM

How many percentage of the total production is your main customer involved in?

Do you think the company is in a vulnerable situation regarding the relationship to the OEM?

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Do you have any outspoken plan on dividing up the production to several customers instead of keeping the main part with just one large customer?

How long have the company had a serious business relation to the OEM?

Are there any key account managers that solely works against the OEM?

How close of a cooperation do you think their exists between your company and the OEM?

How much faith/trust do the company have in the OEM besides any contractual agreements? And how do you think the OEM regards Gamma/Delta concerning the same question?

Do you feel that the company is “locked up” because of the relation to the OEM considering the resource-cost in time and money in order to find a new customer to take the OEMs place?

Do the company have any further plans to intensify the contacts and the relations with the present OEM?

Is there any pre planned meetings on a continuous basis with the OEM?

Do you feel that the relationship your company and the OEM is involved in is based on a proactive or reactive way of thinking?

The market Vs the Company

How many competitor exists on the Swedish market opposed to the international market?

Is the company internationalised in a high degree when comparing with the market and competitors?

How specialised are the company in the products that are being produced? Is there a wide or a narrow set of products?

Strategic Decisions

Does it exist any further plans with the internationalisation? Is there new customers in target or are the main focus still aimed at the OEM?

Are the company actively seeking out new customers in the new market?

Do you think your OEM actively seeks for other subcontractors?