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Entry Mode Strategies for ire into the Polish Market

A Case Study of ire Möbel AB

Bachelor Thesis within Business Administration

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Background: In today's business environment it is important to find new customers. An action that has been widely used is to enter foreign markets. Most firms are always seeking to maximize their profits, which can be achieved if an entry into a foreign market is performed. Due the European Union (EU), new economies open their borders for international trade and foreign investments. In 2004 Poland received membership. Even though Poland may be a country with potentials, there are aspects that the firm has to take into consideration in a potential market entry. Among these are market related and firm related factors.

Purpose: The purpose of this thesis is to evaluate the important factors related to the firm and the market in order to present feasible entry mode(s) which ire can use in a potential entry into the Polish market.

Method: The authors have conducted a case study of ire Möbel AB. A qualitative method approach has been used to fulfill the purpose of the thesis. Semi-structured telephone interviews have been used for the empirical findings. The authors want to attain convincing and in depth information in the field of interest, therefore three firm related interviews and three market related interviews have been conducted to obtain valid and reliable empirical results.

Conclusion: The case study has led to conclusions on how ire could enter the polish market. ire's needs and resources have been compared to the Polish market factors and analyzed for pros and cons. The mode that is currently used on ire's other markets, exporting, is working very well. Equity joint ventures have a three year tax relief but are still considered a quite expensive mode of entry. Other entry modes could be successful, but ire's size and resources limits the modes available. The thesis has come to the conclusion that exporting and/or equity joint ventures are the modes of entry most appropriate for ire.

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1 Introduction

This chapter introduces and creates interest for the thesis. First a background to the topic is presented. The introduction further continues with a problem discussion, leading to the purpose of the thesis.

1.1 Background

Internationalization, according to Dunning (1998), refers to multiple locations which contribute to value added activities. These activities were perceived by managers to yield positive gains. In order to find new customers, entry into foreign markets has become a well known action (Dunning, 1998). The notion of increased interest in foreign market activities is corroborated by Kumar and Subramaniam (1997), among others, and firms are always seeking to maximize potential profits which can be done by entering foreign economies (cited in Decker & Zhao, 2004). With the constant expansion of the European Union (EU), new economies open their borders for international trade and are in accordance with the EU treaty (articles 23-24, 39 and 43) opening their markets to foreign investments and collaborate for a tariff and duty free union. The EU treaty further includes articles concerning free trade of goods, services and persons as well as the right to establish firms within the union (consolidated version of the treaty establishing the European Community, 2002).

One of the countries that received membership to the EU in the year 2004 was Poland. Poland with a population of around 38 Million is situated close to Western Europe but with a different economical situation, according to Europeiska kommissionen (2006). Even though Poland may be a country with great potential there are many aspects a firm has to take into consideration when contemplating market entry, such as market related and firm related factors.

Before choosing market(s) of entry the firm has to examine the market(s) to see if it suits the firm's limitations and goals. Small and medium sized enterprises (SMEs) may have less managerial and financial means than large companies and may therefore have to limit their entry into foreign markets (Zacharakis, 1997; Erramilli & D'Souza, 1993, cited in Nakos & Brouthers, 2002). By looking into the foreign economy's current situation, a firm can find both incentives and obstacles for entry. Market entry strategies have been scrutinized by many scholars over time, such as early studies by Johanson and Vahlne (1977), and Root (1987); Erramilli and Rao (1993); Williamson (1986); Dunning (1993), cited in Nakos and Brouthers (2002), and more recent studies by e.g. Nakos and Brouthers (2002). The scholars have different views on entry mode strategies which, depending on the firm and the market of interest, alter the direction of the entry (Pan & Tse, 2000).

ire Möbel AB is a small-sized furniture firm from Sweden. A small-sized firm will in this thesis refer to the EU definition of a maximum of 49 employees and a turnover of not more than 10 million Euros (EU, 2006). Besides Sweden, ire sells its furniture in 11 European countries and had a turnover of 40 Million SEK in 2005. The aim for ire Möbel AB is to increase the turnover to 70 Million SEK in 2009 (O. Söderpalm, personal communication, 2006-09-25). Due to the expecta-

tion for future increase in turnover, new markets may have to be considered in order to fulfill the goal.

1.2 Problem Discussion

Johanson and Vahlne (1977) early started a fundamental study on the internationalization process where risk was perceived as the foundation to the entry strategy. This study (The Uppsala Model) focuses on the knowledge of the market and the psychic distance as two important criteria of the internationalization process (Johanson & Vahlne, 1977).

A recent study done by Shama (2000) elaborates on the many factors related to the choice of entry mode into a foreign market. Many scholars have done extensive studies on the topic and different notions and recommendations, based on their studies, have been presented by Mutinelli and Piscitello (1998); Pan and Tse (2000); Nakos and Brouthers (2002) and Decker and Zhao (2004). While all of them concentrate on the market entry they have different opinions on what underlying factors to consider before choosing mode of entry. They also present different strategies based on the firm's condition, size, financial and managerial means and preferences. While large firms may be able to choose mode of entry accordingly to their own preferences and goals, SMEs do seldom have the same opportunity. Thus, the entry mode is of great importance for SMEs (Lu & Beamish, 2001, cited in Nakos & Brouthers, 2002).

To enter a market the firm needs to decide on what entry mode to choose. In this thesis the authors have decided to divide the entry modes into non-equity and equity mode, in accordance to a study done by Pan and Tse (2000). The non-equity modes are **exporting, licensing, franchising and strategic alliances**. The equity modes are **equity joint ventures and wholly owned subsidiaries** (Pan & Tse, 2000). Equity refers to the level of control over business operations and the amount of ownership.

The thesis will also give a view on what SMEs should contemplate before each entry into a new foreign market by highlighting the factors, which in the authors' opinion are important, especially for SMEs. These types of firms may have different managerial and economic prerequisites and could be servicing a small niche or produce highly innovative products. Due to these various factors the firms may chose differently even though they are of the same size (Pavitt, Robson & Townsend, 1987; Acs & Audretsch, 1990, cited in Nakos & Brouthers, 2002).

Further, there are many external factors that are of great importance when contemplating entry into a foreign market. Transition markets often suffer from corruption which includes different aspects such as bribery, graft and patronage among others and countries are measured by Transparency International (TI) on a yearly basis (Transparency International, 2006).

This thesis should guide ire Möbel AB in its internationalization process on how to enter the polish market. In ire's case, the size may be a limiting factor for the choice of entry mode, but this is not certain. To find the limitations of ire will be one of the vital components to analyze its opportunities for foreign market entry.

Ire is active in 12 different countries, mainly Western Europe. The experience from these internationalization processes can partially be transferred to new internationalization processes, which will simplify new entries.

The authors of this thesis find Poland an interesting and upcoming market with great potential within EU. Therefore, in collaboration with ire Möbel AB, this thesis will be presented as a case study on how to enter the Polish market with the company's high-end products. High-end products service the market with a high quality and pricing. This will be done with the perspective of the current circumstances in Poland. The focus will thereby not be on whether ire should enter the market or not but rather how they could enter with ire's resources at hand. The thesis will focus on ire's opportunities and choices on how to enter the Polish market. The factors related both to the market and to the firm will jointly be evaluated together with the current situation in Poland. The result will be recommendations for one or more suitable modes of entry.

1.3 Purpose

The purpose of this thesis is to evaluate the important factors related to the firm and the market in order to present feasible entry mode(s) which ire can use in a potential entry into the Polish market.

1.4 Delimitations

In order to be able to focus the thesis further it is important to understand the delimitations. This section will highlight factors which will be excluded from the thesis.

A major aspect to bear in mind is to understand that this thesis may be hard to implicate on a general, non-furniture industry. The thesis may not provide conclusions which can be applied on firms other than ire Möbel AB. The general view of the Polish market, as a whole, may be different than the view presented in this thesis, as it concentrates on the furniture market.

What is also important to consider is that ire Möbel AB has no intention of starting a production line in Poland. This means that only selling furniture and not producing them, in Poland, is important.

The authors of this thesis have limited theories and market and firm related factors to the most vital and interesting from the authors' point of view. The delimitations do not exclude that there are other factors and theories that may be applicable in the strategic choices concerning the entry mode and other related aspects.

2 Theoretical Framework

First a brief introduction to Poland and its market situation will be presented; this is followed by various theories which will guide and help the reader along the thesis.

2.1 Background of Poland

Among the members of OECD (Organization for Economic Co-operation and Development) Poland has the second lowest ratio of employment to working-age population. Poland also has the highest unemployment rate within OECD with around 18 % (OECD, 2006). The main policy targets of the current government, which came to power in late 2005, are to some extent related to either policies which influence the labor force participation rate or policies related to increasing activity rates. This means that to secure long-term sustainability in public finances, the government must raise employment levels in order to provide a larger revenue base (OECD, 2006).

2001 and 2002 showed very slow growth and the unemployment rate was increasing. But in 2004, GDP accelerated because of export demands and by the expansion of public consumption. The GDP growth in 2005, 3.2 %, was a little short of potential GDP, 4 %, because of sluggish investments, even though the stock market was booming with a rise of over 90 % between last quarter 2003 and March 2006 (OECD, 2006).

As Poland is a key transit country between East and West, North and South, the infrastructure must be well developed. According to the World Bank (2006), Polish infrastructure has changed substantially over the years, but it is clear that further development is needed. This includes policies, institutions and investments. These tools are needed in order to improve competitiveness and economic growth.

There seems to be a relationship between the sluggish investments and low innovation activities and the high level of regulation. This can mainly be explained by high levels of public ownership, a hesitant attitude towards foreign investment and a significant burden of bureaucracy. Poland has made progress in these areas over the years but still, improvement has to be made in flows of finance and information to SMEs and entrepreneurs. If not, effectiveness will lessen (OECD, 2006).

2006 seems to be brighter for Poland than previous years. Production increased during 2005 with about 10 % until December and the employment rate appears to have continued to grow into early 2006. Even though non-financial companies' profitability declined during 2005, the decrease of interest rates and sufficient rates of return have meant good cash flows. These factors seem to be able to boost investments throughout the year. Similar expectations were made in early 2005, but were not fulfilled, due to firms wanting to accumulate short-term financial assets and pay off debt. Despite last years misinterpretations, 2006 seems to generate more investment due to the continuing rise, since late 2004, of employment rate which may reflect optimism among firms, which are likely to expand their operations (OECD, 2006).

2.2 The Internationalization Process

This section provides the reader with a model which the authors deem important for the thesis. The model provides understanding of the internationalization process of firms. It deals with how companies act when reaching for new markets. The authors have used this model as inspiration and as a tool in order to create a working model in which the analysis will be built upon.

2.2.1 The Uppsala Model

Johanson and Vahlne (1977) argued that the internationalization process of a firm is stage based, where each successive stage is based on the previous and represent a higher degree of international interest (Andersen, 1993):

Stage 1: No regular export activities

Stage 2: Export via independent representatives (agents)

Stage 3: Establishment of an overseas sales subsidiary

Stage 4: Overseas production

This theory is based on the increasing knowledge a firm gains from internationalization and the more knowledge a firm has the more involved abroad the firm becomes. Early in the process the firm chooses a country which has a low **psychic distance**. The concept of psychic distance can be defined as the factors which disrupts the flow of information between the market and the firm, such factors include, language barriers, political systems, industrial technological development and level of education. With increased knowledge and experience, firms tend to enter markets with greater psychic distance (Johanson & Vahlne, 1977). The experience which is developed through internationalization is called **experiential knowledge** and in contrast to objective knowledge (which can be taught), is the critical kind of knowledge in the internationalization process (Whitelock, 2002).

Johanson and Vahlne (1977) have also developed a dynamic model to explain the character of internationalization, that is, a model in which the 'outcome of one cycle of events constitutes the input to the next' (Andersen, 1993, p 211). The structure is specified by the difference between state and change aspects of internationalization variables. The state aspects are considered to be the resource commitment to the foreign markets (market commitment) and the knowledge about foreign markets; the change aspects are the decisions whether to commit resources and the performance of current business activities (Johanson & Vahlne, 1977).

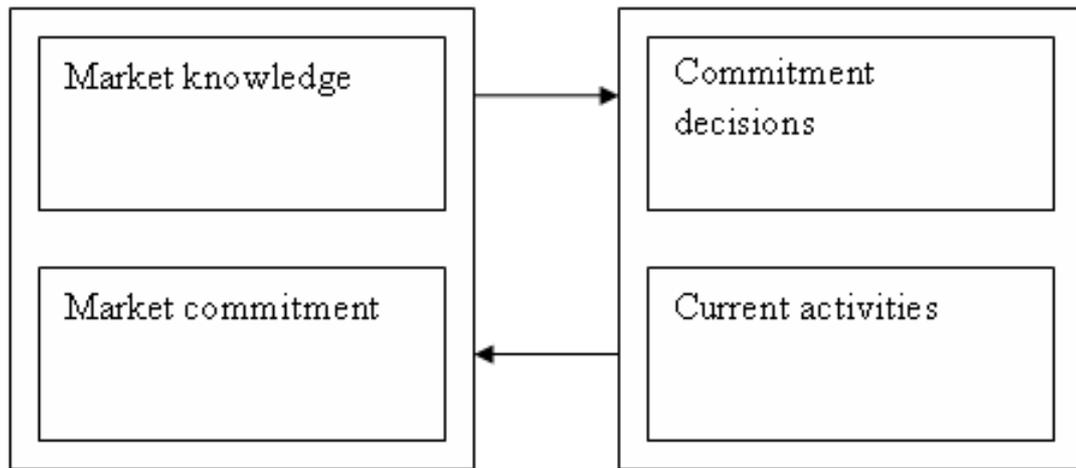


Figure 1 The basic mechanism of internationalization - state and change aspects
(Johanson & Vahlne, 1977)

An elementary assumption is that market knowledge and commitment affect both commitment decisions and the way current decisions are performed, and these decisions, in turn change market knowledge and market commitment (Andersen, 1993). Market commitment is composed of two factors, the amount of resources committed and the level of commitment. The amount of resources can be defined as the size of the investment in the market (marketing, organization, etc.). The degree of commitment refers to the complexity of finding an alternative use for the resources and transferring them to that alternative use.

Activities abroad require not only general knowledge; it also requires market specific knowledge. It is understood that market specific knowledge is gained through experience in the market, while general knowledge can be transferred from one country to another. Hence, a direct link between market knowledge and market commitment is assumed. Consequently, as knowledge is a human resource, the better the knowledge about the market is, the more valuable the resources are and the stronger the commitment is. This is strongly correlated to experiential knowledge (Andersen, 1993).

The Uppsala model has been criticized throughout the years by several researchers as it does not cover all aspects of internationalization. Whitelock (2002) argues that the model is supported, especially in the early stages of internationalization. However, stages two through four have been questioned numerous times. Buckley et al. (1987) presented that firms in an internationalization process may use a mixed approach to individual foreign markets (cited in Whitelock, 2002). In addition, Turnbull (1987) discovered that even large companies with substantial knowledge, experience and commitment within internationalization, used a variety of exporting methods (cited in Whitelock, 2002). Hence, several researchers have found that the initial market entry will not always be export through an independent agent (Whitelock, 2002). In response to the critique, Johanson and Vahlne (1990) proposed three exceptions to their model; when firms have large resources they might be expected to make larger internationalization steps; when market conditions are stable and homogeneous firms may gain market knowledge in ways other than through experience; when firms have substantial experi-

ence from similar markets with similar conditions it can be possible to generalize this experience to the specific market (cited in Whitelock, 2002).

The Uppsala model sees experiential knowledge as the crucial indicator for market entry and mode selection. The Uppsala model, focuses on the firm, but do not mention the impact of competition on market entry, but intuitively experiential knowledge should include such thoughts (Whitelock, 2002).

2.3 Factors Related to Choosing Entry Mode

According to Shama (2000) there are numerous factors related to choosing mode of entry and the company's needs. The thesis is limited to the most essential, in the authors' opinion, factors concerning a SME related to the choice of entry mode, this with help of studies done by Shama (2000), Bartlett (2001), Nakos and Brouthers (2002), McAfee, Mialon and Williams, (2003), Petersen, Pedersen & Sharma (2001) and more general concerns presented by Kotabe, Peloso, Gregory, Noble, Macarthur, Neal, Riege & Helsen (2005) and Kotler, Armstrong, Saunders & Wong (2002). The factors will be divided into **firm related factors**, **market related factors** and finally **Factors related to both market and firm**. By dividing this part into the mentioned categories the thesis will be arranged in accordance to our working model presented by the authors later.

2.3.1 Firm Related Factors

In this part the authors will discuss the firm related factors which are; **the need for control of business activities, internal resources and assets**, and **previous experience of internationalization**.

2.3.1.1 The Need for Control of Business Activities

Depending on the need for control, different firms will choose different entry modes where the level of control of foreign operations will vary (Kotabe et al., 2005). According to Nakos and Brouthers (2002) the level of resource commitment for entry into foreign markets depends partly on the amount of control wanted. A SME may have less chance of controlling its foreign operation, compared to large organizations, due to managerial and financial limitations; this will inflict in its choice of entry mode and limit them, sometimes, to a non-equity mode such as exporting or licensing (Nakos & Brouthers, 2002).

2.3.1.2 Internal Resources and Assets

Small businesses often have limited resources and assets which also often mean that they have to enter a foreign market with a low-commitment and a non-equity mode. This, in addition, means that there will be a low level of control. Low-commitment refers to low level of involvement possibilities for firms entering the market, in their foreign market operations (Kotabe et al., 2005). According to Pissarides (1998) the key problem for SMEs are their financial situation which may hold them back in transition economies where a imperfect capital market exists, banking system can be weak and concentrating on large firms rather than newly established SMEs (cited in Bartlett, 2001).

2.3.1.3 Previous Experience of Internationalization

There are two types of knowledge which is of importance in the internationalization process. These are objective knowledge and experiential knowledge. Objective knowledge can be gathered rather easily through standardized methods such as market research, which can easily be transferred to other countries and replicated by other firms than the one who gathered the information. Experiential knowledge, or tacit knowledge, on the other hand, is based on “learning by doing”. This means there is a trial and error phase where knowledge is gained over time (Petersen et al., 2001). Furthermore, learning from previous internationalization processes is crucial in gaining experiential knowledge. Recently, the importance of current business as the source for experiential knowledge has been challenged, and the internationalization process has been analogized with an innovation process (Andersen, 1993), thus, variation is a precondition for a successful process. Strengthening this notion Eriksson et al. (2000), suggests that variation of a firm’s global activities in terms of geographical spread is a crucial aspect of experience (cited in Petersen et al., 2001). Also time itself is strongly associated with the internationalization process, some say even more than the process of business activities. Without the essential time needed firms cannot gain the experience from business activities (Eriksson et al., 1998, cited in Petersen et al., 2001).

It is possible for firms to gain access to experiential knowledge of other firms without going through the same process as that particular firm. Learning by observing other firms’ behavior and activities, i.e. imitative learning, can be achieved especially when observing firms with high legitimacy (DiMaggio and Powell, 1983; Björkman, 1990; Haunschild & Miner, 1997, cited in Petersen et al., 2001). Further, Huber (1991) has put forward the notion that organizations can learn by a focused search for information, activated by an opportunity or a problem, rather than experience from own activities (cited in Petersen et al., 2001).

As information and communication technology advances, the accessibility of information related to the internationalization process has improved dramatically (Petersen et al., 2001). These advances coincide with the globalization trend. This trend also implies the convergence of consumption patterns, decreasing trade barriers, industry standards etc. (Levitt, 1983, cited in Petersen et al., 2001). This means that the difference of doing business domestically and internationally diminishes which makes business activities less problematic. Furthermore, the need for specific knowledge for internationalization decreases as globalization increases. Hence, organizations will be able to achieve a larger market penetration with less knowledge acquired for less money. This leads to the notion, as knowledge obstacles decrease, the pace of internationalization increases (Petersen et al., 2001).

2.3.2 Market Related Factors

In this part the market related factors will be explained. These factors are; **competition, cultural differences, risk assessment, and corruption.**

2.3.2.1 Competition

According to Porter (2000) prosperity and productivity of a location is not correlated with the industry the company is competing in, rather in the manner the

companies compete. Studies on competition made by MacMillian and Day (1987), Yoon and Lilien (1985) and Porter (1980) showed that the number of competitors in the domestic economy have an inverse relationship with success (cited in Shama, 2000). Thus, the more competitors there are on the market the harder it is for the entering firm to succeed (Shama, 2000). A market that is highly competitive and where there is strong competition between distributors, SMEs find little incentive to enter the market with an equity mode. Thus, the SMEs prefer a non-equity mode of entry and can easily replace distributors that are not performing well. The opposite is true when there are few distributors in the market and SMEs may choose an equity mode of entry instead. When opportunistic behaviors of foreign partners exist SMEs tend to use equity modes to protect expansion where a market provides very few alternatives. Knowledge of competitors in the market of entry is important to be able to compete accordingly to the expected competitive situation (Osborne, 1996, cited in Nakos & Brouthers, 2002).

2.3.2.2 Cultural Differences

A survey based on opinions about the Polish employees, 1,198 foreign investors almost admired the employee's discipline, quality and effectiveness of their work, and their ability to adapt and learn. When it comes to Poles, and their cultural way of seeing at entrepreneurship, a general trend is that they are entrepreneurial people, but prefer to do things their own way. It is common that Poles are called romantic idealists, and emotional hotheads. Like in Sweden, the Poles value behavior that is measured honorable and celebrate those who have sacrificed themselves for high morality. They are often covered with the tar of being impractical, since such a model is often unachievable (Kiseel, 2001).

These cultural aspects are of great relevance when it comes to doing business in Poland. As a foreign investor it is important to know what Poles sees as good behavior. A traditional rule of thumb is that the foreign company and owners should show respect and care for individuals. This is seen as an encouraging attribute especially in the business environment, where such aspects are vital in business negotiations. Poles still see potential business partners by considering their personal qualities. With this in mind, Poles may take a very long time negotiating business deals. The Poles do not just want to know what the balance sheet illustrates; instead they want to know what a potential partner is like. Polish tradition has a reputation of gallantry. Nobel gestures, being able to make sacrifices, and hand kissing are common and should be taken into consideration when doing business (Kiseel, 2001).

2.3.2.3 Risk Assessment

Risk refers to the political and economic environmental (in)stability of the country (Kotabe et al., 2005). International expansion, according to Ramcharran (2000), sometimes comes with unstable foreign exchange, economic, political and/or social environment (cited in Nakos & Brouthers, 2002). Unemployment rate and GDP are important indicators, which must be considered. Domestic firms could face some of the mentioned risks while foreign exchange risk only refers to foreign firms, which can be disadvantageous on the market. The political instability may contribute to currency restrictions, expropriation, unexpected changes in tax and labor laws, which can make things complicated for foreign firms in reference to function profitably in a particular market (Dunning, 1993; Erramilli, Agarwal & Kim, 1997, cited in Nakos & Brouthers, 2002). Economies

that are member countries in EU have to adapt their laws and legislations and international trade agreements have to be followed. Therefore, tariffs and trade barriers should not exist within EU (Kotler et al., 2002). When risk is high, in a foreign market, SMEs choice of entry mode will differ from a low risk market entry (Brouthers, Brouthers & Werner, 1996, cited in Nakos & Brouthers, 2002).

2.3.2.4 Corruption

Corruption is a vast concept where one can find many different types of inertia for a firm in a country with corruption problems. Corruption often refers to be vertical between company/private person and government officials or institutes. Bribes may be the most commonly known sort of corruption, where money or gifts (grafts) are given to government officials or institutes in order to avoid costs, gain benefits and/or get favorable treatment. As officials in the public sector may receive low wages they can have low incentives to actually carryout their jobs properly (Rose-Ackerman, 1999).

According to Abed and Davoodi (2000) corruption can be noticeable in the political process in terms of trading votes and rigged elections. One can also find corruption in the legal system where rigged juries and bribed judges could be some of the noticeable actions. Corruption may also inflict on the government capacity to facilitate public goods and services as well as their ability to regulate the market (Abed & Davoodi, 2000). According to the study done by Johnson, McMillian and Woodruff (2000), as well as earlier studies done by Shleifer (1997), Kaufman (1997), and Frye and Shleifer (1997), indicated that control over corruption is of vital importance in order for entrepreneurship to develop (cited in Johnson et al., 2000). They also argue that it is due to weak legal systems and unreliable actions by the government officials that contribute to holding back the private sector. Corruption on these levels will hinder secure investments and hold back growth of private businesses, thus market-supporting infrastructure will face inertia to develop (Shleifer, 1997; Kaufman, 1997; Frye & Schleifer, 1997, cited in Johnson et al., 2000).

Poland has experienced reforms and established regulations attempting to eliminate corruption. By doing so the banking system has increased the involvement of foreign investors. Poland has also provided a secure environment for private property rights which has contributed to growth in the private sector (Johnson et al., 2000). According to Johnson et al. (2000) Poland has performed the best in dealing with corruption out of the former Communistic controlled countries as well as having the best legal environment.

Corruption perception index is one way of measuring the level of corruption in a country. It is the perceived level of corruption that is measured and surveys are conducted yearly by Transparency International (TI). The conclusions and indices are based on seven surveys addressed to business people, political analysts and the general public. TI is a non-governmental organization with headquarters in Germany and has many subdivisions worldwide. Each year TI rank countries by the perceived corruption level for each country since 1993. By measuring the correlation of the answers, indices can be presented with high precision and with low level of errors. Countries can be compared over time but it is important to know that one should not compare ranking from previous year due to that each year new countries are added, one could on the other hand compare the country score over time (Transparency International, 2006).

CPI for Poland has been fairly stable since 2001, with a score of 4.1 (10 is the maximum score, which means that there exists no corruption). Four years later, 2005, corruption was perceived to be greater and Poland scored 3.5. Last year (2006), scoring 3.7, compared to Sweden's 9.2, was an increase which meant that perception of the level of corruption in Poland has decreased.

2.3.3 Factors Related to both Market and Firm

In this part the factors that are related to either market, firm or to both will be discussed. **Barriers to entry** are the category of factors that will be included.

2.3.3.1 Barriers to Entry

During the years several researchers have defined this subject in different ways. This section will summarize some of the definitions in order to get a clear picture of what this concept means.

In 1954, Bain argued that economies of scale are barriers to entry. Suppose that in order for a firm to be efficient it has to add considerably to industry output and incumbent firms can continue to maintain their existing output in the event of an entry. If the new entrant enters the market at less than the efficient scale, the firm enters at a significant disadvantage compared to the incumbent companies. This will lead to that the total industry output will increase and be higher than the industry demand, hence the price falls and profits for the entrant drops (McAfee et al., 2003). '...a barrier to entry is anything that allows incumbents to raise prices above marginal cost, which usually entails above-normal profits, without inducing entry of new firms' (McAfee et al., 2003, p. 4). This quote covers the basis of Bain's definition of a barrier to entry. But Viscusi et al. (1992) argues that this definition can be somewhat simple due to that it only defines the condition of entry, without any consideration of outside facts and this makes it self-contradictory (cited in McAfee et al., 2003, p. 4).

George S. Stigler however rejected Bain's notion that scale economies are barriers to entry and instead developed another definition (McAfee et al., 2003). Stigler (1968) states that '...a barrier to entry is a cost of producing (at some or every rate of output) which must be borne by firms which seek to enter an industry but is not borne by firms already in the industry' (cited in McAfee et al., 2003, p 5). According to this definition, barriers only exist if the entrant's long-run costs are greater than the costs of the incumbent. In any industry incumbents and entrants benefits from the same scale economies as they increase their output and with equal level of technology, economies of scale, according to Stigler, is not a barrier to entry (McAfee et al., 2003), while Bain states otherwise (McAfee et al., 2003). As stated in Demsetz (1982), economies of scale are not barriers to entry as long as entrants have the same cost function as the incumbents.

While Stigler's definition differs from Bain's, Ferguson's (1974) definition follows the line of Bain's (cited in McAfee et al., 2003).

Ferguson defines a barrier to entry as something that makes entry beneficial and when incumbent firms can set prices above marginal cost and persistently earn monopoly profits (McAfee et al., 2003). If existing firms compete through advertising, possible entrants may be required to spend large amounts of fixed advertising costs in order to enter the market. However, incumbent firms also have to

pay the fixed advertising costs. These fixed costs will increase the average cost curves of all involved firms (without affecting marginal costs), incumbent as well as new entrants. According to Ferguson's definition, as long as they are not a source of scale economies, they are not a barrier to entry even if incumbents set prices above marginal cost, because they increase average cost, thus their above normal profits decrease and this in turn reduces the incentive of possible entrants to enter that particular market. Comparing this definition to Bain's (1954) definition, they are a barrier to entry just because they let existing firms price above marginal cost without encouraging entry (cited in McAfee et al., 2003). These three definitions have one thing in common, which is that they all look on the different opportunities which arise for insiders and outsiders (Demsetz, 1982).

The definition proposed by Fisher (1979) states that 'a barrier to entry is anything that prevents entry when entry is socially beneficial' (cited in McAfee et al., 2003, p 6). If profits are unnecessarily high for incumbents, 'in the sense that society would be better off if they were competed away...' (McAfee et al., 2003, p 7), entry barriers exist according to Fisher (McAfee et al., 2003). In order to determine whether a possible barrier to entry causes unnecessary high profits, one must ask whether entrants analysis differs from the one society would want the entrants to make when entering the market, given this barrier to entry (Fisher, 1979, cited in McAfee et al., 2003).

Johnson, Scholes and Whittington, (2005) have a somewhat simpler definition of the term barrier to entry. 'Barriers to entry are factors that need to be overcome by new entrants if they are to compete successfully' (Johnson, et al., 2005, p.81). Johnson et al. (2005) have listed typical barriers that an entrant may face (Johnson, et al., 2005).

In some industries, such as production of automobiles, **economies of scale** are very important. But now business models are changing and the viable scale is falling. If viable economies of scale cannot be achieved this can increase the chances of not entering the particular market (Johnson, et al., 2005).

The **capital cost of entry** varies because of the level of technology and scale. For example, it is less costly to set up a dot.com business than entering the chemicals industry. Globalization can lead to that some companies become more vulnerable to entrants abroad with lower cost of capital (Johnson, et al., 2005).

In many industries companies have had **control over supply and/or distribution channels**. This has been through either ownership (vertical integration) or just plain customer or supplier loyalty. For a new entrant to win over a supplier or a distributor who is loyal to a competitor is very difficult. One way to overcome this barrier is to skip the distributor entirely and sell directly to the customer (e.g. Dell and Amazon) (Johnson, et al., 2005).

It can be hard for a new entrant to penetrate a new market where the incumbents already know the industry well and have good relationships with key buyers and suppliers (Johnson, et al., 2005).

Early entrants into the industry gain, of course, **experience** sooner than others. This can give them the upper hand in terms of cost, customer and supplier loyalty (Johnson, et al., 2005).

If a possible entrant has **expected retaliation** from an existing firm, in the particular industry where entry is considered, and fear that the retaliation will be so great as to prevent entry or that the retaliation will be so costly so that entry is not viable, this can be considered a barrier to entry (Johnson, et al., 2005).

There are different kinds of restraints on competition. Examples of these can be patent protection, **legislation** of markets and direct **government action**. Companies in newly deregulated markets may face competition for the first time. The barrier to entry decreases if deregulation occurs and new firms may choose to enter these markets (Johnson, et al., 2005).

Further, **technology level** can be a barrier to entry as government spending on technology can vary in different countries and the level of technological advancement can vary. If the government has little or no focus on technology a firm's chances of entering can be small if the intended industry is technology based (Johnson, et al., 2005).

2.4 Entry Modes

There are different ways of dividing the different modes of entry into categories. The researched and the well reasoned categorization by Pan and Tse (2000) will be the foundation of this part. Pan and Tse (2000) divide the entry modes into **equity modes** and **non-equity modes**. The method chosen reflects the basis for deciding mode of entry by different firms depending on e.g. size, control need, market chosen etc. It also ranks by equity needed for different modes, starting with the lowest amount needed. The chapter will begin by explaining non-equity entry modes; **exporting, licensing, franchising and strategic alliances**. This is followed by the equity modes; **equity joint ventures and wholly owned subsidiaries**. The modes of entry will be explained with help of Kotabe et al. (2005) and their collected general explanations. At the end of this section the various and diverse entry modes will be discussed.

2.4.1 Exporting

This is one of the least expensive ways of international expansion and also the mode of entry that most companies start with. It is a direct sale of domestically-produced goods in a different country. This is sometimes the only option for small firms due to financial limitations. However there are three different approaches to exporting (Kotabe et al., 2005):

- Indirect exporting
- Direct exporting
- Cooperative exporting

Indirect exporting, the firm sells its products through an intermediate firm situated in the foreign economy. This is an inexpensive mode of entry where the exporting firm gets expertise on the foreign market by the intermediate firm. The risk is very low but, so is also the expected potential return in sales and profit. This can occur due to poor channels of distribution, wrong pricing decisions and a bad marketing mix chosen by the intermediary. If the intermediary takes too many poor decisions the brand image can be tarnished. This mode can be cho-

sen to test a market and if successful the entry mode can be altered to a more controlled alternative with higher profitability chances (Kotabe et al., 2005).

Direct exporting means that the firm has its own department of export which sells the products via an intermediary in the foreign economy. This way of exporting provides more control over the international operations than indirect exporting. Hence, this alternative often increases the sales potential and also the profit. There is as well a higher risk involved and both more financial and human investments are needed (Kotabe et al., 2005).

In the table below a comparison of indirect exporting and direct exporting, is presented where positive and negative preferences are highlighted.

Indirect Exporting	Direct Exporting
Low set-up costs	High set-up costs
Exporters tend not to gain good knowledge of export markets	Leads to better knowledge of export markets and international expertise due to direct contact
Credit risk lies mostly with the intermediaries	Credit risks are higher, especially in the early years
Because it is not in the interest of the intermediaries that are doing the exporting, customer loyalty rarely develops	Customer loyalty can be developed for the exporter's brands more easily

Table 1 Indirect Exporting vs. Direct Exporting

(Kotabe et al., 2005)

Cooperative exporting is a third choice and can be considered to be a middle way between indirect and direct exporting. The level of control is intermediate and so is the risk. The most common version is piggyback exporting where the firm uses the overseas distribution network of a company that is either in the domestic market or in the market of entry. This company helps selling the firms goods or services in the overseas market (Kotabe et al., 2005).

2.4.2 Licensing

This mode of entry is a contractual transaction; the company which is the licensor offers propriety assets to the licensee. The licensee is in the foreign market and has to pay royalty fees to the licensor for assets like e.g. trademark, technology, patents and know-how. The royalty can vary, often between 0.125 and 15 per cent of the sales revenue. The licensee produces and promotes the product which makes this mode a quite cheap alternative and it is even easier than exporting as a result of getting around the import barriers. The licensor also decreases the exposure to economic and political instabilities in the foreign country. The downside is that the royalty income faces ups and downs and also the selling activities diminish the profitability for the licensor compared to other entry modes. On the other hand, other risks such as wages and chance of failure are attached to the licensee (Kotabe et al., 2005).

2.4.3 Franchising

Franchising is somewhat like licensing where the franchiser gives the franchisee right to use trademarks, know-how and trade name for royalty. The normal time for a franchisee agreement is 10 years and the arrangement may or may not include operation manuals, marketing plan and training and quality monitoring. Like with licensing, the franchisor gain local knowledge of the market place and in this case the domestic franchisee is highly motivated. This due to that the profit is tied to efforts. The risk is considered low but, like the case of licensing

the problem lays in finding the right candidates with a high ambition level (Kotabe et al., 2005).

2.4.4 Strategic Alliances

Strategic alliances are cooperative relationships on different levels in the organization. Licensing, joint ventures, research and development partnerships are just few of the alliances possible when exploring new markets. 'Strategic alliances can be described as a partnership between businesses with the purpose of achieving common goals while minimizing risk, maximizing leverage and benefiting from those facets of their operations that complement each other's' (Kotabe et al., 2005, p. 277). According to Kotler et al., (2002) there are different types of strategic alliances; marketing alliances where the companies jointly market products that are complementary produced by one or both of the firms. A promotional alliance refers to the collaboration where one firm agrees to join in promotion for the other firm's products. Logistics alliance is one more type of cooperation where one company offers, to another company, distribution services for their products (Kotabe & Helsen., 2001). Collaborations between businesses arise when the firms do not e.g. have capacity or the financial means to develop new technologies. Strategic alliances have increased a great deal since globalization became an opportunity for companies (Kotabe et al., 2005).

2.4.5 Equity Joint Ventures

A joint venture occurs when new organizations are created, jointly owned by both partners. This type of strategy is a lucrative mode where the domestic partners can provide entry to market, knowledge as well as labor while the entering firm can provide technology, expertise, finance and management (Johnson et al., 2005). It can be a majority partnership with more than 50 percent ownership, fifty-fifty or minority with less than 50 percent ownership (Kotabe & Helsen, 2001).

2.4.6 Wholly Owned Subsidiaries

This is a mode of entry that can be chosen if a company wants to have 100 percent ownership. This is a very expensive mode where the firm has to do everything itself with the company's financial and human resources. Thus, this is a choice which large multi national corporations (MNCs) could select rather than small and medium sized enterprises (SMEs). Wholly owned subsidiaries bestow the company the greatest amount of control of all the different entry modes. It also means that the company has to bear the whole risk and possible losses. It is therefore, many MNCs that are reluctant to pick this mode of entry. There are two different types of wholly owned subsidiaries. These can be owned through **acquisition** and **Greenfield operations** (Kotabe et al., 2005).

Acquisition is a very expensive mode of entry where the company acquirers or buys an already existing company in the foreign market. According to Kotabe et al. (2005), this is a way of entering a market by buying an already existing brand instead of trying to compete and launch the company's products on the market and thereby lowering the chance of a profitable product. Acquisition is a risky alternative though, because the culture of the corporation is hard to transfer to the acquired firm. Most important, it is a very expensive alternative and both great

profit and great losses could be the end product of this entry mode (Kotabe et al., 2005).

Greenfield operations, a mode of entry where the firm starts from scratch in the new market and opens up their own stores while using their expertise. This is sometimes a better or even a cheaper option than acquiring a company in the market, basically because there may not exist suitable companies to acquire. Merely the process of finding a possible company can be more costly and the firm will not struggle with corporate cultural differences and the cost of integrating the acquired company. The company, in addition, stays more flexible for instance in areas such as, suppliers, logistics etc. Albeit, Greenfield operations is without doubt, the best alternative when it comes to e.g. control and profit opportunities. This mode requires vast amounts of investments, time and capital. Hence, this mode of entry is almost exclusively a choice for MNCs that can afford and manage this process (Kotabe et al., 2005).

2.4.7 Why the Choice of Entry Mode is Important for SMEs

Root (1994) stated the choice of entry mode for MNCs is a vital strategic decision (cited in Decker & Zhao, 2004). According to scholars like Jones (1999), Zacharakis (1997), Burgel and Murray (2000), selection of mode of entry for SMEs has not been focused on enough (cited in Nakos & Brouthers, 2002). A recent study by Lu and Beamish (2001) acknowledge that the mode of entry for SMEs can relate considerably to their performance (cited in Nakos & Brouthers, 2002). Due to often limited financial, as well as managerial resources SMEs can have a smaller variety of modes to choose from. A non-equity mode of entry may be used such as licensing and exporting (Zacharakis, 1997; Erramilli & D'Souza, 1993, cited in Nakos & Brouthers, 2002). According to Kogut and Singh (1988) and Larimo (1994) the lack of complementary assets narrows the small-sized firm's choice of mode and in order to decrease uncertainty they often have to select a co-operative agreement with domestic firms. To minimize risks of failure small-sized firms may choose e.g. joint ventures and strategic alliances. This due to the fact that local firms may have easier to access information channels and assets (cited in Mutinelli & Piscitello, 1998).

Contradicting or altering this point of view is the notion that SMEs can service small niche markets which could lower the risk on investments and/or produce very innovative products and in this case the SMEs may rather choose a equity mode in order to protect propriety technology (Pavitt, Robson & Townsend, 1987; Acs & Audretsch, 1990, cited in Nakos & Brouthers, 2002). On the other hand, other scholars argue that SMEs may be less innovative than larger firms and therefore prefers a non-equity mode in order to gain advanced knowledge (Symeonidis, 1996; Tether, Smith & Thwaites, 1997, cited in Nakos & Brouthers, 2002). SMEs are highly concerned with maximizing the expected profit and hence, use a mode of entry accordingly. The constraints involved, especially for SMEs, are resources, time and information (Kumar & Subramaniam, 1997, cited in Decker & Zhao, 2004). It is hardly possible for the SMEs to evaluate the whole set or alternatives of entry modes at one time. Thus, they can/will use a hierarchical decision making strategy in order to limit themselves to the most promising alternative(s) (Kumar & Subramaniam, 1997, cited in Decker & Zhao, 2004; Pan & Tse, 2000). This decision making strategy involves the equity and non-equity based modes of entry (Pan & Tse, 2000).

2.4.8 Arguments For and Against Entry Modes

According to Pan and Tse (2000) choice of entry mode can be divided into two categories, equity and non-equity. The underlying reasons and obstacles for entry have been triggering factors to a spectrum of studies and also different schools of thought. Johanson and Vahlne (1977), (1990) and Root (1987) have developed a school of thought which bases the choice of entry mode on the fact that a foreign market is highly uncertain due to differences in culture, political factors and market systems which the firm has to adapt to (cited in Pan & Tse, 2000). They argue, due to the high risk involved, for an incremental involvement in the foreign market where choice of mode preferable in the beginning would be exporting due to its low resource commitment (Johanson & Vahlne, 1990; Root, 1987, cited in Pan & Tse, 2000). Exporting is a non-equity alternative and the mode of entry with least capital investment requirement according to Pan and Tse (2000). On the other hand equity modes are preferable for SMEs with high growth potential (Pan & Tse, 2000). This may be true due to the fact that firms are more willing to invest more capital in order to harvest a greater deal of potential return (Agarwal & Ramaswami, 1992, cited in Nakos & Brouthers, 2002). In contrast, SMEs that perceive low growth potential may choose a non-equity mode of entry (Pan & Tse, 2000). This would indicate that over time firms would move from exporting towards wholly owned subsidiaries when the risk has decreased and potential return have increased (Chu & Anderson, 1992 cited in Pan & Tse, 2000).

A second school of thought concentrate on a transaction cost perspective where companies internationalize activities they can perform at a lower cost and subcontract activities externally to other firms with cost advantages. When doing so the firm will face transaction costs such as controlling and inspecting performance as well as establishing a network of suppliers. These studies, on the transaction cost perspective, have been conducted by e.g. Erramilli and Rao (1993); Williamson (1986), cited in Pan & Tse (2001). This school of thought present subcontracting as a choice of entry mode, internalize the activities they are good at and externalize the activities which are not functioning well (cited in Pan & Tse, 2000). Firms facing small benefits from internalizing foreign operations choose to utilize non-equity modes of entry like exporting, strategic alliances, franchising and licensing. While firms that perceive high contractual risks often prefers equity mode of entry; wholly owned subsidiaries and joint ventures (Brouthers, Brouthers & Werner, 1999; Agarwal & Ramaswami, 1992, cited in Nakos & Brouthers, 2002).

A third school of thought concentrates on location-specific factors, the importance of being close to the customers and situated in the right place (Hill, Hwang & Kim, 1990, cited in Pan & Tse, 2000). According to Dunning (1988) location-specific factors were becoming more and more important and affecting firm's international operations (cited in Pan & Tse, 2000). Dunning (1993) further acknowledge in more recent studies that international expansion service international locations and this contributes to gaining more customers and also amplifies the service level of existing customers (cited in Nakos & Brouthers, 2002). The location-specific factors recognize that domestic customers are more likely to buy from the same supplier internationally. It also helps the subsidiaries to standardize their operations, purchase pattern and provide better service. On the customer side it may lower the prices and hopefully improve quality. All this increases the firm's ability to withstand and protect itself from competitors that wants to gain market shares domestically (Nakos & Brouthers, 2002). Equity

modes are preferable, such as wholly owned subsidiaries, in order to compete on a full scale with domestic competition in the foreign market and to be in control of their business activities. SMEs can still gain, even though they may not have the means to use an equity mode of entry, leverage and new customers as well as increased sales with a non-equity alternative e.g. exporting, licensing or franchising (Pan & Tse, 2000).

Studies done by McCarthy, Puffer and Simmonds (1993), cited in Shama (2000) as well as Shama (1995) of companies internationalizing into Eastern Europe showed that a vast majority selected a non-equity mode; exporting or strategic alliances.

2.5 Working model

From the purpose and the theory presented above a working model has been constructed in order to analyze the empirical findings. This means that a summary of the theoretical framework should be compiled and a model should be developed. This model should be derived with the help of the purpose together with the frame of reference in order to get a satisfactory model in which the analysis can be built upon.

The model from which our analysis is built upon will start the internationalization process from the decision of internationalization, i.e. there must be a will to internationalize. The analysis will then focus on market related factors and firm related factors. The market related factors consists of, competition, cultural differences and risk assessment. Firm related factors include, need for control of business activities, internal resources and assets and previous knowledge. Barriers to entry are seen as both market and firm related which means that a separate evaluation of these, in terms of market and firm related factors, is to be done. Market related factors and firm related factors are interrelated and in the authors' opinion, can be seen as two different aspects of the internationalization process. A combined analysis of the various factors should then be made in order to be able to choose the right entry mode, i.e. equity mode or non-equity mode, a decision is now ready to be made and this decision will lead to a market entry. Figure 2 illustrates the authors' working model.

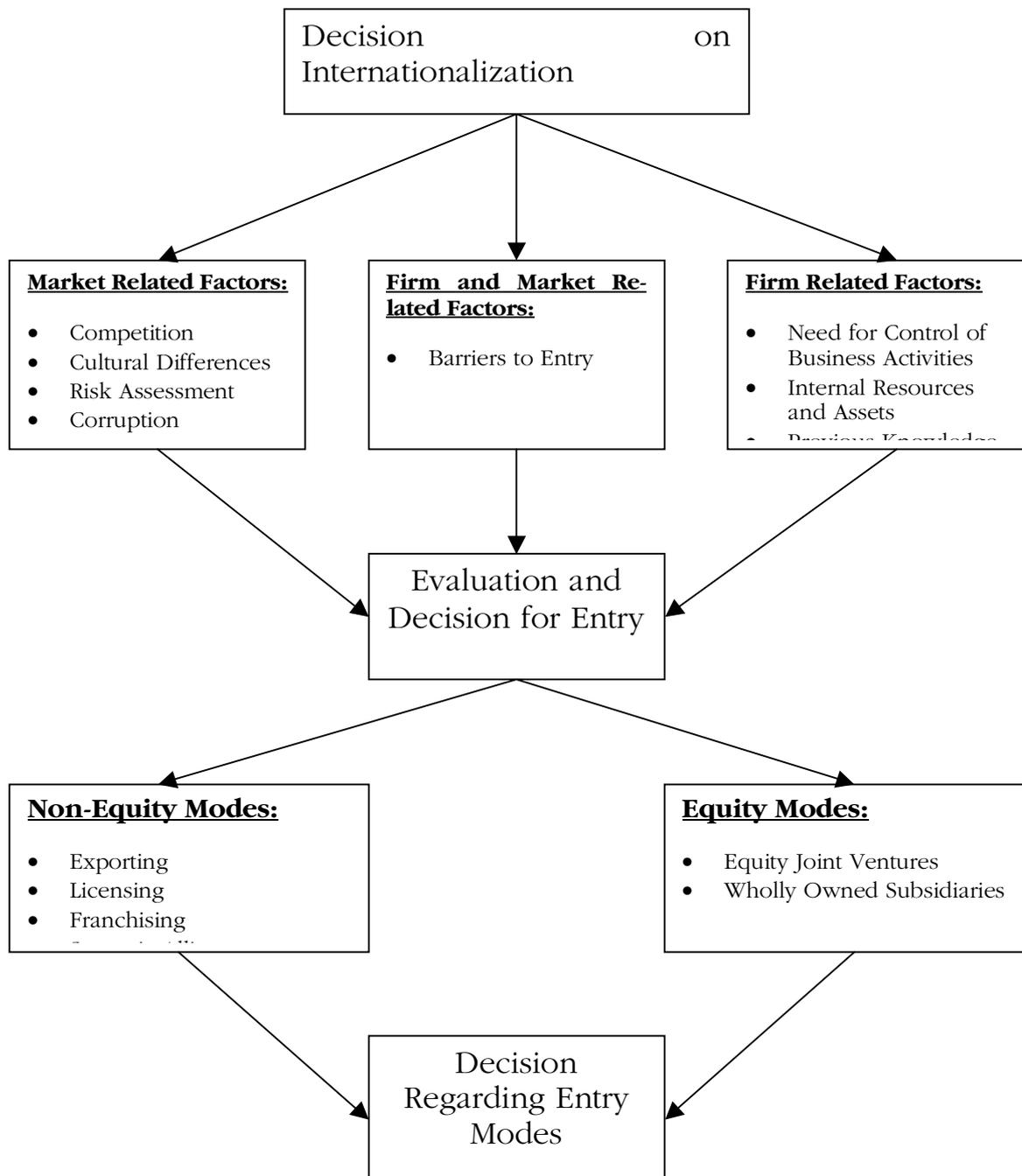


Figure 2 Our Working Model

2.6 Research Questions

Based on the purpose and the theoretical framework, reason has led to that the following questions arose:

- Which factors should ire take into consideration before choosing entry mode strategy for Poland?
- Which entry mode(s) could ire use in a potential entry into Poland?

3 Methodology

This section will present the methodology of the thesis. Here a description of what kind of research method that has been chosen. The bulk of the thesis is based upon telephone interviews, because of the long distance between Sweden and Poland. This chapter also highlights the positive and negative aspects of our chosen method.

3.1 Qualitative and Quantitative Research Methods

In this section the differences between a qualitative and a quantitative research method will be explained to validate the choice of method for this thesis.

3.1.1 Qualitative Research Method

The thesis requires a qualitative approach because of the nature of the purpose. Interviews give in-depth views on the problem and are considered to be the best alternative. The purpose of the thesis makes a quantitative approach less suitable and such an approach will not give satisfactory results. An extensive survey of some sort would not be possible to conduct because of logistic obstacles, such as time, money and distance. In addition, there are not that many small Swedish furniture businesses operating in Poland to validate a survey. The statistical data which would be collected would not be credible as the sample size would be too small. The thesis is a case study and the angle of the case study is not suitable for a quantitative approach; leaving qualitative as the best option. The nature of the problem and purpose makes a qualitative approach much more suitable and the approach will broaden the authors understanding more than a quantitative approach would do. These notions are substantiated by Zikmund (2000) who describes that qualitative research is one of two key approaches to research methodology in social science. What qualitative research emphasizes is an in-depth understanding of human behavior and also the reasons that preside over human behavior. Qualitative research could include an investigation about why and how of decision-making, thus the need is greater for smaller but focused samples instead of random and large samples. A qualitative research method tries to collect information with an in-depth view and not from a wide perspective of secondary data. The method aims at giving detailed and a complete report. Richness and precision are keywords that a qualitative research should strive for (Zikmund, 2000).

Another perspective that the researcher D.T Cambell, presents is, 'all research ultimately has a qualitative grounding' (cited in Miles & Huberman 1994, p.40). The discussion about qualitative and quantitative is 'essentially unproductive' (Miles & Huberman. 1994, p.40). What often researchers agree upon is that quantitative and qualitative research methods need each other in research. Typically qualitative data involves words and quantitative numbers. Another big difference between the two research methods is that quantitative research methods are deductive and qualitative are inductive. Deductive research is used in hypothesis testing, and hypotheses that were not originally formulated actually do get generated with the process of induction. Both induction and deduction are common tools when using hypothesis testing and hypothesis generation (Sekaran, 2003). Also, with a qualitative approach, it is not necessary to have a hypothesis to start the

research, but on the other hand all quantitative research needs a hypothesis before the research can start (Sekaran, 2003).

3.2 Data Collection

This part will explain the method used for data collection for this thesis. The section will further highlight the chosen method which will be used to collect the data. The data will later be used to analyze the problem.

3.2.1 Primary and Secondary data

Data that already is collected and pulled together for a project by someone else is called secondary data. The beneficial aspects of secondary data are that the information can be assembled much quicker and at a lower cost than the primary data, due to the fact that the data already exists. The value it brings to the researcher is that they do not have to reinvent new models and theories (Saunders, Lewis & Thornhill, 2003). Primary data is new data which has to be collected that are connected with the purpose of the researchers' project (Welman, Kruger & Mitchell, 2005). The main objective of the research is to find answers to the specified problem and purpose. The primary data collection therefore can be gathered by either communication or (and) observation. The communication part includes interviews. The observation method includes a process of screening different market conditions in the specific theme (Wrenn, Stevens & Loudon, 2002). The primary data, in this thesis, consists of six interviews on firm related factors and market related factors for the internationalization process. These findings are validated by the theories presented above. The secondary data is crucial, in order to make use of models and concepts available. As the secondary data is collected the base for the primary data collection emerged. The secondary data makes it easier to understand and makes sure the primary data is correct and valid for the purpose of the thesis.

3.2.2 Validity, Reliability and Credibility

To fulfill the research questions the authors need to get validity to the questions asked. Validity is used to compare if the problem stated are in accordance to what is wanted to be measured. Validity decreases if problem and research questions do not correlate. A question that the authors should be asking themselves is; does the expected result measure the actual observation (Zikmund, 2000)? It does not matter if the approach of the research or the study is qualitative or quantitative, the problems with validity is the same. Validity refers to what is meant to be measured and what is being measured as well as the connection between theory and empirical findings. As the theoretical framework is developed, research questions arise which validate the work at hand. In the thesis, the secondary data is validated with the empirical findings and substantiates the empirical findings.

Reliability can be seen as an indicator. Reliability is the level to which a test, experiment, or any measuring procedure yields the same result on repeated trials. Reliability can be defined as the degree where measures are totally out of error that will show that the result is reliable and coherent (Zikmund, 2000). What reliability refers to is if the related findings have credibility or not. A vital part is to find out if the findings are reliable (Welman et al., 2005). In order to increase reliability, the number of interviews must be increased so that the answers can be

compared and analyzed in an orderly fashion. The interviews in this thesis numbered to six interviews which the authors deem sufficient enough to increase the reliability. Credibility is achieved by interviewing people who are well traversed in the Polish market and people within ire who know the company well and have insights in ire's internationalization processes.

3.2.3 Interviews

Interviews have been chosen as our method of collecting data. The purpose is to obtain credible and in depth information in the field of interest. There are several forms of interviewing methods. It is important in an early stage to decide if it will be an unstructured or a structured interview. Different techniques to conduct the interview are face-to-face interviews or by telephone and/or using online services (Sekaran, 2003). The point of using a semi-structured interview is to construct a list of questions and topics. The questions do not necessarily have to be the same for each of the interviews. The benefit is the possibility to construct interviews that are suited in the context of the specific interviewee. Questions that might arise during the interview session shall be answered while they come up, therefore the order of the questions sometimes will be rearranged during the session (Saunders, 2003).

The authors aim to generate a reliable base in terms of the interview material. The interviews were decided to complement and investigate the theoretical part and pinpoint differences and similarities.

The interviews are divided into two groups, market related and firm related interviews, as this follows our working model (figure 2). The interviews are constructed differently due to the fact that firm and market related questions differ in some aspects. Further, the authors will describe the interviewees and what contributions they make to this thesis. Telephone interviews have been conducted because of the long distance to Poland and for the convenience of the interviewees.

As a starting point the market related interviews were conducted with three different persons that are closely connected to the Polish market. The aim is to get a clear standpoint what differences and similarities that might occur in terms of experiences. Furthermore, the interviewees have all permitted the authors to make use of their names, views and thoughts in this thesis.

The most complicated part when arranging of interviews is to find reliable interviewees who match the purpose. The problem is that there are a limited amount of small furniture companies that sell their furniture in the Polish market and therefore complicated to find small furniture companies operating in Poland. Therefore, interviews have been made with people who are active within the furniture business but produce furniture in Poland instead. These people contribute to the thesis by giving the authors insights on the Polish market and how it works.

Leif Bäcklin is the founder of the Polish furniture company Boss Mebel. He started the company in 1988 and it has been situated in Stettin (Szczecin), Poland ever since. Stettin has a geographical advantage due to that it is situated only 100 kilometers from Berlin, Germany. Boss Mebel produces mainly leather sofas, 90 % of the production, and its production is mainly based on exports (95 %),

where Sweden is the main importer. The company had around 70 employees but the workforce now consists of 25 employees. Boss Mebel does not only sell furniture for home use but also public areas have been furnished; a famous restaurant in Stockholm (Café Opera) has ordered furniture from Boss Mebel (L. Bäcklin, personal communication, 2006-11-07).

Mr. Bäcklin's contribution to this thesis is that his company is similar to ire's size and his experience in the Polish market. His experience is high, due to the fact that he lives and operates in Poland and has done so for more than 20 years. Aspects that cannot be answered of a new established company are answered by Bäcklin and give a view of Poland as a business country in the sense of a small company.

As the next step in the interview phase Per Nanhed was contacted. Mr. Nanhed contributed with knowledge and experience. Per Nanhed and his partner established a Polish furniture business ten years ago. The business, named MB is located in the northern part in Poland. The start-up phase was facilitated with low resources and few employees. Their main production line consists of sofas and armchairs, mostly for home interiors. MB's market covers most of Europe (35% Scandinavia, 35% Benelux (Belgium, Netherlands and Luxemburg) and 30% in the UK and Germany). Now MB has an annual turnover of around 300 million SEK and has about 800 employees (P. Nanhed, personal communication, 2006-12-07). This interview was conducted in order to get market related information on the conditions in Poland.

Mio has 68 stores in Sweden, 16 of these are owned by Mio, while the rest are operating as franchises. Mio is the second largest furniture firm and it is only IKEA that is bigger in the Swedish market. Mio has around 1000 employees with head offices in Stockholm and Tibro. Mio's annual turnover exceeds 2.1 billion SEK and Mio is now experiencing an increase in both sales and annual turnover. Jonny Kull worked as a production director in Mio for 17 years. Today his job consists of working as a sourcing researcher, meaning he is the production director's right hand man. His daily work consists of finding suppliers which have lower prices with better qualities (J. Kull, personal communication, 2006-12-11). Due to the fact that Mr. Kull has close ties to the Polish market, with his 18 years of experience, we found the interview reliable in the sense of experience and knowledge about prevailing conditions.

The next procedure is the firm related factor and employees at ire have been interviewed. The interviews contain a different set of questions than the previous interviews in order to ask appropriate questions linked to the firm related factors. The aim of these questions is to get a view of how things inside the company are perceived from different persons' perspective. The authors started by interviewing Carl-Henrik Spak who is co-owner and designer at ire. Carl-Henrik Spak contributes with knowledge about ire, its markets and design aspects. Further, the authors investigated ire internally and its entrants in different markets. Ola Söderpalm, the CEO and co-owner contribute to more in-depth answers about ire's strategic choices and business environment. The last interview that the firm related part contributes with is Ramona Nilsson who works as a market coordinator and contributed to a marketing perspective to the questions.

3.3 Case Study

The thesis consists of a case study of ire and its possibilities to enter new markets (Poland), and with what type of entry mode which is preferable to ire. The authors deem the case study approach the most suitable for this type of problem and purpose. With the nature of the problem, a qualitative, case study approach has emerged and the theory behind substantiates that this is the proper approach to take for the thesis.

Robson (2002, p 178) defines a case study as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’ (Cited in Saunders et al., 2003).

To avoid confusion about the meaning of a case study, further explanations will be presented. A case study’s purpose is to find the complexity of a case. A case study is to be used when the researchers have special interests they want to investigate. The important reason for case studies is the detail of interaction with its context. It is the study of a particular and complexity of a single case, and will later on in the process come to the understanding of its activity within important elements of the case (Stake, 1995). The primary advantage with the case study approach is that an entire organization can be scrutinized thoroughly with meticulous attention to detail (Zikmund, 2000).

It is important to bear in mind that the primary goal is not to understand other cases, and case study research is not a sampling research. An important criterion is to maximize what can be learned (Stake, 1995). In accordance with the purpose of the thesis the case study approach should lead us to understandings and assertions. Case studies are described as exploratory research that involves concentrated search of one or few precedent problem situations that are viewed as comparable to the researcher’s present problem. A case study necessitates the researchers to carry out an in-depth examination of the component of interest. This specific element could be a salesperson, customer, or market area. This way of collecting data is best used when researchers want to attain significant detail about the specific matter or even when they do not know exactly what they are looking for or are trying to find out vital ideas and pointers about the explicit research problem. The accomplishment of using case study methods is often the capability of the researcher’s widespread wisdom and imagination throughout the data gathering process (Hair, Bush & Ortinau, 2006).

Preferable objectives of a case study method are (Hair et al. 2006):

1. Relevant variables identification.
2. An indication of the nature of the different connection among the variables.
3. Notice the problem and the opportunity in the new result.

4 Empirical Study

Below, the primary data will be presented accordingly, first a short introduction to ire will be presented, which is followed by a presentation of the conducted interviews. This part will be the base of the analysis and together with the working model, be analyzed in the following section

4.1 ire Möbel AB

ire Möbel AB is a small family owned furniture business, established in 1939. Today ire has 27 employees and an annual turnover of 40 million SEK. This contributes to a high annual turnover per employee. Ire has as a goal to reach 70 million SEK in annual turnover in 2009. This is considered a high goal to reach, but according to ire all trends indicate increased sales. ire has developed from being an all production furniture industry, towards a more composition and assembly line industry. Major changes have been done throughout the years and the latter part of the 1990s ire was part of a large investment company named Midway. As ire was a very small part of Midway; at that time ire's annual turnover and revenue began to decrease (O. Söderpalm, personal communication, 2006-09-25).

In 2001, Ola Söderpalm and Carl-Henrik Spak bought ire from Midway and after the takeover ire's new management started a process to increase ire's image and brand reputation. In the furniture business of today, strong brand image and positioning is needed. There were two options available for ire, in terms of positioning, high-end, or a low cost alternative. The firms positioned in the middle, can find it hard to know who their customers are, thus ire's furniture is seen as high-end products; high standard for those who prefer style to fleeting fashion. ire sells its products through retailers in 225 locations in the countries; Belgium, Denmark, Finland, Holland, Ireland, Italy, Luxemburg, Norway, Switzerland, Sweden, Germany and Austria. Ire's biggest market is Sweden with 52% of its sales. ire's culture norm is; rather one good dealer than 20 intermediate dealers and they are therefore actively not trying to reach new dealership partners in countries where it is active. ire hand-picks its agents, who are interior design specialists and combines good service and professionalism (O. Söderpalm, personal communication, 2006-09-25).

The typical ire customer is a person between 45-60 years old, living in close connection to big cities, with interests like food, wine and traveling. To validate to ire's customers that its products are a high-end alternative, ire spends considerable amount of money on advertising, in relation to its size and annual turnover. They also try to combine their sofas and armchairs with lifestyle-connected situations that increase the feeling for its products (O. Söderpalm, personal communication, 2006-09-25).

ire has some competitors and its main competitor is the Danish firm, Eilersen. But during the second millennia numerous Swedish furniture businesses faced bankruptcy, some businesses were bought and some mergers were made that resulted in bigger but fewer companies. The mergers opened the furniture market and resulted in fewer competing firm (O. Söderpalm, personal communication, 2006-09-25).

ire understands that the buying power in Poland is increasing but has never been seriously interested in entering the market. An alternative could be to send the production to Poland but bi-effects, such as degeneration of the brand name, could probably arise if doing so. If a potential release in Poland would be reality, it is important to maintain the culture and philosophy of the firm. According to Ola Söderpalm, advantages of entering the Polish market, for ire, is definitely that its furniture are Swedish made, of high quality and have a high status (O. Söderpalm, personal communication, 2006-09-25).

ire considers corruption as a risk in the Polish market. If entering the Polish market, it could be a big problem due to ire's guidelines of credibility. Especially when dealing with work procedures and employment security. ire's knowledge is relatively low on Poland and its market structure, especially for a potential launch in Poland (O. Söderpalm, personal communication, 2006-09-25).

ire has an organic culture and the general view of the Polish market is that it is more hierarchical than Sweden. Ola Söderpalm points at the importance to have a business culture which fit the specific company, not just for the company itself, but also that the customers get a feeling of the business culture and its values (O. Söderpalm, personal communication, 2006-09-25).

4.2 Interviews

This section will present the findings of the interviews in which the analysis is partly based upon. Nothing is left out of the interviews in order to present the interview as objectively as possible. Together with the working model these findings will be analyzed in the analysis section.

4.2.1 Carl-Henrik Spak Designer at ire Möbel AB

Carl-Henrik Spak, begins to discuss what previous knowledge ire had when they started the internationalization process. When the takeover by Carl-Henrik Spak and Ola Söderpalm occurred, traditions and previous market knowledge was inherited. The employees at ire had a collected knowledge base within the company both before and after the takeover (C-H. Spak, personal communication, 2006-12-11).

Further on, Carl-Henrik Spak discusses the importance of the control factor when it comes to market and labor related factors in the business. The general way of controlling ire's markets are through agents, where ire sets goals and demands that must be fulfilled and accomplished. The goals and demands are monthly translated into statistical databases and are analyzed in the sense of control factors, district by district. Carl-Henrik Spak further explains the different parts of the control aspects. A vital part is the control factor of the furniture's quality which is controlled at the assembly line at the factory in Tibro. Quality, according to Carl-Henrik Spak, is not just the sofas, logistics aspects are also considered. Service, logistics and the product itself can be seen as a package that must be fully satisfactory. Seen in a wide overall perspective, the need for control is very important, no matter the size of the firm (C-H. Spak, personal communication, 2006-12-11).

The internationalization process for ire is built upon different experiences. The CEO, Ola Söderpalm contributes with previous experience and knowledge. Be-

fore the takeover of ire, Söderpalm worked for a company named Ekornes which had annual turnover around 1 Billion SEK. During this period Ekornes had major success in both Germany and USA. Through his experience ire has had major advantages when it comes to knowledge about exporting (C-H. Spak, personal communication, 2006-12-11).

Moreover, Carl-Henrik Spak says that it is impossible to avoid smaller customer losses when doing business abroad. The German market has been a complex market according to Carl-Henrik Spak. The complexity originates from ire's cooperation with a German cupboard company named Priel. Ire's intention was to create "shop in shop" retailers in Germany. Ire was to sell Priel's products in the Swedish market and Priel should sell ire's furniture's in the German market. This ended in failure because of logistical problems. Carl-Henrik Spak also points out the limitations a small company may experience in a huge market when it comes to resources (C-H. Spak, personal communication, 2006-12-11).

ire is a small company and therefore has limited resources, and this can be hindering when entering a market. According to Carl-Henrik Spak the major goal for ire is to be extremely strong in the primary market that includes Sweden and Norway. The increase in sales in Sweden for the year 2006 was 39.9 % and the overall increase was 20 % for all of ire's exporting countries, though Germany has been somewhat of a disappointment regarding expectations, but that is not related to lack of resources, rather failures in implementing the products in a good way. On the other hand it is important to take this failure as critique and learn from it in order to be successful in the future. The strategic change ire are going through at the moment are to decrease and systematically exclude all types of production. The ambition is to have just an assembly line and be able to secure the quality of the furniture (C-H. Spak, personal communication, 2006-12-11).

Ire is experiencing a stronger brand image and reputation, especially in the Swedish and Norwegian market. During the last five to ten years the furniture business has experienced a drastic change due to the fact that many furniture companies have been sold to larger companies or disappeared through bankruptcy. Some of ire's major competitors have disappeared and therefore ire has gained advantages because of the lower number of competitors. The Baltic companies can be seen as competitors but on the other hand their quality cannot be compared to ire's. The concept of quality and aspects that characterizes good furniture is totally different between different cultures but also within specific countries. Overall, ire has good knowledge and control over their competitors (C-H. Spak, personal communication, 2006-12-11).

Carl-Henrik Spak explains that cultural difference can be seen as an opportunity when it comes to design. Seen in a design perspective, Swedish design is well known and are in most European countries seen as a very positive attribute. Due to the fact that ire is operating at markets that are well known to ire, the cultural difference has been a part of its daily situation and are no longer seen as a problem rather opportunity (C-H. Spak, personal communication, 2006-12-11).

The exchange risk is always good to take in consideration. In ire's case the exchange situation has been positive due to the fact that ire has, in general, made currency profits. Ire introduced specialized accounts, in the specific market, in order to minimize the currency losses which may occur. A German firm pays to a

German bank and so on. The reason for that is to make it less complicated and to avoid currency fluctuations and exchange risks (C-H. Spak, personal communication, 2006-12-11).

Carl-Henrik Spak states that ire has established moral and ethic regulations that are followed constantly. Ire has always profiled itself as an ethic company. If corruption must be a factor in a market, the price is too high according to Carl-Henrik Spak. (C-H. Spak, personal communication, 2006-12-11).

UK is a complicated market to enter according to Carl-Henrik Spak. A few years ago an entry strategy was introduced to enter the UK. The market is complex in the sense that there exists a conservative view of business making. The UK market is still an interesting market to enter but more knowledge has to be collected for a successful entry (C-H. Spak, personal communication, 2006-12-11).

Suppliers and distribution channels has never been a problem because ire has control over them. An advantage is that suppliers and distribution channels are closely related to Sweden (C-H. Spak, personal communication, 2006-12-11).

A clear statement that ire has is to never sell their products through big furniture stores. They want to keep their exclusivity and sell its furniture exclusively to smaller stores. Ire's primary goal is not to grow much more in size rather to earn more money and be even more efficient and profitable on their current markets, relative to their size (C-H. Spak, personal communication, 2006-12-11).

When it comes to retaliation from competitors some problems have been realized. Some competitors sometimes imitate and take advantages of the success of ire when it comes to marketing. But ire is confident in what it is doing and the problem decreases drastically (C-H. Spak, personal communication, 2006-12-11).

Carl-Henrik Spak explains that ire sells its products through retailers. First, at a limited degree and then more trust and commitment is placed with the retailers, as time passes. Different entry modes have been used. An example is the Dutch market where just one agent is operating. To compare this to the German market that has five export executives. The Dutch market is more profitable compared to the German market. If the German market continues to decrease until May 2007, Germany will probably be abandoned as an export market (C-H. Spak, personal communication, 2006-12-11).

4.2.2 Ramona Nilsson Marketing Coordinator at ire Möbel AB

Before the takeover the previous owner of ire, had developed an international market which still is a part of ire's market. During the takeover ire started to increase different parts of those export markets. Ire's experience is mostly based on learning by doing activities. Many within the organization have long experience in the furniture business. More money generates more markets, but at the moment ire's major goal is to increase market shares in Sweden and Norway (R. Nilsson, personal communication, 2006-12-11).

The need for control is of importance according to Ramona Nilsson, especially when ire's brand image continues to grow. Ire sees it as a challenge to hold the same profile in the export markets as in the Swedish and Norwegian markets. The control is of great importance when it comes to what the agents do and the fulfillment of their work (R. Nilsson, personal communication, 2006-12-11).

Furthermore Ramona Nilsson describes the complexity in marketing and the different costs that appear concerning export markets. It is more complex and more expensive to conduct a marketing campaign abroad than in Sweden. All these aspects are related to limited resources within ire. Another aspect within this area is that sometimes it can be difficult to respond to competitors in the manner that might be the most preferable. On the other hand ire's knowledge about their competitors is well developed (R. Nilsson, personal communication, 2006-12-11).

Legislation became a problem when ire entered the UK market in terms of, e.g. differences in fire safety regulations in material for furniture. The cost of changing material and treatment of it did not validate an entry even if large commitments were made. But ire is now on the UK market but on a limited scale. The most complex market of them all is the German market. This depends on the hard competition. The strategic alliance with the German Priel did not go as well as ire had hoped (R. Nilsson, personal communication, 2006-12-11).

When it comes to different entry modes ire uses direct export in all markets without any major changes so far. According to Ramona Nilsson, exporting is a good way to reach markets, but on the other hand, other strategies have not fully been explored except a strategic alliance in Germany. With increased resources, ire might use franchising and wholly owned subsidiaries (R. Nilsson, personal communication, 2006-12-11).

According to Ramona Nilsson no academic theories had, and still has not, been used within ire's organization. ire does not work that way because of major developments at the Swedish and Norwegian market, where ire's experience is substantial. Should the strategies change and becomes more offensive, academic theory and models may very well be implemented (R. Nilsson, personal communication, 2006-12-11).

4.2.3 Ola Söderpalm CEO at ire Möbel AB

Regarding the internationalization process, and what kind of previous knowledge ire had regarding the intended market, Ola Söderpalm describes that knowledge and experience has been important factors. Ire's export director has great knowledge of ire's markets. Ola Söderpalm himself also has experience when it comes to different markets due to the fact that he has worked in various large organizations since 1973 and worked with different foreign markets. When introducing ire to new markets it is very important to gain as much information as possible so the customers will feel that the value delivered by ire will be more than satisfactory (O. Söderpalm, personal communication, 2006-12-11).

Ire has chosen to work with agents and the control occurs through the export director in the different markets. His work is to control existing and potential markets. It is of great importance that ire's philosophy is communicated throughout the organization and not only through the control on the financial side. The control is further exercised by collecting information which is analyzed and discussed (O. Söderpalm, personal communication, 2006-12-11).

Ire has obtained and still obtains experience about the internationalization process, by learning-by-doing; ire also collects secondary data concerning competitors and the markets. Ola Söderpalm further explains that an indicator could be to compare themselves with similar competitors in the specific market investigated.

If ire is successful in a market it may be a triggering factor to expand to closely related markets. An example of this process could be the expansion from the German market into the Dutch market with similar ways of doing business. Ola Söderpalm states that it is very important to research the specific market. An example could be if ire would gain more by investing 500.000 SEK in Sweden or 500 000 SEK in e.g. Poland (O. Söderpalm, personal communication, 2006-12-11).

Moreover, Ola explains that ire's competitors are not seen as a barrier to entry for ire. Sometimes ire discovers disadvantages that their competitors have and in these situations, when for example a competitor have trouble with a specific element within their product/production, ire finds it a triggering factor to improve that specific part in order to transform it into a competitive advantage. A typical example is competing firms using Italian design. Firms that use Italian design in their products often have problems with their logistics, even though their design is popular. Here, it is possible for ire to gain advantages because of their extensive knowledge about logistics (O. Söderpalm, personal communication, 2006-12-11).

Ire has good knowledge about their competitors and competitor analysis is always made before a possible entry. ire actively searches for information about its competitors and benchmarking is sometimes used. Through analyzing balance sheet and business ratios, ire can compare themselves to their competitors in terms of differences in sales in different markets (O. Söderpalm, personal communication, 2006-12-11).

Cultural differences are problematic and the biggest obstacle for ire in terms of gaining knowledge, according to Ola Söderpalm. The cultural differences are hard to find without being in that specific market (O. Söderpalm, personal communication, 2006-12-11).

Ola Söderpalm continues answering if ire assesses the risk of the foreign market when it comes to political stability, economical environment and exchange risk. The answer is that the exchange rate is an important factor. The exchange risk is important to calculate when setting prices. In ire's case the calculated rate is lower compared to the real Euro ratio, this due to that ire do not wants to overestimate its finances. Political instability is no problem for ire because of its long-term knowledge about their markets (O. Söderpalm, personal communication, 2006-12-11).

Corruption is sometimes a problem and a few years ago ire delivered furniture's to a hotel project in Poland. The truck, which was supposed to deliver the products, suddenly disappeared. Luckily the furniture was insured and ire received the amount of money they lost. But a month later the Polish Police contacted ire and suggested that they could buy back the furniture. This is an example of the difficulties that may occur, and sometimes ire has experienced sluggish customs officials and this was due to that they were waiting for bribes, but ire stood its ground and never caved into corruption (O. Söderpalm, personal communication, 2006-12-11).

When entering a new market, the high capital costs of entry could have a deterrent effect. Japan has been discussed as a possible new market but barriers to entry have been that ire has to build up show rooms and present their furniture at various trade fairs which would involve big capital investments. This may be dif-

difficult to accomplish due to ire's size (O. Söderpalm, personal communication, 2006-12-11).

Suppliers have in some markets been a source of problems when entering a new market for ire. In UK, for example, regulations regarding non-flammable materials within the sofas presented problems for ire in terms of new textiles needed and therefore also high costs. The legislations in the UK and sometimes in France occasionally have been difficult, this due to that they have market specific regulations regarding textiles which can be costly to fulfill (O. Söderpalm, personal communication, 2006-12-11).

Ola Söderpalm further explains that ire's only main entering strategy is through agents with a touch of joint ventures. Ire has yet only had this strategy and used it on their markets. Ire is satisfied with its current strategy, but if resources and capital were unlimited wholly owned subsidiaries would be the best alternative (O. Söderpalm, personal communication, 2006-12-11).

Söderpalm explains that ire sometimes uses academic theory, this through investigations of the different markets in Europe, subsidized by the EU. Besides this, academic literature cannot be seen as help for ire in their internationalization process (O. Söderpalm, personal communication, 2006-12-11).

Ola Söderpalm argues that it is important for ire to expand. When the expansion in Sweden has reached its peak and it is no longer possible to obtain more market shares, export markets will help ire to grow (O. Söderpalm, personal communication, 2006-12-11).

4.2.4 Leif Bäcklin CEO at Boss Mebel

Leif Bäcklin explains that the level of technology in Poland has increased the last 5-6 years due to that the Germans have invested substantially. Still the countryside has not been able to keep up with improvements in technology, the cities have experienced. He also explains that before the fall of the Soviet Union gaps were even greater than they are now. There still exist difficulties with things such as electricity, telephone and internet. Leif Bäcklin explains that it can take up to two months before the telephone is hooked up to the system. Corruption is still a big problem in Poland and he has yet to see a downward trend. Borrowing money from banks is virtually impossible for a foreigner due to bureaucratic inertia according to Leif Bäcklin's experiences. Value added tax returns can take up to 8 months to receive (L. Bäcklin, personal communication, 2006-11-07).

Language barriers still exist but are improving, in the 1980s English was virtually non-existent and in those days, a businessman had to learn Polish in order to do business. Now the situation is different and the Polish people are learning English. A businessman can be understood by talking English, albeit Polish people do not have equivalent language skills compared to many other EU member countries. The Polish culture, both social and businesswise, is different from the Swedish culture. Leif Bäcklin says that the Polish people are used to haggle about prices and the prices are set high because it is assumed the buyer will haggle. Also the seller usually asks what the buyer is prepared to pay before setting the price, which is somewhat different from the Swedish culture (L. Bäcklin, personal communication, 2006-11-07).

Qualified labor in Poland is very scarce since the wages are low. Highly educated workers from Poland tend to leave the country and work elsewhere and according to Leif Bäcklin, they end up in e.g. Scandinavia and the UK. In Poland, a seamstress earns around 5000 SEK per month which can be seen as very low and an ordinary cashier receives around 1200 SEK which is, compared to Sweden, extremely low. According to Leif Bäcklin there seems to be no trend in increasing wages and qualified workers are very hard to come by (L. Bäcklin, personal communication, 2006-11-07).

According to Leif Bäcklin, there prevails an unstable political environment in Poland. It seems the people of Poland have lost their faith in the government and the trend is that they no longer feel that voting will affect the outcome. Corruption, as mentioned before, is very high in Poland and Leif Bäcklin says the politics of Poland is “frightening” (L. Bäcklin, personal communication, 2006-11-07).

The biggest problem, in reference to finance, as Leif Bäcklin sees it, is the up to 8 month wait before receiving tax returns. He also sees big inequalities between the rich and the poor where many criminals have become rich. These people own huge villas and big cars and like to show off. It is evident that the upper class is not philanthropic in nature because there is no reinvestment into the economy. The countryside is a clear example of this, as the modernization has come to a halt in these regions (L. Bäcklin, personal communication, 2006-11-07).

When Leif Bäcklin entered Poland he did so with the help of Gevalia coffee. He says this playfully, but corruption was something he saw in the day-to-day work. In the late 80s the tendency was to be generous when it came to gifts and favors (L. Bäcklin, personal communication, 2006-11-07).

He also mentions that it is extremely difficult for a small company to start a production line in Poland and continues that he would not start producing in Poland if he was to start now. He would instead buy an existing line and continue from there. In contrast there are many companies who invest into Poland and it is mainly capital rich firms who invest. A good way to enter the Polish market is to enter with equity joint venture, because of three years of tax liberation. This is extremely good and can be less complicated in terms of capital requirements etc (L. Bäcklin, personal communication, 2006-11-07).

It can be hard to introduce a new brand in Poland because they have little sense of what is seen as fashionable in the rest of the world. Leif Bäcklin tried to sell Hästens, which is a high-end bed brand, but could not sell a single bed. Although, firms which have large capital means may be able to market the products hard and in that way succeed. To refer back to the newly rich, it seems that furniture is becoming a status of wealth in Poland and there may be a market for high-end furniture (L. Bäcklin, personal communication, 2006-11-07).

In contrast to what has been previously stated, the Polish people are very fond of Scandinavian design and therefore IKEA has become somewhat of a trendsetter in Poland. Leif Bäcklin continues to explain that because IKEA has been able to establish itself in the Polish market and the Poles have become aware of the brand, IKEA has become very profitable in Poland. Moreover, because of the low wage levels, the Polish market is littered with low-quality and low-price furniture (L. Bäcklin, personal communication, 2006-11-07).

As a concluding remark Leif Bäcklin recommends not to start producing in Poland but to use some type of exporting in order to be profitable in Poland (L. Bäcklin, personal communication, 2006-11-07).

4.2.5 Per Nanhed Co-Owner at MB

According to Per Nanhed, the Polish furniture business is technologically well developed and this is because furniture businesses which do not make advancements in their technological level do not have the ability to survive. But there are still aspects in furniture production which technology cannot do with perfection and the human factor still is an important part of the craftsmanship. He also states that there are no major differences between the technological level in Sweden and Poland when it comes to furniture technologies. The views of Poland as a poorly developed industry environment are no longer true. Per Nanhed continues to point out that in contrast with highly developed industries, there are huge differences in the infrastructure comparing the countryside and the big cities. Warsaw is a good example of an extremely modern city where the cost of living and overall costs are high. Most of the big cities in Poland looks modern and offers a great range of education (P. Nanhed, personal communication, 2006-12-07).

A few years back the language was a barrier when conducting business in Poland for a foreigner and the languages used back then were Polish, German and Russian. Nowadays the barriers have become somewhat neutralized and English has been accepted as a working language (P. Nanhed, personal communication, 2006-12-07).

While discussing the importance of the geographical position, Per Nanhed states that this really depends on what a company is aimed at doing. The complexity of the question cannot give an exact answer but in most cases Warsaw is well known for its finance businesses. Tourism takes place in the northern part of Poland. Poznan (situated in west-central Poland) is known as the furniture capital (P. Nanhed, personal communication, 2006-12-07).

The labor situation, in Poland, worries Per Nanhed and he also states that this problem is the most challenging in today's Poland. Poland is now experiencing the largest emigration of qualified labor and people since World War II. The Polish government has an official number of around 800.000 people who emigrated during the last two years but on the other hand the unofficial number is 2.000.000. The triggering factor for leaving Poland is the low wages and these people seek higher salaries abroad especially in the UK. Therefore, Poland has problems with emigration and there is an ongoing discussion regarding a recruiting strategy in England in order to attract workforce back again. Even in the case of MB, Per Nanhed has trouble with employees which may not come to work the next day, because they have decided to leave for Germany or England to work (P. Nanhed, personal communication, 2006-12-07).

What Per Nanhed suggest as a solution to decrease the amount of people emigrating, is to increase wages for the employees. The only reason that emigration exist is to earn more money. If the problem will not be solved, Poland faces reduction of specialized labor that could disappear completely and this will lead to enormous problem for the Polish economy (P. Nanhed, personal communication, 2006-12-07).

There is no increased investment level specific in the furniture business in Poland at the moment but there are still establishments. Per Nanhed states that this is more common in close related countries such as Germany, Denmark and Sweden, where the furniture industry already is well-developed. In most cases investors do not build up their business from scratch, instead they buy an already functioning industry and continue to develop it. According to Per Nanhed, the political stability is a complex situation in Poland. As Poland is a member of the European Union they have a democratic constitution. Many Polish people may have standpoints about the regime and this has started an opposition. One thing is nevertheless true: it is much better in Poland today than before the introduction into the European Union (P. Nanhed, personal communication, 2006-12-07).

Like the political stability, the Polish finances are stable as well. The major problem is that Poland is not member of EMU. Therefore currency fluctuation might be a big problem. On the other hand, there is nothing that point at a devaluation that should affect the market. As the Swedish treasury, the Polish always need money. The tax pressure is relatively large in an industry point of view but on the other hand most of the industries still generate money (P. Nanhed, personal communication, 2006-12-07).

As Per Nanhed experience it, there are no major difficulties to start a business in Poland and the bureaucracy is mostly the same as in Sweden. Twenty years ago the situation was much more complicated. Foreign people had problem because they could not own a business on their own (P. Nanhed, personal communication, 2006-12-07).

As most new established companies experience, the level of bureaucracy is high. This depends on that Poland has a high control factor. Some officials live for that philosophy and can be seen as a remnant from the communistic epoch. Bribes do exist sometimes in some industries and even at higher levels of governmental institutions. If a decision shall be approved without hinder, a bribe might be the solution. Per Nanhed does not like that and bribes are not his way of doing business (P. Nanhed, personal communication, 2006-12-07).

For those that have not visited Poland it can be hard to imagine the big contrasts that Poland has, especially between the rich and the poor. Some people became rich in a way of good entrepreneurship and good way of doing business but on the other hand some might have used the advantages of Poland as a system of change, and therefore became extremely rich very fast. Per Nanhed further explains the big importance of the middle-class and upper middle-class. Those people are often company owners and create job situations and employment. But the countryside has not been developed yet, for example the farming industry. Poland has seen improvements year after year even in the countryside. According to Per Nanhed, MB has many middle-class employees. Examples of those are exporting directors and supervisors which are included in the middle management. Those people typically live in a villa and drive one or two cars and respectively help other people to create a new middle-class (P. Nanhed, personal communication, 2006-12-07).

There are very big inequalities between the countryside and bigger cities when it comes to income distribution and consumption. Most of the money is located in the cities, where people are moving to because that is where jobs can be found, especially for the middle-class (P. Nanhed, personal communication, 2006-12-07).

A lower employment tax is not a triggering factor for entries into the Polish market, anyhow not in the case of MB at least. A triggering factor for MB was the wages that was about half of the wages in Sweden. But, it is not so that every type of industry in Poland has low employee costs (P. Nanhed, personal communication, 2006-12-07).

When Per Nanhed entered the Polish market ten years ago with his partner, they used a form of strategic alliance to start the production. The reason for the choice of strategic alliance was to gain production advantages. He explains that the entry mode strategy was much more by a chance and the entry mode felt good at that time. The logical step to take was to create market advantages outside the Polish market (P. Nanhed, personal communication, 2006-12-07).

Per Nanhed continues to describe that their strategy is almost the same as ten years ago. This means that they still produce furniture but the next step for the company is mostly dependent on the development in Poland. The European Union more or less forces businesses to make strategic change and has led to that a well functioning company must be able to adapt to existing conditions. All furniture has to fit all markets and nowadays the price advantages in the wages are decreasing due to increasing wages (P. Nanhed, personal communication, 2006-12-07).

As a small furniture business it is important to know where the furniture is aimed to be sold. Per Nanhed means that the closer you are as a company to your market, the better it is. Advantages could be lower logistic costs and production costs. To gain advantages as a small furniture company, one has to know several important things about the market, such as rent levels, market prices and language. According to Per Nanhed it may be possible for a small furniture company to enter Poland, but complicated (P. Nanhed, personal communication, 2006-12-07).

Per Nanhed states the importance of control in an organization. Trouble can appear if one does not have co-workers that are well initiated in the problems that are related to the business situation. Therefore, the need for control increases everywhere, from suppliers to distribution of goods. The type of industry and level of the industry are aspects that should be taken into consideration (P. Nanhed, personal communication, 2006-12-07).

High-end furniture is mostly sold in the bigger cities. The millionaires who buy Armani suits prefer a sofa that matches that brand and quality and there are many millionaires in Poland. When comparing Scandinavian design to Italian design, the Polish people prefer the Italian. When it comes to the middle-class products, IKEA is very well known. Seven years ago IKEA decreased their prices in Poland with 20-30 %, therefore IKEA in Poland enticed both Swedish people and people in adjacent countries to buy from the Polish IKEA (P. Nanhed, personal communication, 2006-12-07).

4.2.6 Jonny Kull Sourcing Researcher at Mio

According to Jonny Kull the level of technology in Poland has clearly advanced and is able to match other high technology countries without problem. In a perspective of production technologies Poland has a Western way of doing things.

Mio has lots of connections in Poland and their relationships have been satisfying in most aspects (J. Kull, personal communication, 2006-12-11).

Jonny Kull continues to describe the infrastructural situation in Poland and says that Poland has a well functioning network, even in the countryside. He sees a drastic difference in contrast to how the countryside looked like 15 years ago and today. Differences could clearly be seen before and after joining the European Union.

15 years ago one could not use English as a business language, but that has changed and today English is a satisfactory language to use and this removes barriers and eases the business process substantially (J. Kull, personal communication, 2006-12-11).

Seen as a broad business perspective, and especially for Mio, the importance for the right geographic position is of vital importance. In order to gain logistical advantages it is important to be situated as close to the customer as possible and Poland, as a country, is very well situated in Europe. Also, transportation costs can be cut when distances lessen (J. Kull, personal communication, 2006-12-11).

The labor situation is a worrying factor for companies which operate in Poland. Employees are searching for better paid jobs and improved working conditions, especially in England where the wages are twice as high as in Poland. This negative trend is hurting Poland's economical situation. At the same time, some companies increase their wages and in the long run the interest in cheap labor in Poland will diminish as wages increase (J. Kull, personal communication, 2006-12-11).

The interest of foreign firms to enter the Polish market has, according to Jonny Kull, decreased compared to five years ago. Jonny Kull sees cautious actions from foreign companies when entering the Polish market. The Baltic countries, especially Lithuania, are more interesting than Poland, today. The reason for this may be that Poland still experiences some remnants of the transition and therefore some businesses see Poland with a sense of skepticism (J. Kull, personal communication, 2006-12-11).

According to Jonny Kull the economical and financial problems as well as the bureaucratic behavior, of the former Soviet Union, is no longer a problem, the problem is more cost orientated. Poland is starting to be expensive and therefore companies slow down a bit, investment wise (J. Kull, personal communication, 2006-12-11).

The gap between the rich and the poor in Poland is large. The main differences exist between the cities and the countryside. This can best be illustrated by the fact that horses are still used as means for transport in rural areas (J. Kull, personal communication, 2006-12-11).

The lower employment tax compared to Sweden is not the most triggering factor for establishment, according to Jonny Kull. What he means is that aspects like the willingness to work and production capabilities are things that are valued more. The Polish people in general are hard working and ambitious (J. Kull, personal communication, 2006-12-11).

Jonny Kull further explains that the general businessman in Poland is more than willing to change the mode, in which the business is operating, if it is deemed

more valuable for the company. All types of constellations and structural changes that improve the business are mostly done. During the 18 years Jonny Kull has been involved in Mio's process of doing business in Poland, its strategic choices have been as it was aimed to be. No major strategic changes have been done (J. Kull, personal communication, 2006-12-11).

If a small Swedish furniture company should introduce itself on the Polish market, Jonny Kull sees the process as very complex. There are more advantages to stay in Sweden where the market is known, as long as not heavy resources to be spent. He further explains that if a furniture business, in today's business environment, has in mind to enter the Polish market, the timing may be wrong; it could be too late. The future is there but a relevant evaluation must be done before entering (J. Kull, personal communication, 2006-12-11).

According to Jonny Kull it is of importance, no matter what kind of business, to have control. The term quality can have totally different meanings in Sweden compared to Poland. A product may be perceived as of good quality in Poland, but can be seen as of mediocre quality in Sweden and vice versa. It all depends on the cultural differences between countries. Specific to the Polish market, regarding quality, is that it is not negligence, rather differences in the way of cultural thinking and preferences. But on the other hand is it easy to deal with Poland when you have found a form that matches both cultures equally (J. Kull, personal communication, 2006-12-11).

Jonny Kull states that it might be good to introduce High-end furniture in Warsaw or other bigger cities, but the market in Poland is too small. He continues to describe, that Polish people like Scandinavian design (J. Kull, personal communication, 2006-12-11).

When the typical rich Polish citizen sets out to buy a sofa, he/she investigates the comfort the sofa offers. The design is less important compared to this factor; different markets have different perceptions of comfort. This is important to bear in mind when selling furniture in different markets (J. Kull, personal communication, 2006-12-11).

Jonny Kull further explains that IKEA and Mio are not competitors. These two companies are different in aspects like size and resources. It is more advantageous for both IKEA and Mio if they are closely related to each other and can therefore gain from each other's customers on the Swedish market (J. Kull, personal communication, 2006-12-11).

A very important factor to bear in mind is to be clear and precise when dealing and doing business in the Polish market. Misunderstandings are often connected with miscommunication. The Polish people appreciate humble businessmen. A humble way of treatment will probably make the business relationship greater for both parts in the long run (J. Kull, personal communication, 2006-12-11).

5 Analysis

The theoretical framework and the empirical findings regarding the firm related factors, market related factors and factors related to both firm and market will be compared and analyzed in order to be able to evaluate the results. The evaluation will compare ire to the factors that are of importance for the choice of entry mode(s).

5.1 Factor Analysis

The first section of the analysis will deal with analyzing the market related factors, firm related factors and factors related to both firm and market. This analysis will explain and point out the results from the empirical findings and combine them with the theoretical framework and the authors' working model.

5.1.1 Firm Related Factors

According to the interviewees, firms in general, want to have as much **control** as possible of their international business activities. But on the other hand, Nakos and Brouthers (2002) state that the level of control is much dependent on the resource commitment a firm has abroad. A SME, like ire, has less capability to obtain high levels of control in a new market. Ire's existing international markets are mainly based on specific market agents who act on the behalf of ire. In this sense ire has good control over how they operate and sell the products. Basically ire decides which agents to use and how they are to operate. However, the level of control and **resource** commitment is restricted to strict export activities, only in the already entered markets. There does not exist the will or resources to change the mode of business in existing markets according Carl-Henrik Spak, as ire is a small company (C-H. Spak, personal communication, 2006-12-11). ire puts much effort in controlling the quality of its products and this is a vital part of the agents' role in the foreign market. In this sense the need for control in an international market is high. As Carl-Henrik Spak explains, the agents send monthly reports to ire which are analyzed thoroughly, in order to maintain ire's interests abroad. As stated above ire's resources are relatively small and it can be tough to enter a new market with high commitment levels. According to Pissarides (1998, cited in Bartlett, 2001), transition economies with fluctuating finances, are more willing to concentrate on larger companies and SMEs may be forgotten, e.g. the banking system may be weak and much valuable time may be spent, in order to straighten out bank activities, for SMEs (L. Bäcklin, personal communication, 2006-11-07). As ire's brand image continues to grow it is important for ire to have as much control as possible in order not to tarnish ire's good name (R. Nilsson, personal communication, 2006-12-11).

Previous entries into new markets have been based on experiential **knowledge** and not so much on objective knowledge. The CEO, Ola Söderpalm contributes greatly to the expansion of ire into international markets. His expertise has enabled ire to be successful. Previous entries into foreign markets have help ire in expanding into more markets and according to Eriksson et al. (2000, cited in Petersen et al., 2001), the more markets the company is active in, the greater the knowledge is and the easier it is to enter new markets. ire has been active in foreign markets for several years and this helps in gaining experiential knowledge which is crucial for entering new markets. Learning-by-doing is mainly how ire

gathers its experiential knowledge. The trial and error phase occurred in the early stages of the internationalization process and is now not a part of ire.

In order to be successful abroad, possession of experiential knowledge must have a vital part in the strategy. To gain experiential knowledge, a firm must experiment in order to succeed. In ire's case this phase has already been made, when the CEO Ola Söderpalm was employed elsewhere. He transferred that knowledge into ire and was able to produce a successful concept. Experiential knowledge can also be applied on competitors, i.e. how well a firm knows its competitors is extremely important. Ramona Nilsson (personal communication, 2006-12-11), states in the interview, that ire's knowledge of its competitors is high which will help ire to respond and act on actions taken by competitors abroad. To learn from competitors' mistakes (imitative learning) is very important to ire. Ire constantly tries to pinpoint strengths and weaknesses the competitors have. Ire then tries to implement the strengths and eliminate the weaknesses from its own organization (O. Söderpalm, personal communication, 2006-12-11). As Huber (1991, cited in Petersen et al., 2001) stresses, firms can learn from focused search. ire often uses this tool in order to learn as much as possible, especially when studying new potential markets. ire is able to identify problems fast and learns from these in a fast manner (R. Nilsson, personal communication, 2006-12-11).

5.1.2 Market Related Factors

Osborne (1996) argued that **competition** needs to be taken into consideration and be properly analyzed for the entering company to get an idea of what is waiting for them after entry (cited in Nakos & Brouthers, 2002). Leif Bäcklin mentioned that there are many furniture producers in Poland and one major potential competitor, Natuzzi, producing high quality furniture, could be a potential competitor to ire Möbel AB. IKEA has also been mentioned as a big actor on the Polish market but as they do not either position itself or is perceived as a high-end producer, IKEA would not compete with ire, this according to Per Nanhed.

As ire is a Swedish company, **cultural differences** has to be acknowledged and doing business in Poland differs somewhat from the way of doing business in Sweden. Polish business people, according to Leif Bäcklin, are accustomed to haggle about prices and business which is not seen as the way of doing business in Sweden. However, this is something Jonny Kull does not mention as being part of the business culture in Poland. According to Kiseel (2001) Polish employees are seen as very disciplined and hard working, something Jonny Kull agrees with and he also mentions that Polish employees are very ambitious. The most mentioned cultural difference, among the interviewees, is the language which of course is not the same as in Sweden. English has become more and more common in the business life in Poland and one can, without problems, negotiate and use English in day-to-day activities. Adapting to the rest of EU, where English is one of the most important languages when it comes to business operations, has rapidly changed since the 80s when Polish, German and Russian were the languages used when conducting business, according to Per Nanhed. Jonny Kull mentions the willingness to work and productiveness are important factors in the Polish culture and also Polish business people are easy to do business with as they are eager to collaborate and adapt to new circumstances. This somewhat contradicts the notion by Kiseel (2001) who argues that Polish business people

like to do it their way and extensive negotiations are common. But, Jonny Kull points out that one should be clear and precise when doing business in Poland where humbleness is a very important attribute which can establish a relationship that will last in the long-run.

Kotabe et al. (2005) states that **risk** could refer to both the economic environment as well as the political stability. Leif Bäcklin, early in his interview, brings up that the economic environment, in this case the banking system, does not work properly and finds bureaucratic inertia which hinders small firms from borrowing money in Poland. Further, he states that it could take up to eight months to receive the firms' tax returns. Per Nanhed on the other hand finds the Polish finances to be stable. Ramcharran (2000) argues that risk also concerns factors such as political and social environment, in addition exchange risk concerns specifically foreign firms (cited in Nakos & Brouthers, 2002). According to Dunning (1993); Erramilli, Agarwal and Kim (1997) the foreign exchange risk may be a disadvantage for the foreign firm due to that the domestic companies do not face this kind of risk (cited in Nakos & Brouthers 2002). Jonny Kull states that he has not noticed problems with neither the economical environment nor financial institutes. Per Nanhed thoughts on exchange risk correlates with the previous notion, stated by Ramcharran (2000) and Dunning (1993) etc., the foreign exchange risk may be a problem as Poland is not a member of EMU. According to Leif Bäcklin the political environment is unstable and people do not have faith in the presiding government. According to OECD (2006) the Polish market faces a high unemployment rate contradicting the fact that there is a lack of qualified labor which has become harder to acquire according to all three interviewees.

Corruption can be noticeable on many levels within governmental officials and according to Rose-Ackerman (1999) corruption is between the private person or firm and government official or institute. She also argues that bribes or grafts are given to get favorable treatment, to avoid costs or to receive benefits. Leif Bäcklin mentions corruption as a big problem in Poland. This was of course much more noticeable when he first came to Poland in the 80s when bribes and grafts were part of the way of doing business. Even though things have become better since then, he cannot see a downward trend right now. Abed and Davoodi (2000) argues that corruption can also be find in higher levels within the political and in the legal system, this could hinder the private sector from growth (cited in Johnson et al., 2000). Per Nanhed has noticed that bribes do exist, and sometimes even at higher levels of government organizations. To get favorable treatment or to get decisions approved, sometimes bribes may be the solution even though this is not something he has had to do. This corresponds well with arguments presented by Rose-Ackerman (1999), where government officials may have low wages, thus having have low incentives to carry out their jobs and bribes can be the solution. The Corruption Perception Index (CPI) for Poland in 2006 was 3.7 (out of 10) which can be compared to Sweden which had 9.2. This is a fairly low score even though there is a slight change towards an increase. Poland scored 4.1 in 2001, in 2005 the score went down to 3.5. One should bear in mind that this is just one way of measuring the corruption level in a country and it is only the perceived level. To actually measure corruption is very difficult therefore Transparency International (TI) use surveys addressed to business people, general public as well as political analysts. In 1998 Poland had a score of 4.6, this shows that the corruption in Poland the last five years has been somewhat higher according to the perceived level. The score of 3.7 in 2006 is at the same per-

ceived level of corruption as countries like Jamaica, Turkey and Colombia. The notion that Poland still has some problems with corruption has been mentioned by some of the interviewees and the CPI, confirms this notion to be true (Transparency International, 2006).

5.1.3 Barriers to Entry

As ire considers new potential markets, numerous barriers to entry have to be tackled. A barrier to entry is something which hinders, or slows a firm from entering a new market. As ire is a relatively small company, the capital cost of entry can be extremely high. In order to enter a new market where the brand name is unknown, ire has to build showrooms and such, so the public and the furniture industry will be aware of ire and what it stands for (O. Söderpalm, personal communication, 2006-12-11). These showrooms must be strategically placed at various exhibitions and fairs in order for the brand name to reach the right market segment, i.e. people who appreciate designer furniture and a more exclusive way of living.

In some markets ire has had trouble with suppliers, in e.g. England, regulation sets higher standards which put more pressure on ire's suppliers to be able to deliver the proper quality (O. Söderpalm, personal communication, 2006-12-11). This can be very expensive for ire and has had a great impact on choosing markets to enter. Furthermore, to lower these costs ire must establish good relations with not only suppliers, but distributors as well. The ordeal of establishing such relations can be very expensive and could completely hinder ire from entering a new market.

Experience plays a big part of entering a new market (Petersen et al., 2001), and to some extent previous experience can be transferred to a new market, but for a firm who has never acted in the specific market it can be very difficult to succeed, as supplier and customer loyalty may not be so high. A new market, such as Poland, which has a somewhat different customer base other than Sweden, it can be troublesome for ire to win the "hearts and minds" of the people, to put it in military jargon.

Ire sees its competitors, not as hostile actors in a market, it sees them as objects from which ire can learn and develop its organization (O. Söderpalm, personal communication, 2006-12-11). Ire wants to be able to learn from every aspect of the market, including its competitors. Thus, the importance of knowing one's competitors is very important in order for ire's ability to know the market.

The occurrence of corruption in Poland makes it hard for a small legitimate firm to succeed without succumbing to it. Also bureaucracy is high in Poland which can be extremely hindering for a company to be able to establish itself on the market. As ire sees itself as a moral and ethical company, corruption is not a part of ire's way of doing business (C-H. Spak, personal communication, 2006-12-11). Hence, the barrier to entry, in terms of legislation and the follow-up of it, may be too large for ire to handle.

As Poland is moving forward and advancing its technological level within the country (J. Kull, personal communication, 2006-12-11), a firm which requires a high level of technology will find it easier to enter the market than before. The empirical data the authors have collected indicates that advancements are being

made, and as the furniture industry requires modern and technological equipment, this barrier diminishes.

5.2 Evaluation of Related Factors

The need for control of foreign business operations for ire is generally very high and this is something both Carl-Henrik Spak and Ola Söderpalm points out that ire wants. By using agents with expertise on a specific market, ire's control is high. These agents have been used throughout the whole internationalization process ire has gone through, with good results and good control over what is happening on the different markets. By establishing long-term relationships with these agents, ire has transferred how ire wants to be perceived with help of the agents. As control is high with these agents, ire is satisfied, but if they would lose an agent there may be difficulties in finding a new competent agent and ire would have to start over and build up the relationship from scratch. The new agent may have low knowledge about the products ire produces, image and how ire wants to be perceived. As ire uses export, agents are among the few good alternatives if ire wants to continue to have high level of control. To increase control ire would have to use another mode of entry.

Internal resources and assets are of course linked heavily to the control possibility of the firm; the more resources the more control of foreign business activities are possible. As Carl-Henrik Spak mention the resources are limited, which is often the case with small firms, it is therefore hard to increase the control of foreign business activities (Pissarides, 1998, cited in Bartlett, 2001). Resource restrains is obviously one of the hardest obstacle to overcome for a small firm, this is also the case for ire. Good knowledge of the market could help but it does not help ire to compete with capital intensive firms. ire has good knowledge of the market it is currently exporting to, this with help from the agents but especially due to Ola Söderpalm's previous knowledge of foreign operation and entry. Previous knowledge is of great importance according to Eriksson et al. (2000, cited in Petersen et al., 2001). Learning-by-doing is used by ire and by using its experience from previous market entries ire can apply and alter to a better process the next time.

According to Osborne (1996) knowledge of competitors is something every company needs to consider, analyze and accumulate (cited in Nakos & Brouthers, 2002). ire always investigates the competition before any entry into a new market, according to Ramona Nilsson. By doing so ire will know what competition they can expect and act accordingly or withdraw from a potential entry if competition is too high. The biggest competitor ire would have on the Polish market is probably Natuzzi which is an Italian furniture company with a positioning similar to that of ire.

The cultural differences from Sweden compared to Poland that has been mentioned by the interviewees are that Poles have the habit of haggling about prices and English is used when negotiating business deals. Poles are seen as ambitious people and hard working and Poland has adapted to the EU and are eager to collaborate, according to Jonny Kull. Thus, there may be some differences in culture in Poland but as English is becoming more and more used as well as the adaptation towards EU legislations are being made. Poland may not differ a great deal compared to other EU countries where ire is currently present and has experience from.

Poland is a country with relatively good economic stability in general, according to both Jonny Kull and Per Nanhed. Contradicting this is Leif Bäcklin who says that the economic environment is not made for small firms. This notion may be true in the case as Boss Mebel is a small sized firm while both MB and Mio are not. The economical environment may be favorable for bigger firms while small firms can face inertia in e.g. the banking system which does not support the small firms in Leif Bäcklin's opinion. Exchange risk could be a problem for ire, as it has experience and is currently using a system to deal with the exchange risk on the Euro; ire would need to solve the exchange risk from the Zloty. With previous knowledge on how to deal with exchange risk, the risk involved with the Zloty could be overcome. But the Zloty may not be as stable as the Euro, this in reference to what have been said about the economical and financial stability by the interviewees. Poland had a GDP growth of 3.7 in the year 2005 but has a very high unemployment rate of 18%. The political risk is hard to measure but Leif Bäcklin says it does not work at all and Per Nanhed finds the political situation complicated. Therefore one can presume that Poland do face political difficulties, but how far it reaches is hard to determine and one can not draw the conclusion that an entering firm should see it as a risk or not. The political risk may not affect an entering firm but one cannot exclude the notion.

Corruption is something that Poland does have problems with. Leif Bäcklin said that it is common but was even more noticeable during the 80s, Per Nanhed also mention the occurrence of corruption. This notion is strengthened by the CPI where Poland has a score that is very low for a country in EU. Rose-Ackerman (1999) states, corruption are between private persons or firms and government official or institutes. Corruption may be more noticeable among small firms as Leif Bäcklin mention that he has experienced quite much of this in Poland. It may be easier for big firms that have more influence on the economy to withstand corruption and discourage it. Compared to Sweden the situation is quite different and most definitely something for ire, with high norms and ethics, to consider. It is important as ire has not experienced any corruption, or little, in its current markets. ire could face the same corruption as Boss Mebel and Leif Bäcklin have experienced, this correspondently to the similar size of the firm. But, it is important to remember that Boss Mebel produces its products in Poland while ire Möbel AB only consider to sell its products and not produce them in Poland. Therefore it is difficult to ascertain whether ire will at all notice or experience corruption, but on the other hand ire may very well get problems with this.

Entry barriers exist in every market, but they can be more or less noticeable and occurring. The capital cost of entry will be high and ire could face problems to gain knowledge of its products and the perception wanted. It is hard to define whether it would be more or less costly to enter the Polish market compared to another new market. ire would need to be sure that there is a big market for its products in order to get back the invested capital. As mentioned before there are big inequalities and even though Scandinavian design is well embraced in Poland, it seems Italian design has an even better reputation. If ire would face very loyal customers and distributors, it may be hard to influence them to choose ire instead of another firm. This is something that ire would experience first when ire would enter the market and it is very hard to anticipate. The cost could be very high and could force ire to withdraw from the market. Retaliation from competitors is something ire may not have any problems with in a potential entry in to Poland. This due to ire's size, the bigger actors on the market may not care

to challenge a small sized firm. Also as ire produces high-end furniture, competitors with the same positioning would not gain leverage by lowering its prices. ire is not going to produce in Poland and therefore technology level will not be of great importance. Infrastructure on the other hand could be a problem if orders would be delayed.

5.3 Choice of Entry Mode

According to the theoretical framework the entry mode that is most preferable in reference to the level of control and possible revenue is wholly owned subsidiaries (Pan & Tse, 2000). As the level of control need is high for ire this is the best alternative if ire wants to be sure that its brand name and perceived image should stay unblemished. There are many advantages with wholly owned subsidiaries and this can be obtained by either Greenfield Operations, where ire would have to start from scratch or by acquisitions where ire would acquire an already existing company. This type entry mode is the most preferable for all firms that have the capital means, the managerial skills and are well prepared. The mode is primary used by big firms and may not be the mode of entry first used when internationalizing. This in accordance with the notion of an incremental approach presented by Johanson and Vahlne (1977), (1990) and Root (1987) where risk and uncertainty of the market is the triggering factor for this approach (cited in Pan & Tse, 2000). ire is of a small size and this further strengthens the notion of an incremental approach. ire could face low growth potential in Poland and therefore the resource commitment would probably be too big for ire to cope with. The risks and the uncertainty of the market are other factors that limits ire from using wholly owned subsidiaries in Poland. This reflects the mentioned risk of the economical and political environment as well as the corruption present.

Equity joint ventures would be a good alternative as well, with good control and potential returns. According to Johnson et al. (2005) the domestic partner could provide knowledge, labor and entry to the market. Then again ire would have to provide expertise, management, and finance which, as mentioned, are limited. Thus, ire would not have the capital requirements to use equity joint ventures, but this could of course be a later used alternative. If ire would choose to use equity joint ventures, ire would have a three year tax liberation, this according to Leif Bäcklin (L. Bäcklin, personal communication, 2006-11-07). Hence, the potential return would increase which may make equity joint venture an alternative for ire to consider.

Firms that service small niche markets could have lower risks or produce highly innovative products could prefer the equity modes discussed above in order to protect property technology (Pavitt, Robson & Townsend, 1987; Acs & Audretsch, 1990, cited in Nakos & Brouthers, 2002). As ire service niche markets the notion of using equity mode for this purpose does not apply in the case of ire.

Strategic alliances are considered as a non-equity option where companies share responsibilities and different functions within the foreign operations. ire could consider an alliance with another company to cooperate with on the Polish market. It is, of course, not easy to find a firm to cooperate with which share the same goals and preferences ire wants. The risk will be diversified and therefore it could be easier to cope with the corruption, economical and financial environment in Poland. Per Nanhed at MB explains that the entry mode he used was

strategic alliance. He did not specify what kind of strategic alliance they used but the one used may not be the same that ire could use. This is due to that ire is not going to start production in Poland, as MB has, but rather sell its products. This non-equity mode is, on the other hand, a mode of entry that many companies choose to use when internationalizing into the East European countries (McCarthy, Puffer & Simmonds, 1993, cited in Shama, 2000).

Franchising and licensing are two other non-equity modes that could be used to enter the Polish market. As licensing often refers to that the licensee produces the products, this will not be an alternative for ire as it wants to have control over production and quality. With franchising ire could gain the knowledge of the market but would have to find candidates that have a high enough ambition level to uphold the standard, norms, and quality requirements etc. This non-equity mode may match ire's needs as the risk and the capital commitment would primarily concern the franchisee. ire would be exposed to only a low risk with the market related factors but the return on capital would also diminish.

Exporting is the entry mode with the lowest risk involved, a mode of entry that ire has used before on other markets. The control of foreign operations are quite low but ire has solved this by using agents that are closely involved with the company and understands its ethical norms, wanted perception of its products and the need for control. Exporting, a non equity mode is according to Johanson and Vahlne (1990) and Root (1987) a good start-up mode on a new market (cited in Pan & Tse, 2000). They argue that foreign markets are highly uncertain and risky (Johanson & Vahlne, 1990; Root, 1987, cited in Pan & Tse, 2000), and in Poland's case this may be true according to the authors of this thesis. Pan and Tse (2000) argue that firms with a high growth potential, for a market, would prefer an equity mode of entry. But this is really hard to predict in ire's case and therefore exporting is a low cost alternative and ire can change mode incrementally as risk decreases and return on capital has increased which according to Chu and Anderson (1992) could be an incentive to change the current mode (cite in Pan & Tse, 2000). ire is using direct exporting but an alternative could be indirect exporting. This refers to using an intermediate firm in the domestic market which would sell the products (Kotabe et al., 2005). The control and the potential return would in this case be lowered and the risk would decrease. Cooperative exporting would increase the control somewhat and maybe also the potential returns, where ire could use the domestic company's distribution network and the firm would sell the products.

6 Concluding Remarks

In this section the authors try to connect the purpose and research questions with the analysis in order to derive solid conclusions in which the thesis aims at presenting.

6.1 Conclusion

The purpose of this thesis is to evaluate the important factors related to the firm and the market in order to present feasible entry mode(s) which ire can use in a potential entry into the Polish market.

The most important factors that ire should take into consideration in a potential entry into the Polish market are the need for control, the risk and resources. Even though the other factors analyzed are of importance, they do not weigh as heavily as the three mentioned. The authors do not perceive the entry barriers to be among the most important factors, this due to the fact that these are mostly affecting larger firms, as they can influence the domestic market more than a small firm could do. The three factors reflect the current situation in Poland as well as ire's constraints and challenges on the market of interest.

The need for control is of great importance for ire and among the factors that are valued the most when internationalizing, which were recognized by all three interviewees. The risk is relatively high in Poland, concerning both the political and the economical environment. The political environment, as mentioned by both Leif Bäcklin and Per Nanhed, is not stable at the moment which could be a problem for ire, which also reflects on the need for control as well as the risk. The economical environment also refers to the unemployment rate and the emigration of the qualified workforce, which could affect ire's chances to find a suitable workforce, as well as the eight month delay for tax returns which Leif Bäcklin mentions. ire is of the same size as Boss Mebel and could face the same risks they have. Corruption, as mentioned, is a problem which evidently is something that occurs in Poland. This notion is strengthened by the CPI where the perceived level in 2005 was 3.5 compared to Sweden's score of 9.2 in the same year. The risk can therefore be assumed to be quite high. Resources are limited for ire as it is a small sized firm. The resources, in our opinion, are the most vital factor that limits ire from choosing other entry mode that could suit better. The banking system in Poland seems to be favoring big companies which can also be seen as a resource (economical) limitative aspect for ire.

The recommended modes of entry for ire are exporting, or if the resources allows, equity joint venture. The latter alternative will be more expensive and collaboration with a domestic company would have to be engaged. The advantages with equity joint ventures are the three year tax relief, lowered risk and shared costs. The level of control is also assumed to be higher, with equity joint venture compared to the other alternative, which is of interest for ire. But, this mode requires a higher resource commitment compared to exporting and ire would have to decide if equity joint ventures are feasible with its limited resources. Exporting is a well known mode of entry that ire has used in the past. The control over foreign investments is low but so is also the risk, but ire has established good relationships towards its agents and in close collaboration the control has been quite high for this mode of entry. ire also has previous knowledge of this mode of en-

try and may therefore perform at its best if continuing to use exporting. Exporting and equity joint ventures are the modes of entry one could use in a potential entry into the Polish market, recommended by the authors of this thesis.

6.2 Reflections

Should the many constraints which cover this thesis lessen, the thesis would be able to cover more aspects and the purpose would not be as narrow as it is. Only covering small Swedish furniture businesses, it may not be as broad as it could have been. Being able to generalize over several industries and covering different types and sizes of firms is important. As it is now, it can be hard for the conclusions to be realized and tested as the authors do not know if the thesis will be used as a tool or not. The theories included in the thesis raise more questions which cannot be included due to the narrow purpose. These questions and problems can be studied further, perhaps as another thesis, and should be. Problems such as a more in-depth analysis of the internationalization process, including numbers and exact cost analyses, the authors deem to be interesting problems. As these studies are conducted a model could emerge in which other firms and industries could take part of and thus a general internationalization model would be developed.

When using a qualitative interview approach it can be hard to know, beforehand, if the questions asked are appropriate for the purpose and if the interviewees are able to answer the questions. Whether the interviews were successful or not, can only be realized afterwards. Also, it has been hard to find suitable firms to interview as the purpose is quite narrow and there simply are not that many small furniture firms in Poland who are Swedish. One must settle for what is manageable and what is obtainable, given the restraints which exist, such as time limitations and resource limitations.

Poland, as a country, is very interesting because of its emergence into the EU and also the transition of Poland seems to have been successful. Yet, problems still exist which have to be dealt with, but Poland is a country with huge potential. The upcoming middle-class among the almost 40 Million inhabitants, is an emerging segment which seems to, in the future, have a strong purchasing power. Also the increasing wages in the country is contributing to this factor.

The analytical model which has been developed, specifically for this thesis, is somewhat simplified. Only the most vital and important factors are included and factors which the authors have not been aware of may have been excluded. Managerial know-how and experience are some of the factors the authors have yet to accumulate. Yet again the importance of experience is evident as a mere student cannot know of such factors due to the lack of experience.

The most evident topic for further studies which the authors of the thesis have realized, is to construct a more generalizable and comprehensive model for firms to use in their entry strategies, thereby lessening the costs of internationalizing and increasing the effectiveness of firms.

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Appendix

Interview ire Möbel AB

Internationalization:

1. Did ire use any academic theory concerning internationalization when introducing their products on a foreign market for the first time?
2. Has the theoretical framework about the internationalization process help on-going internationalization process of ire?
3. If you used theories, what theories and how did you use it?
4. How do you perceive internationalization as a concept?

Firm related factors in the internationalization process:

5. When first starting to internationalize what kind of previous knowledge did you and the firm have regarding the intended market?
6. What are ire's control needs of foreign market activities, labor in the foreign market, and marketing of ire's products?
7. How did you/ire gain experience about the internationalization process, by learning-by-doing or did you/ire have secondary data on how to proceed?
8. Did ire's size and resources limit ire's opportunities for internationalization if yes how and if no why?

Market related factor in the internationalization process:

9. Did you/ire perceive the competition on the foreign market as a hindering factor to entry?
10. Did you/ire have good knowledge about the competition in the new market?
11. Did you/ire find cultural differences as a problem when introducing the products in the foreign market?
12. Did you/ire assess the risk of the foreign market such as political stability, economic environment and/or exchange risk, what did you/ire assess and how?

13. Have you/ire experienced corruption as an obstacle in any of ire's current markets?

Barriers to entry:

14. During previous internationalization processes, has the capital cost of entry into the foreign market discouraged your entry and has this instead led to entry into another market instead?

15. Has supply and/or distribution channels been a source of problems when entering a new market?

16. Have ire experienced any retaliation from competitors when entering a new market?

17. Has legislation been troublesome in the internationalization process?

Entry mode:

18. What mode of entry did you/ire choose for the first foreign market entry? Export, franchising, licensing, strategic alliances, equity joint venture or wholly owned subsidiaries?

19. Have ire used different entry modes in different markets?

20. Have ire changed any modes after introduction in a new market?

21. If yes, to which mode and why? If no, why?

22. Are you/ire satisfied with the entry mode chosen?

23. Would ire prefer other modes than the chosen ones?

24. If ire would not be limited by its size and assets what mode of entry to a new market would you/ire prefer?

25. Will you allow the authors to make use of this information and your name in the thesis?

Interview Leif Bäcklin, Per Nanhed and Jonny Kull

Please, describe your company in terms of:

- Name
- Background
- Employees
- Positioning

Firm related factors in the internationalization process:

1. Is the need for control of foreign business activities important for you/the firm e.g. control over distribution chains, suppliers, retailers etc.?

Market related factor in the internationalization process:

2. Is the language, using English or Polish, an important factor when doing business?
3. How do you perceive the political stability in Poland?
4. Describe the financial stability in Poland on the basis of your own knowledge.
5. Is the bureaucracy a problem when entering the Polish economy as a foreign company?
6. What design do Poles prefer and is Scandinavian design popular?

Barriers to entry:

7. How well developed is the infrastructure in Poland, the countryside compared to the big cities?
8. How is the technology level in Poland compared to the rest of EU and also the big cities compared to the countryside?
9. What kind of noticeable entry barriers can one find as a new firm entering the Polish economy?

Entry mode:

10. To the best of your knowledge, which are the most common ways to enter the polish market?
11. With what kind of entry mode did you/the firm, enter Poland?

Ex:

- Exporting
- Licensing
- Franchising
- Strategic alliances
- Equity joint venture
- Wholly owned subsidiaries

12. Why did you/the firm choose that mode?

13. After entering into Poland, what is the logical step to expand and proceed from the entry phase?

14. Is it common for firms to change their entry mode after establishing themselves on a new market?

15. Has your strategy changed over time and was the entry as expected?

16. With what mode of entry should high-end furniture be introduced on the Polish market, in reference to a small sized Swedish company?

General Questions:

17. Is the geographic position an important factor for entry?

18. How is the labor situation in Poland? Is there available labor and how is the wages in Poland compared to the rest of EU?

19. Is there a trend of wages increasing? If this is the case, what are the reasons?

20. Are there big inequalities between rich and poor in Poland?

21. Are there inequalities between the big cities and countryside, in reference to income distribution?

22. Is the lower employment tax (arbetsgivaravgift) an incentive for foreign firms to enter the Polish market?

23. Do you know anything about how IKEA is perceived in Poland and how their pricing is compared to other furniture businesses?

24. Will you allow the authors to make use of this information and your name in the thesis?