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Capital and Knowledge Constraints

Swedish SMEs' Internationalization to China

Bachelor Thesis within Business Administration

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Abstract

SMEs are established as an important cornerstone for the Swedish economy, due to the amount of people they employ and the economic activity they present. Due to a changing world SMEs are faced with new competition from foreign firms. In order to counter the new environment, an option for the firms is to move abroad, to internationalize. Furthermore China is established as an attractive country for SMEs to expand into, due to the major economic growth. During internationalization the Swedish agency for regional and economic growth identified SMEs to experience a lack of knowledge and capital, which hinders them in their expansion. The paper observes how four different Swedish SMEs, with activity in China moved abroad and how the mentioned lack of capital and knowledge was bridged.

A theoretical framework is acquired through established research questions which are meant to analyze the problem description. The firms are identified as Swedish SMEs. In order to acquire empirical data, face to face interviews are conducted with the identified Swedish SMEs. Through the interview the empirical data is gathered, at which point, the paper analyzes the empirical data using the problem statement and the theories previously derived.

The paper establishes that the experiential knowledge is the major influence on the resources committed by the firm. The amount of resources committed influences the type of entry mode as well as the accompanied advantages. In affect all firms have limited knowledge and ergo their resources committed are limited. This paper draws the conclusion that due to this, the firms were all able to finance their internationalization and no capital gap was experienced. The firms which were interviewed held experiential knowledge within the firm except one case where it was bridged with the assistance of a consultant. The experiential knowledge is held by individuals and has had a deep impact on the manner of the internationalization. It is identified that the personal relationships between individuals is shown to be of great importance to the firm. The knowledge constraints were bridged by the individuals' experiential knowledge.

Table of Contents

1	Introduction	2
1.1	Background	3
1.1.1	Small and medium sized enterprises.....	3
1.1.2	The internationalization process.....	4
1.1.3	Chinese business environment	6
1.1.4	Corporate finance.....	6
1.2	Problem discussion	8
1.3	Purpose statement	9
1.4	Research questions.....	9
1.5	Delimitations.....	9
1.5.1	Definitions	9
1.6	Disposition	11
1.6.1	Introduction	11
1.6.2	Method	11
1.6.3	Theoretical framework.....	11
1.6.4	Results	11
2	Method	12
2.1	Research approach	12
2.2	Theory of science	12
2.2.1	Primary data.....	13
2.2.2	Secondary data	14
2.3	Applied method	14
2.3.1	Sample collection	14
2.3.2	Sample selection.....	15
2.3.3	Interview	15
3	Theoretical framework.....	17
3.1	Internationalization	17
3.1.1	Uppsala model	17
3.1.2	The network theory approach.....	19
3.1.3	Eclectic paradigm.....	20
3.2	Psychic distance to China	21
3.3	Chinese entry modes.....	23
3.3.1	Contractual joint ventures.....	23
3.3.2	Equity joint ventures	24
3.3.3	Wholly foreign owned enterprise	24
3.3.4	Exports	25
3.4	Theories on corporate finance	25
3.4.1	Agency cost.....	26
3.4.2	Asymmetric information.....	28
3.4.3	Contentment hypothesis.....	29
3.4.4	M&M theorem.....	30
4	Empirical findings	32
4.1	Liljas Plast	32

4.1.1	Internationalization	32
4.1.2	Entry modes	33
4.1.3	Finance	34
4.2	BUFAB	35
4.2.1	Internationalization	36
4.2.2	Entry mode	36
4.2.3	Finance	37
4.3	Konstsmide.....	38
4.3.1	Internationalization	38
4.3.2	Entry mode.....	38
4.3.3	Finance	39
4.4	Midsummer.....	39
4.4.1	Internationalization	39
4.4.2	Entry modes	40
4.4.3	Finance	40
5	Analysis	41
5.1	Triggers of expansion	41
5.2	Effects of advantages drawn on the mode of entry	41
5.3	The effect of the amount of knowledge.....	42
5.4	The effect on entry modes.....	43
5.5	Knowledge constraints' effect on financing behavior	43
5.6	Corporate finance	44
6	Conclusion	46
7	Discussion.....	48
7.1	Further research	48
7.2	Limitations	48
	References	50
8	Appendix.....	56
8.1	Interview formulary	56

Figures

Figure 1 Shows the overall statistics of Swedish SMEs in comparison to the larger firms. This figure highlights the important part SMEs carry in the Swedish economy.	4
Figure 2 This figure shows the GDP growth in China for the years 2010 to 2011.6	
Figure 3 describing the process of internationalization according the Uppsala model.....	17
Figure 4 This is the Uppsala internationalization model conceptualized	18
Figure 5 shows a comparison of Sweden and China, the different bars symbolize the different factors which the cultural dimension theory take in account	22

Letter of recognition

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“Make visible what, without you, might perhaps never have been seen”

Writing a thesis paper concerns searching, reading and analyzing a seemingly endless mass of information and data, and without the guiding light and insight of others the daunting task can seem beyond impossible. And at the end of the day you may rest your head in your palms and you may fall to your knees and shed a tear in frustration. It is at this time a pat on the shoulder and an encouraging word can be enough to make you get on your feet, and once again, carry on.

The Greek story of mentor is well recorded and through the history of the world, behind great men & women there was always one without the desire for spotlight, one who took pride in the accomplishment of others, one who stood by when times were tough and the skies darkened. It is the men and women who stand behind the leaders of men who present the cornerstone of any great achievement.

“Esse non videri”

Urban Österlund

Tina Wallin

Kajsa Lindqvist

Liljas Plast AB

Konstsmide

Midsummer

Bufab

Andreas Andersson

Fredrik Bergquist

Sebastian Glovéus

1 Introduction

Small and medium sized enterprises (SMEs) are of great importance to Sweden due to the amount of jobs created and economic activity. According to Tillväxtverket (2011), the Swedish Agency for Economic and Regional Growth, SMEs are responsible for approximately 60% of the employment, value added, and national turnover created in the Swedish trade and industry.

Given these figures Sweden is dependent on the growth and survival of SMEs. However, due to the environment, in which SMEs operate, is in constant change and the ability to adapt is one of the top priorities for the firms. One of the most noticeable changes in recent years is the effect of globalization in domestic markets (Tillväxtverket, 2012). Firms that previously operated in faraway domestic markets are now operating on the same turf as Swedish SMEs as well. As much as this change presents threats they will also present a new opportunity for the firm. Such opportunities create triggers to move to new markets (Johansson & Vahlne, 1977). Ergo in order for SMEs to grow, they must reach beyond the borders of Sweden.

Internationalization is a process which firms undergo when they venture into distant markets. Although internationalization is difficult many firms has still gone forth with the process due to possibility of great rewards. Internationalization requires the firm to gather capital and knowledge in order to successfully enter these new markets. Tillväxtverket (2011) has identified that SMEs lack these. As such, in order for SMEs to expand into new markets, it is required by them to bridge these constraints.

In the last decade China has experienced unprecedented GDP growth reaching approximately 10% annually (Zhu, 2012). As such, media has targeted China as a market with great potential for profits (long-term growth) (Hähnel, 2013). The potential is further highlighted by the fact that 80% of the companies entering China report profits (Cavusgil, Ghauri & Agarwal, 2002). However, as much as the rewards are great, so is the distance. Entering China puts strains on the firm when they enter and the effects of capital and knowledge will play a large part on the success or failure of the firm attempting to enter.

1.1 Background

1.1.1 Small and medium sized enterprises

In order for a country to experience a long term steady GDP growth it requires a healthy varied business life (Berry, 2007). An essential component towards this is having a wide variety of smaller enterprises, the European commission categorises these smaller firms as SMEs. These drive innovation and economic growth forward and are an essential part to any given economy.

SMEs are responsible for 85% of all new jobs created in Europe between 2002-2010 (Kok, Vroonhof, Verhoeven, Timmermans, Kwaak, Snijders, & Westhof, 2011). In Sweden 99% of all enterprises are categorized as SMEs and these employ more than 1.7 million people and constitute 40% of the total workforce in Sweden (Svensktnäringsliv, 2010). Sweden has the highest SME density in Europe with 58 SME per 1000 inhabitants compared to the average of 40 SMEs per 1000 inhabitants (European Commission, 2008). In addition, Figure 1 further highlights the importance that SMEs exert on the Swedish business life.

Increased global competition presents an impediment of growth for Swedish SMEs (Tillväxtverket, 2011). As the environment changes and an increase in global competition SMEs are force to seek new paths to growth (European Union, 2010). SMEs are a susceptible candidate for external capital (Tillväxtverket 2011; OECD, 2006) and as such, for an SMEs to internationalize they require favourable conditions, these conditions may include tax and labour regulations which will affect the willingness for FDI (Berry, 2007).

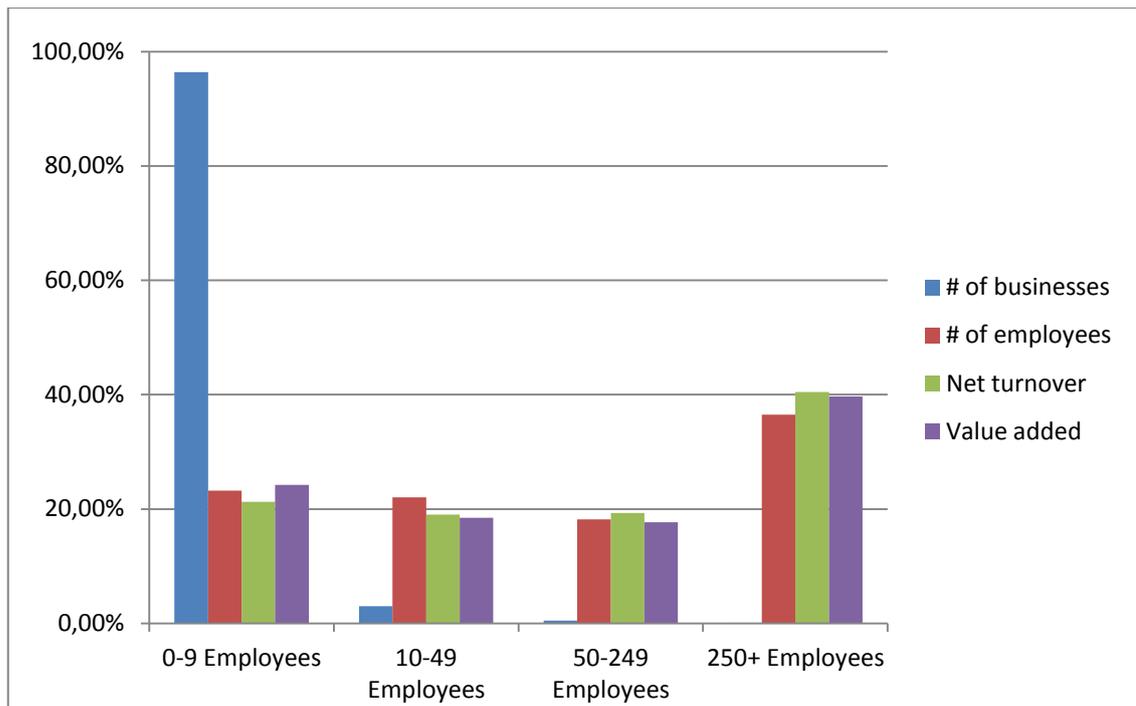


Figure 1 Show the overall statistics of Swedish SMEs in comparison to the larger firms. This figure highlights the important part SMEs carry in the Swedish economy. Source: Tillväxtverket, 2011

1.1.2 The internationalization process

Internationalization is: ‘the process of increasing the involvement in foreign operations’ (Welch & Luostarinen, 1988, p. 2). Although the term internationalization is unclearly defined the above definition gives recognition to a process which according to Agndal (2004) is vague and gives no clear picture of what it specifically entails. Furthermore, he highlights that the past research on internationalization is largely incoherent and consists of a set of variables and influences.

Hohenthal (2001) explains that internationalization is often a natural step for the firm; it exists in their business system prior to the venture. Accordingly, the process of internationalization goes through existing business structures and networks such as customer’s customers or supplier’s suppliers, these structures could be referred to as internal triggers to expansion. If these structures previously do not exist external triggers would have to serve as a reason to internationalize such as higher capacity of output (Johansson & Vahlne, 1992).

Further research concerning internationalization states that the firm actively has to gain something from the venture, it is stated that if specific advantages cannot be drawn from the venture, foreign production will not commence. This is, however, a broad theory

and does not fully explain the entirety of the internationalization (Dunning, 1988). This idea is formalized as the Eclectic paradigm and can be seen in a variety of works (Hollensen, 2001; Hohenthal, 2001; Bjelkfors & Nilsson, 2003).

One of the most influential models for internationalization is the Uppsala Internationalization Model developed by Johansson & Vahlne (1977). According to this model the process of internationalization is manifested in a step by step process through a series of incremental decisions by the firm (Johansson & Vahlne, 1977). This model is still widely recognized and used in a wide plethora of works (Balkow, 2012; Agndal, 2004).

The model states that firms will begin internationalization in countries psychologically close and then venture further away from the home market; it also states that the market commitment will initially be low but will increase as the firm gains market specific knowledge (Johansson & Vahlne, 1977). However, this is not always the case, the world has since the development of the Uppsala Internationalization Model changed and recently firms have been recognized to jump ahead of steps in their process and to expand in a more rapid manner, some firms are also born globals (Cavusgil, Ghauri, & Agarwal, 2002).

The amount of resources the firm commits is dependent on the amount of market specific knowledge the firm has. This knowledge can be acquired in two ways; namely by research (objective knowledge) and through prior experiences (experiential knowledge). The latter is stated to be the most important factor during the internationalization process (Johansson & Vahlne, 1977). This may lead to problems for SMEs which experience a lack of this knowledge (Tillväxtverket, 2011; PWC, 2012; Regeringen, 1998; Företagarna, 2012). The more resources that are located in the target market, the higher the commitment of the internationalization is. Ergo a lack of market specific knowledge will entail an unwillingness of resource commitment for the SME during the internationalization.

However, once these knowledge constraints are overcome the company has to make a decision where to draw the resources required from and how much to commit (Johansson & Vahlne, 1977). Once the process of internationalization is initiated by the company, there are a series of decisions to be made such as what entry strategy to use and how much resources are to be committed (Cavusgil et al., 2002).

1.1.3 Chinese business environment

According to Hähnel & Rylme (2007) there was a total of 90 Swedish entries into the Chinese market in 2006, in 2007 this figure grew even greater. Out of these firms 74% carried a workforce which was smaller than 500 employees. These figures give account for how attractive the Chinese market is perceived to be for Swedish SMEs. In a recent report published by Hähnel (2013) it is stated that despite of the economic crisis which has swept across the world Chinas financial index has risen in recent years. In addition, this reports state those prospects of profit are increasing and the Chinese GDP is still outrunning the rest of the world.

Balkow (2012) argues that despite rising labour costs China is still considered a low cost country. This is due to the fact that salaries are still lagging behind the industrial countries in the west, and still offers better infrastructure and technological advances than other low cost countries.

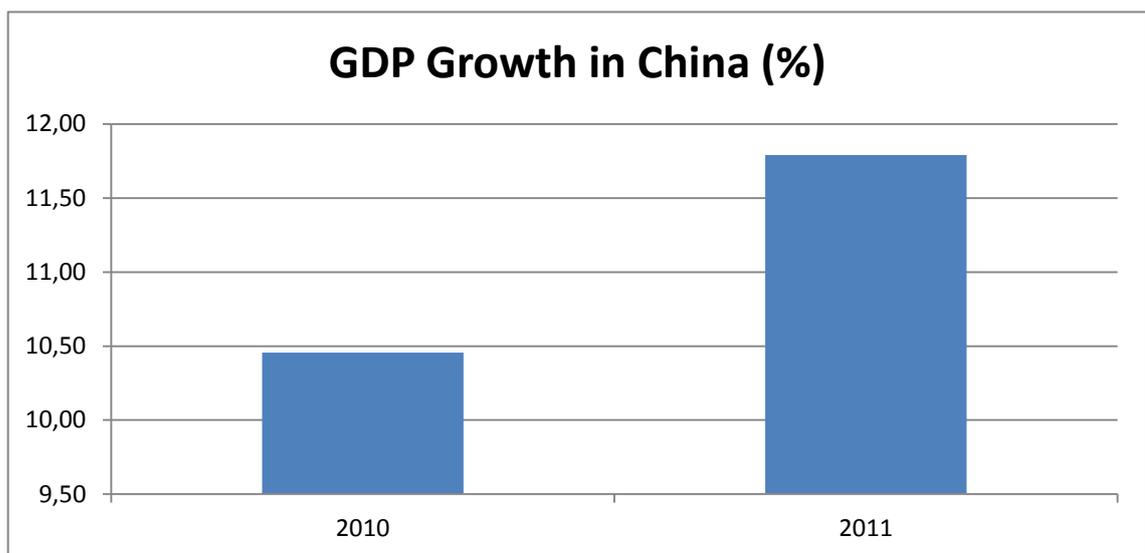


Figure 2 This figure shows the GDP growth in China for the years 2010 to 2011. Source: http://www.economywatch.com/world_economy/china/?page=full

1.1.4 Corporate finance

Once the decision to internationalize has been made the firm has yet to consider where to draw the resources required from and how much. However, this could be a difficult task for SMEs as they are a susceptible candidate for external sources of capital (OECD, 2006; Tillväxtverket, 2011; Lisbon Council, 2012). SMEs could finance their internationalization by either debt or equity (Van Caneghem & Van Campenhout, 2012). The internationalization, as any investment, should generate a positive net present value

(NPV) (Grossman & Livingstone, 2009) in order to maximize the firm's probability of long run survival and/or maximize firm value (Chamberlain, 1996). NPV is a cost benefit analysis that refers to the difference between the future cash flow of an investment and its current costs (Rodriguez, 2008).

Harris and Raviv (1991) showed in their review how complex finance is. This complexity is derived from the vast amount of theories, models, and scientific research pertaining to this area and the multiple angles it can be viewed from. Brennan (1995) provides a review of the past 25 years of theories in corporate finance. In particular, he explains that there has been a shift in theories from value maximization models, such as the M&M theorem by Modigliani and Miller (1958) to models describing adverse selection, signalling, and agency cost.

The M&M theorem, developed by Modigliani and Miller (1958) takes firm value maximization as its stance and describes that in a perfect market there are no differences in the choice of debt or equity due to the costs being levelled. In their later work Modigliani and Miller (1963) made a correction taking tax benefit of debt into account which consequently makes debt financing less costly than equity capital.

What influences the decision making is not only based on the respective company's cost of capital, as shown in the M&M theorem, but also the indirect impacts of information asymmetries which means that managers would prefer internal sources of financing over debt and equity (Watson and Wilson, 2002). A study performed by Van Caneghem and Van Campenhout (2012) on Belgian SMEs shows that firm leverage increases when the quantity and quality of financial reporting increases. This study provides evidence that asymmetric information is an important factor to acknowledge in SME financing.

In the capital market SMEs might have to pay a higher premium in order for the lenders or investors to cover the perceived higher risk of financing investments (Stiglitz & Weiss, 1982) which makes debt and equity financing more costly. de Meza and Webb (1990) argue that this credit market failure occur due to information asymmetry between banks and the manager of a firm, banks are not able to judge the true risk of a project. Furthermore, they argue that the inclination to acquire debt for an investment signals manager's confidence in the success of a particular investment.

Banks are the main source of external capital for SMEs. More advanced techniques are developed by the banks so as to mitigate market imperfections by distinguishing high-risk investments from low-risk investments (OECD, 2006). However, as shown by Van Canegham and Van Campenhout (2012) information asymmetry can still arise between SMEs and the capital market. According to Myers and Majluf (1984) information asymmetry leads to a pecking order on the type of financing available to firms. Retained earnings would be, according to such model, preferred over debt, and debt would be preferred over new share issues.

Watson and Wilson (2002) explain that information asymmetry can give rise to agency costs which ultimately could: ‘influence the riskiness and size [...] of a company’s future cash-flows’ (Watson & Wilson, 2002, p. 557). The agency theory is based on conflicts of interest between the principle, generally the owner, and the agent, the manager entrusted by the owner (Jensen & Meckling, 1972). In SMEs with complex agency relations monitoring costs are more prevalent (McMahon, 2004) which subsequently has shown to draw SMEs to contract big auditing firms (Hope, Langli & Thomas, 2012).

These theories and models provide a view on the capital landscape firms are operating in and ultimately affect the resources committed in the internationalization.

1.2 Problem discussion

SMEs have been established as an important cornerstone for the growth and development of the Swedish economy. Consequently, in order to maintain a healthy macroeconomic performance, pressure is weighted on SMEs to push this growth. However, due to an increased globalization and competition from foreign firms, this has become increasingly difficult.

Due to the increased competition from foreign firms, one essential strategy for growth for Swedish SMEs is internationalization, in order to assure the long term growth of the firm. Two of the most important factors during the internationalization process are the access to capital and access to knowledge. The Swedish Agency for Economic and Regional Growth (Tillväxtverket, 2011) among others, have identified that SMEs lack these, and as such can be identified as hurdles to growth. Given the amount of research pertaining to these aspects and the susceptibility of SMEs in these areas this complex issues are of interest in order to bridge both the knowledge gap and the financial gap.

1.3 Purpose statement

This paper will observe how four Swedish SMEs have bridged the knowledge and financial gap during their Chinese internationalisation. Furthermore, an account will be given of the underlying triggers that explain their desire for presence in China. Due to the broad nature of the subjects handled this paper will aim to build a foundation for further research concerning this subject.

1.4 Research questions

In order to analyse the problem statement, different theories on financing and internationalization are to be utilized. By utilizing these theories as a foundation this paper will give an account of how Swedish SMEs have overcome knowledge and capital constraints. Furthermore, they aim to acknowledge and assist when analysing the problem statement. The questions deducted will be as follows:

- What triggered the Chinese internationalization?
- In what manner was the knowledge gap bridged?
- How was the firm influenced by network structures?
- What entry mode did the firm utilize in their initial internationalization?
- In what manner was the financing gap bridged?
- What influences this manner in the choice of financing?

In addition to identifying the theories which are needed in order to serve the purpose, these research questions will provide the blueprint for the interviews which in turn will generate the empirical data.

1.5 Delimitations

Because the study is only looking at Swedish SMEs with presence in China the thesis in itself is limited to firms which carry these limitations.

1.5.1 Definitions

SME - Small and medium sized enterprises (SME) have been defined by the European Commission as having employed not more than 250 people, counted according to staff headcount which only account for full-time employees. They should have an annual turnover not exceeding 50 million euro.

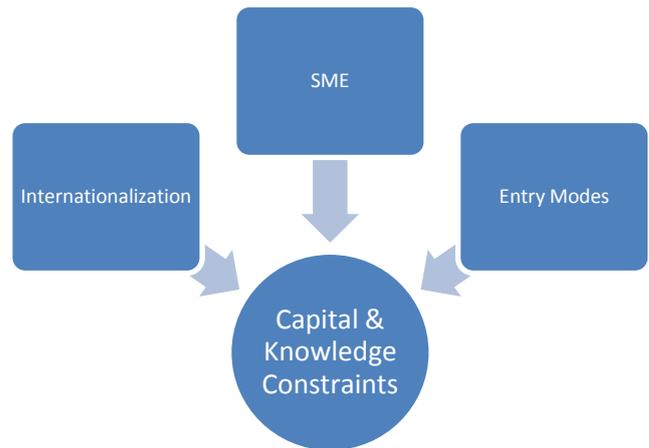
- A medium sized enterprise should employ less than 250 persons and have an annual turnover not exceeding 50 million Euros and/or total 43 million Euros in annual balance sheet.
- A small sized enterprise should employ less than 50 persons and have an annual turnover/ annual balance sheet not exceeding 10 million Euros. This is the most common type of enterprise in Europe.
- Micro sized enterprises should employ less than 10 persons and have an annual turnover not exceeding 2 million Euros. This is the smallest type of enterprises in terms size in the business sector.

This definition is enforced only for firms seeking government grants and funds that are only available for firms under this SME definition. However, for the purpose of this study an extension to this definition has been made. It is assumable that firms with up to 500 employees will experience the same sort of capital and knowledge constraints as companies with 250 employees. Ergo, this definition will extend to firms employing up to 500 employees during the time of their internationalization. In addition to this, a majority of firms entering China has a workforce less than 500 employees.

1.6 Disposition

1.6.1 Introduction

Introduction will build an underlying understanding and through this identify the problem which will be used in order to explain the purpose of the study. This section is divided into four broad parts which aim to form a general understanding of the topics as well as to identify the problem.



1.6.2 Method

Following the introduction, the method will provide an explanation and description of how the subject of the study is tackled, and in which manner the problem is intended to be solved. A description of how data is acquired and how the problem and research questions are analysed is provided here.

1.6.3 Theoretical framework

In order to properly understand the problem and how it is intended to be analysed a number of theories are presented. The theories are identified using a number of research questions, from these research questions, the theories are intended to align with the research questions.

1.6.4 Results

Chapter 4 will provide the empirical findings from the interviews as well as provide the analysis and conclusion drawn from the theories and empirical findings. Furthermore, a discussion is presented to reflect on the conclusion and suggestions to further research are presented.

2 Method

The purpose of this study is to observe how four Swedish SMEs have bridged the knowledge and financial gap during their Chinese internationalisation. This will be accomplished by interviewing four Swedish SMEs that already have underwent the internationalization process to China, in order to establish a comprehensive view of the internationalization process and financing decisions of the four Swedish SMEs.

The research approach that will establish such view is the qualitative approach. Although this approach is perceived to generate an uncertainty between the reality under study and the research result, prior research utilizing this method has generated valid results (Alvesson & Sköldberg, 2009).

2.1 Research approach

As a means to acquire necessary understanding about the process of internationalization and corporate finance and in particular how the two applies to SMEs, the Jönköping University library was utilized together with journal databases, such as Primo, which Jönköping University library provides, and Scopus, to gain secondary data. In addition, because this study will follow a qualitative approach, face to face interviews will be conducted at the offices of the four Swedish SMEs to acquire primary data.

In this paper the theories will serve as a point of departure from where the empirical data will be gathered so as to arrive at a realistic application. This will help to identify a comprehensive approach to internationalization and financing decision at four Swedish SMEs.

2.2 Theory of science

James (2007) states that qualitative research is a flexible way to reveal what the interviewee's personal biases are and how these affected their decisions. In addition, this approach is also a highly flexible way to amass information.

Qualitative research can take many forms, however this study will take its stance from an epistemological position. Since epistemology is the theory of knowledge this study will question known factors involved in the financing and internationalization process so as to construct a link between the knowledge development and processes (Staller, 2010).

A method of acquiring qualitative data is through the use of interviews. The interviews performed in this study will be conducted in a semi structured manner with some structured questions which will guide the interview. Finally, the interviews will be performed face-to-face, which gives the interviewers chance for clarifications to confusing questions. However, the main disadvantage of this type of data collection is that the interviewee has only real-time answers, which might not be entirely accurate (Persaud, 2010).

The empirical data gathered from the interviews will provide a comprehensive picture of the findings as well as to make sense of models and theories (Major Howell & Savin-Baden, 2010) pertaining to internationalization and financing. Financing decisions can be approached from a variety of different angles, and is thus a complex issue (Harris & Raviv, 1991) which provides for a comprehensive view of the firms financing behaviour. In addition, since internationalization gives recognition to a process which is vague and with unclear factors (Agndal, 2004) this method suits these issues that arise within the research topics.

2.2.1 Primary data

The primary data are collected through primary sources, such as self-administrated surveys and interviews, and are created in a specific time period for a specific purpose, e.g. research study (Persaud, 2010). In this paper, the primary data will be collected through face to face interviews. This method of data collection has been chosen due to the complexity of the topics that are to be researched.

Primary data has neither been changed or interpreted by another author and gives thus the highest form of credibility (Persaud, 2010). However, the firm might give information that would enhance the perception of their firm and thus decrease this credibility. In addition, some data might be too sensitive for the firm to distribute which ultimately give rise to gaps in the data that makes analysis difficult.

This implies that the data that will be acquired is of a biased nature. However, the data that is required in this study is only available to individuals that were close to the firm's internationalization process. This information is difficult to acquire from anywhere else. It should, however, be noted that the acquired information should be approached cautiously.

2.2.2 Secondary data

The secondary data is information that has already been collected for other specific studies or research (McGinn, 2008). The theories pertaining to internationalization and corporate finance as well as information on entry modes will make up the secondary data collection in this paper. Such information is usually gathered from previous studies and research that has been conducted by other researchers (Persaud, 2010).

The theories and information on the topics of internationalization and corporate finance will in turn be utilized to establish both research questions and interview questions. However, the issues arising from the use of previous researches is that they are taken out of its original context (McGinn, 2008).

2.3 Applied method

Since this study aim not to relate the empirical data to a population, instead it aims to generate an understanding of how resource constraints have been bridged at a few selected Swedish SMEs, the paper will follow a qualitative approach. The nature of this study is rather vast with a broad array of theories and model relating to internationalization and finance. Furthermore, China introduces further variables that are needed to consider and as such this broad array is best portrayed by a single key individual, at different firms, that have a clear perception of how this process underwent and what resulted from it.

The advantages of this study is the possibility to lay a foundation for further research on this broad topic as well as to indicate details of which was perceived important during the internationalization phase.

Theories and models on internationalization and corporate finance will serve as the link between the research questions and the interview questions as well as the link between the empirical data and the analysis. As such, this study will have a solid foundation which relies on both real-life problems and already established theories on the topics under scrutiny.

2.3.1 Sample collection

The process of sampling is to find a portion of a population that is representative and provide information that is reliable and free from bias. There are two approaches to sample data sources, probability approach, where the whole population has an equal

chance of being selected, and non-probability approach, which does not use random sampling (Fritz & Morgan, 2010).

The non-probability sampling approach, as used in this study, is manifested through online research with the help of pre-established delimitations; Swedish SMEs having already established a presence in China. Since the purpose of this study is that of qualitative nature, the sample size will be limited to a few firms in order to focus more on the details rather than the bigger picture of internationalization and financing.

2.3.2 Sample selection

The firms selected for this study carry a varied degree of presence in China. The intention for this selection was to spot differences in the internationalization process and the amount of finance required. The firms selected were:

- Liljas Plast
- BUFAB
- Konstsmide
- Midsummer

These firms were selected because of their various presences in China and their varied characteristics. However, in spite of the differences the firms are all identified as Swedish SMEs, i.e. employing less than 500 employees. The Swedish Chamber of Commerce in China and gnosjoregionen.se were utilized in the location process of these firms. These websites were utilized due to the connection to China as well as Jönköping, and as such aided the approachability to the firms in order to conduct face-to-face interviews.

The aim of this study is to emerge with ideas, described experiences, views, and perspectives that provide more depth and width which is not able to achieve with structured questionnaires (Brett Davies, 2007). This is also the reason that only four samples are used in this study.

2.3.3 Interview

Qualitative research is based on interviews and observations that generate information which can be analyzed in a subjective context (Brett Davies, 2007). Therefore, the diffi-

culties linked with this method are to possess the required skills to both perform an interview and analyze the empirical data accumulated.

The advantages of face to face interview is to gather information beyond what was initially intended and in addition, allows follow up questions, which is characterized by unstructured interviews (Crawford, 2009). This is also the type of interview that will be utilized in this study since theories and models are merely secondary to real experiences and applications practiced by the firms. Unstructured interviews are advantageous if depth rather than width that are of interest to the researcher (Firmin, 2008). However, due to the depth of the theories and models posed in this paper, depth is only of interest when a firm identifies if one hurdle was more prominent than the other which ultimately allow us to gain a proper understanding of the problem developed in this paper.

A recurring critique against the use of qualitative method is that of bias, if information gathered from one single source that is suspected to contain biased views the less value the information gathered holds (Alvesson & Sköldberg, 2009). The subjects interviewed holds little part of the ownership in the firm as required in order to mitigate biases. Although, they might possess biased beliefs in the firm, it is assumable that their beliefs are disproportionate to the owners' beliefs. The key individuals interviewed are as follows:

Position in the firm	Firm	Date
CEO	Liljas Plast	6/4-2013
Financial Manager	BUFAB	4/4-2013
Executive Vice President	Konstsmide	6/4-2013
Founder & CEO	Midsummer	11/4-2013

Table 1 presents the positions the interview subjects hold in the firms that are researched.

3 Theoretical framework

3.1 Internationalization

Internationalization is a wide and broad term, it is unclearly defined, and yet, is vastly different than any other activity of a firm (Agndal, 2004). As a firm opts to internationalize there are many different variables to take into consideration such as market choice, amount of commitment and mode of entry, these are chosen after one another and all entail a change based upon each other. Agndal (2004) argue that internationalization should be seen as a process which changes as time goes by, this is commonly referred to as a stage model. One of the most influential stage models is the Uppsala model (Johanson & Wiedersheim-Paul, 1975) which is quoted in a vast amount of published papers (i.e. Balkow, 2012; Agndal, 2005; Hohenthal, 2001).

Hohenthal (2001) also mentions the Eclectic paradigm and Network Theory Approach, which serves as models to identify triggers to internationalization, and as such these will also be brought up in order to gain a better understanding of internationalization.

3.1.1 Uppsala model

According to Johanson & Wiedersheim-Paul (1975) the firms expanding will display two different patterns as it internationalizes. First, it states that the firm has four possibilities of expansion, namely:



Figure 3 describing the process of internationalization according the Uppsala model. Source: Johanson & Wiedersheim-Paul, 1974, pp. 307.

The assumptions of these steps is that the first step (no regular export activities) require no commitment, but the more knowledge and experience the firms gathers the greater the commitment will be (Johanson & Wiedersheim-Paul, 1975). The model states that the firm will begin with no exports and consequently, through incremental decision move into a greater state of commitment and ergo increasing its presence in the foreign market gradually (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Johanson & Vahlne, 1990). This process is known as the establishment chain (Johanson & Vahlne, 1975)

The second pattern identified is that the firm will primarily expand into countries that are psychologically near (Johanson & Vahlne, 1977). This psychic distance is defined as “The sum of factors preventing the flow of information from and to the market. Examples are: ‘differences in language, education, business practices, culture and industrial development’ (Johanson & Vahlne, 1977, pp. 24).

The model further takes a look at two different aspects, the state aspects and change aspects. The state aspects are market commitment and market knowledge, and the change aspects are the commitment decisions and current activities. The market knowledge and market commitment are the deciders on the commitment of resources to foreign markets and the way activities in these foreign markets are managed. In the same manner market knowledge and market commitment are affected by current activities and commitment decisions (Johanson & Vahlne, 1977). They define this process as casual cycles.

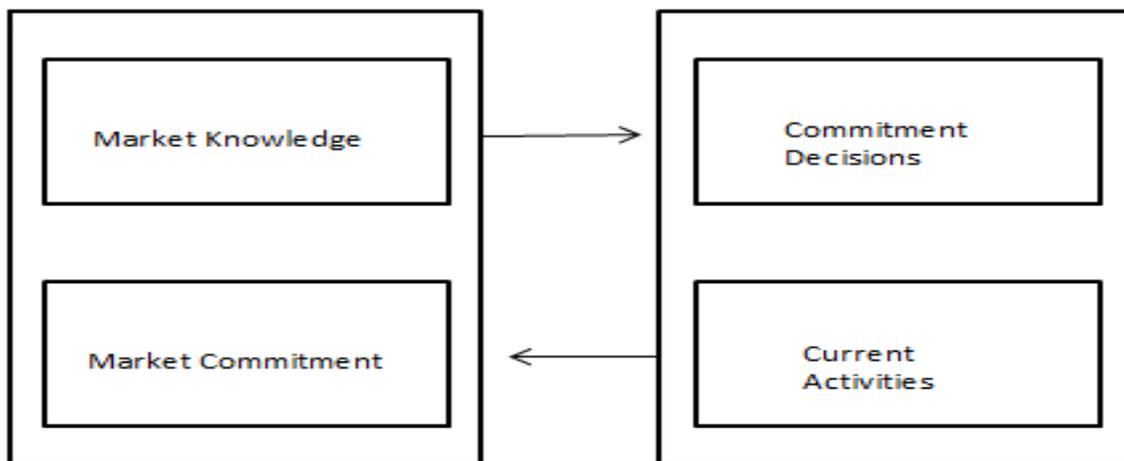


Figure 4 This is the Uppsala internationalization model conceptualized. Source: Johanson & Vahlne, 1992

Market commitment

The market commitment is the amount of resources located towards a specific market. There are two kinds of commitments, the amount and the degree of the commitment. The amount of resources is quite simply size of the investment. The degree is how much of the resources committed to a specific market. They are generally located in the country, but not necessarily, for instance resources located in the home country but used to develop goods for the foreign market is a commitment towards the foreign market. The more specialized the resources are, the more committed they are to that market (Johanson & Vahlne, 1977).

Market Knowledge

In the model knowledge is divided into two different kinds of knowledge: Experiential and objective knowledge, where experiential knowledge is only acquired by experience whereas objective can be taught. The experiential knowledge is important during internationalization because it creates a way to define and see opportunities. The amount of knowledge (especially experiential) has a direct correlation to the amount of market commitment, the higher knowledge, the stronger the commitment (Johanson & Vahlne, 1977).

Current Activities

The business activities is the current state of the company at a given operation, it is the main source of experience for the company. It is considered to be lagged because the effects of decisions cannot be seen instantly. Because of this learning process internationalization progresses slowly (Johanson & Vahlne, 1977).

Commitment decisions

The commitments made are assumed to always correlate to never exceed the maximum of tolerable risk, if the company exceeds the tolerable risk the company will undergo uncertainty reducing actions. The commitment decisions are greatly affected by the perceived opportunities and problems, which are derived from the knowledge of the market (Johanson & Vahlne, 1977). Further commitment to the new market will be done in small steps.

3.1.2 The network theory approach

One approach towards explaining internationalization is to look at individual firms and their surrounding actors. The network theory approach involves extracting the individual firm out of their isolation and look at them through their relation to other actors on an international level (Hollensen, 2001). This approach is known as the network theory approach. In their work, Johanson & Vahlne (1992) takes a look at their previous model, the Uppsala internationalization model, and investigates the importance of the business networks for the firm during their internationalization face.

In this approach it is stated that as the firm internationalizes different actors surrounding the firm will have different interests and goals surrounding the firm and its ventures. They state that due to the fact that firms will engage in businesses with each other a framework is established, from which the firm will then operate from. These networks

are not transparent, and the relationships that underlie it are subjective, and as such it is difficult for outsiders to understand and can at best get a brief idea of them.

Hadley & Wilson (2003) concludes that the internationalization is a result influenced by actors operating in the vicinity the firm. Furthermore they state that the process of internationalization can be explained by looking at how the firm over time has developed and terminated its networks. In addition to this they also state that he firm can draw opportunities from within its networks during the internationalization process.

The network theory approach states that the choice of internationalization is not a strategic choice by the firm but rather that the firm internationalizes due to external actors exerting influences. As such is looks primarily at the interactions between actors and accepts it as the most important factor. It also states that the change and static aspects are multilateral rather than unilateral (Johanson & Vahlne 1992).

3.1.3 Eclectic paradigm

The eclectic paradigm states that in order for a company to commence internationalization and begin production in a foreign country one of three advantages has to be drawn. The advantages that can be drawn are the following:

Ownership advantages entail that the firm draws an advantage through the ownership of a foreign production which entails such as returns to scale, entrepreneurial skill or production technique. The ownership advantage also claims that the firm can draw advantages by being able to market themselves with their subsidiary, through omnipresence the firm utilizes; the firm can be closer to its customers across the world.

Locational advantages means that the firm draws advantages through the locations specific advantages such as access to lower labor costs, access to raw materials or special tax cuts. These are specific for the country that they expand into, it draws specific advantages that the country can offer.

Internationalization advantages are advantages that the firm draws by cutting expenses and drawing advantages from not having to license production and buying from foreign producers. This would for instance be viable if the firm would be able to produce merchandise at a lower price than its subcontractors (Hollensen, 2001).

Depending on the advantage drawn, the firm will differ in what entry mode it selects due to the fact that certain entry modes will not justify the advantage. If none of these advantages can be drawn the firm will not commence internationalization in that country. However, this is a broad definition and it fails to completely explain the internationalization, it should merely be used as a means to understand underlying motives for expansion (Dunning, 1988)

3.2 Psychic distance to China

When the firm is in its internationalization process one of the major factors to take into account is the psychic distance (Johanson & Wiedersheim-Paul, 1975). The psychic distance will impose hurdles and can ultimately lead to the demise or success of the firm. Psychic distance is defined as: ‘factors preventing or disturbing the flows of information between firm and market’ (Johanson & Wiedersheim-Paul, 1975, p. 308). More often than not this distance is interchangeable with geographical distance.

There are many ways to analyse and understand a country and countless models and theories have been conceptualized. For the purpose of the study, Hofstede’s cultural dimension theory has been chosen to look at China in order to acknowledge the distance to Sweden.

During the 80s and 90s Hofstede’s cultural dimension theory emerged as one of the strongest influences when analysing and understanding how different cultures work and interact (Rae, 2008). Although recent research is moving away from the theory it is still one of the most influential models for understanding cultural differences. The cultural dimension theory looks at 5 different variables namely:

The power distance which identifies the distance that is accepted between powers in a society, for instance how much authority the manager can exert on employees.

Uncertainty avoidance which explains the amount of risk and uncertainty a culture is willing to accept. A firm within a culture with a high uncertainty will avoid projects which entail a high risk.

Individualism vs. collectivism, showing how high the propensity is that people prefer to work in groups or independently, this also include the way a culture will look at suc-

cess, as individual or as a group. It will explain whether a culture encourages personal success or collective success.

Masculinity vs. femininity compares whether or not the culture emphasizes competitiveness versus relationships. This becomes increasingly important within in a business environment.

Long term versus short term orientation acknowledges the importance of future emphasis on the long-term business conductment vs. short and present within cultures.

Shown below is a comparison between China and Sweden.

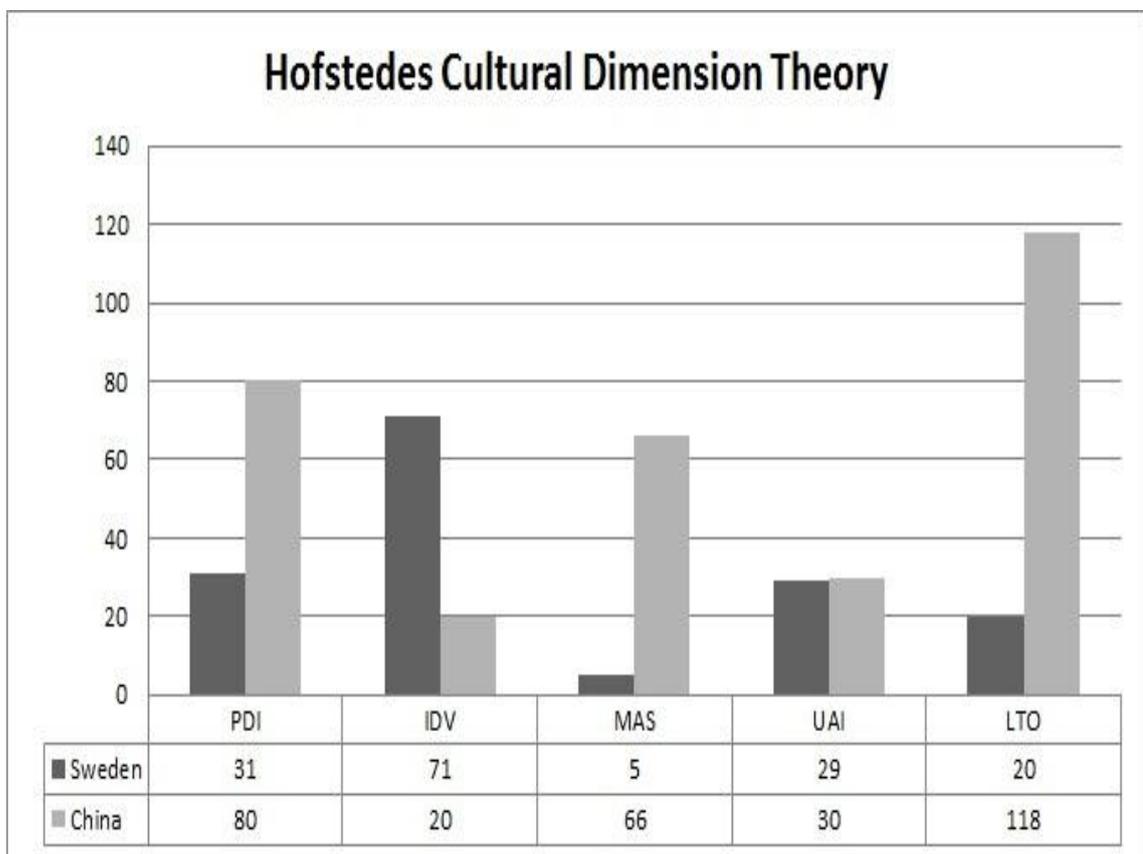


Figure 5 shows a comparison of Sweden and China, the different bars symbolize the different factors which the cultural dimension theory takes in account. Source: geert-hofstede.com

In accordance to this analysis it is acknowledged that the vast psychic distance it is between Sweden and China.

The implication drawn from the vastly distant countries is the notion that the firm will experience China as risky, and the experiential knowledge as explained by Johanson & Vahlne (1977) required will be vastly different than that of any other country.

3.3 Chinese entry modes

Special Economic Zones (SEZ) are localities with tax and business incentives to attract foreign investments (Leong, 2012); consequently SEZs were established to attract FDI and to generate a rapid economic expansion in China. Internationally, SEZs attracted foreign investors as they perceived this as pure market liberalization with low taxes and incentives for FDIs.

When Deng Xiaoping took over the power of China, a transformation of their economy began and shifted focus towards economic growth. At that time the goal was to become self-reliant as a society (Potter, 1993), however, as China began their economic development they discovered that they were far behind other countries in terms of technology and knowledge. In order to experience a steady GDP growth the Chinese government created SEZs. Between 1979 and 1982 the government changed the Chinese constitution to support the FDI program (Potter, 1993). Furthermore, SEZs do not maintain a systematic tax policy between the different FDIs (Wang, 2012).

Since the establishment of Special Economic Zones China has been an attractive country for foreign investors to enter. Since the 1990s more firms emphasis on the Chinese market (Ali & Guo, 2005; Zhang, 2006). In recent years China has undergone a transition from mainly being an attractive country for the low production cost to having a domestic market that is attractive for firms to tap into. The most common FDI in China are Wholly Foreign Owned Enterprise (WFOE), Equity Joint Ventures (EJVs) and Contractual Joint Ventures (CJVs) (Ali & Guo, 2005).

3.3.1 Contractual joint ventures

A contractual joint venture (CJV) is a limited liability company that distributes equity capital and management control to a Chinese partner, thus a CJV is a type of FDI in which the partners negotiate the terms of the partnership. The partnership itself is, however, not regulated by the Chinese government, instead by the business partner's agreement (Wang, 2007). By 1988 CJV transitioned from a modest foreign investment to be approved as the first type of FDI in China. This was finalized with the Cooperative joint venture law (Potter, 1993), and before that date CJV was not regarded as a FDI. There are no limitations on the duration of a CJV, nor any laws or prohibitions for cancelling or withdrawing from a CJV (Wang, 2007). CJVs should be considered as a temporary relationship where quick entries and flexibility are prioritized.

3.3.2 Equity joint ventures

The complexity of equity joint ventures (EJV) is that each partner contributes with capital, facilities, equipment, and land permits (Luo, 2000), ergo the share of profit or loss is regulated by the equity hold by each partner. EJV is an attractive entry mode since it provides access to the Chinese domestic market through the Chinese partner's distribution network, market knowledge and market access. The Chinese government supervises strict control of the EJV, which makes it rather comprehensive to utilize EJV to its full potential (Wang, 2007). Furthermore, it requires the foreign investor to share at least 25% of the total equity. According to Ali & Guo (2005) the EJV requires the foreign investor to not only share capital but also management, technology and capital information.

3.3.3 Wholly foreign owned enterprise

Wholly foreign owned enterprise (WFOE) is established solely by a foreign company that wants to utilize their own capital and have complete responsibility and control concerning all types of risks, gains and losses (Wang, 2007). Before 1986 the Chinese government established strict regulations for WFOE to prevent companies from taking advantage of China because it was perceived to undermine the Chinese independency. However, this has emerged as the most common type of FDI (Potter, 1993). Wang (2007) also acknowledges this increased practice of WFOE due the advantages of full ownership and management control it is currently most commonly practiced. Foreign investors still need to endure the complicated regulations which subsequently encourage them to draw advantage of intermediaries to manage the bureaucracy required to set up a subsidiary (Luo, 2000). Firms utilizing WFOE show a higher profitability compared to the other FDIs (Pyke, Farley, & Robb, 2002). An assumption can therefore be drawn that a foreign firm performs at its full potential without involvement of Chinese partners.

However, there are cultural differences and language barriers which hinder a successful relationship between the Swedish SME and the Chinese intermediary/supplier (Balkow, 2012). Ergo the barriers are so divulge that Swedish SMEs do not recognize whom they are sourcing materials from. In addition, labor costs in China are still considered low, implying that it is still attractive for manufacturing firms to expand to China (Balkow, 2012). The future of Chinese FDIs depends on how the Chinese government will bal-

ance the desire for technology transfer and domestic market protection (Zhang, 2006). This shows the dependency on the regulations set by the Chinese government for FDI.

3.3.4 Exports

Exports can be used when the firm lacks the required knowledge to enter a foreign market or lack the capacity to start a subsidiary. Hollensen (2007) describes that exports is mainly used in the initial stage of an entry and can be transitioned into foreign based operations. The intermediaries involved in the export will vary depending on the industry. Furthermore, when establishing export channels the firm needs to make decisions contingent on the actual functions and the purpose of the exports. In export the responsibility is weighted on the external agents.

Indirect exports refers to the use of agents to get the actual products into the targeted foreign market, thus export agents receive commission for the exported goods. In addition, the activities are often without the involvement of the manufacturing firms in the foreign sales (Frederick, 2009).

Direct exports refer either the direct sales of products or arrangements with the foreign buyer without the involvement of intermediaries. The involvement often cover physical delivery, documentation and pricing for the firm that sells products to the distributors and agents (Roy, 2009).

An exporting firm will trade with different currencies and are thusly not dependent on fluctuations as well as crises in one country. Furthermore, a product or service might be more valuable in other markets which decrease the unit cost of production. However, if the firm has chosen to export it will lack the market specific knowledge due to their absence in the country (Yalcin, 2009).

3.4 Theories on corporate finance

Theories on corporate finance provide understanding for how firms choose to finance their operations as well as investments. The theories in this section will serve as an inception to the questions developed for the interview part of this paper.

The agency cost of capital will provide an understanding for how potential conflict of interest can arise. Subsequently, this theory will help to establish how the relationship

between the owner and manager of a firm impact the decision making process of the firm as well as the conflicts that might arise during this process.

The remainder of the theories will generate an understanding of the financing behaviour a firm have as well as to arrive at an objective for a firm with their type of financing. Since different theories states different objective of a firm, it is important to understand why a firm takes on certain projects and their reasoning for their choice of financing.

3.4.1 Agency cost

Jensen and Meckling (1976) describe the agency cost as the cost of monitoring by the principle, the bonding expenditure of the agent, and the residual loss. The principle is believed to engage an agent, a person, to be in control of some decision-making. This power that is invested in the agent could be taken advantage of, if the principle does not set up suitable incentives for the agent and incurring monitoring costs to mitigate this behavior (Jensen & Meckling, 1976).

Monitoring costs are those costs incurred while for instance restricting decision-making power of the agent, where the cost is the loss in forgone profitable investments, the cost of accounting procedure since managers need to report to shareholders via audited accounting statements (Fabozzi, 2008). A bonding cost is the cost incurred by the manager for promising his loyalty to the company, even if more favorable employment opportunities are presented whereas the residual loss is the loss incurred because the agency relationship between managers and shareholders cannot be perfectly aligned and thus generates additional losses (Fabozzi, 2008).

Agency cost theories delves with the implications of conflicts of interest and the costs incurred. Brennan (1995) explains that agency problems arise because it is impossible to find an agent that is free from biased objectives. Jensen and Meckling (1976) states that a managers' commitment to his job is based on right incentives. They propose that if a manager owns all equity in his company his commitment to find and manage lucrative projects are very high, however if his ownership is diluted by selling some of his equity to outside investors he will only be as committed to the company as represented by the stake he himself holds (Jensen & Meckling, 1976).

Harris and Raviv (1991) explains this by stating that if managers get less than 100% from the value maximizing activities that they perform, their intentions will be not to

perform such activities. However, since the managers hold all the costs associated with these activities incentives are given only to perform such activities that maximize the managers 'utility instead of the shareholders' (Harris & Raviv, 1991).

Jensen (1972) presented a method to mitigate the conflicts between managers and shareholders. Such a method could be to increase dividend, so as to give fewer resources to the manager under control. This would reduce the problems mentioned above through the increase in cost of acquiring external funding. However, dividends are not fixed payments and although a decrease in the payout is punished by the capital market by a subsequent decrease in stock price it does not provide sufficient control of management. Debt is thus proposed to be a better tool since it could be used for buybacks. As such, the shareholders, that receive the debt payment, have the advantage of going to court if the interest and principle payments are not maintained (Jensen, 1972).

Harris and Raviv (1991) describe how conflicts of interest between equity holders and debt holders can appear in both old and young firms. This conflict is based on the idea that a firm with a default-free track record is more dependent on its reputation of being able to repay its debt. A good reputation serves the firm with lower cost of debt. A firm without, or lack of, track record would be more inclined to take on risky projects since its cost of debt is set to absorb the perceived higher risk that is caused by the firm's lack of reputation. Since riskier projects equate higher return the young firm may after such investment henceforth take on more safe projects (Harris & Raviv, 1991).

Jensen and Meckling (1976) show how this could be taken advantage of. In a so called asset substitution, the manager has two investments where one is a safe investment and the other is a riskier investment. It is known that safe investments are preferred by the creditor and as a consequence the bond will include a lower risk premium than what would have been included in the riskier project. The manager promises to engage in the safe project but after acquiring the necessary capital he invest the money in the riskier project, which is assumed to require the same amount of capital. Since riskier projects have higher probability of failure it will, if successful, generate higher return. Thus, with lower risk premium and higher return the manager have transferred wealth from the bondholder to the equity holder (Jensen & Meckling, 1976).

In conclusion, managers are the agents and the shareholders are the principles. The conflict of interest between these two incurs costs to the firm, agency cost. Debt and dividend are two possibilities to limit the agent's decision-making power by reducing available free cash-flow. However debt is described to facilitate stricter control over the agent (Jensen, 1986). Conflict of interest can also occur between lenders and shareholders of a firm. Thus, firms make their financing decisions according to their type of agency conflict and the tools necessary to mitigate these costs. The type of financing decision is based on the amount of agency cost a specific company realizes and the amount of resources available to the agent for investment purposes.

3.4.2 Asymmetric information

The pecking order theory falls under the 'asymmetric information' category since it deals directly with the idea that: 'a firm's managers know more about the value of its assets and opportunities than outside investors do' (Myers & Majluf, 1984, pp. 188).

Myers and Majluf (1984) explain that a firm will choose not to fund an investment through issuance of new shares due to the assumption that managers act in the interests of existing stockholders. Even though this investment has a positive NPV, if the firm does not have enough slack or are not able to issue default-risk-free debt the firm will pass up on the investment. However, they will only do so if new share issuance is needed to finance this project. A firm would prefer to fund their investments through retained earnings (internal sources) rather than debt, and in turn prefer debt over equity (Myers & Majluf, 1984).

Myers and Majluf (1984) propose that if the management of a firm acts in the interest of its existing shareholders it will not issue common stock for a lucrative investment as a first priority. The existing shareholders shares will be diluted and the cost to them by issuing shares may outweigh the investment's NPV. The authors propose that share issuance will be correctly priced on average. However, a single investment may be under or overvalued. Then, if an investment is very lucrative and outside investors are oblivious to this fact, issuing shares to finance this investment at a lower price the cost to the existing shareholders will be greater than the investment's NPV. Thus, the firm might choose not to invest in this project and in effect might have passed up on a very lucrative project (Myers & Majluf, 1984). In addition, the more equity hold by the manager the more his own success depends on the success of the project (de Meza and Webb,

1990) which would imply that the choice of financing is much dependent on the manager's confidence in the project.

Watson and Wilson (2002) make a great depiction of the reason why managers prefer retained earnings over debt. External financiers of debt may not want to invest in a perceived risky project if risk assessment, monitoring, and intervention technology is not present. They might reject the project if interest rates are too low to cover the perceived risk (Watson & Wilson, 2002). This logic stems from the adverse selection problem; in a sea full of good and poor quality projects lenders may find it difficult to distinguish what projects is of good respectively poor quality (Leland & Pyle, 1977).

The lenders must maintain an equilibrium interest rate so as to cover the equilibrium number of projects. However, if management of a firm has more information about a project this equilibrium interest rate might outweigh the project's NPV. As such, management will prefer retained earnings to finance their investments. Moreover, Myers and Majluf (1984) says that retained earnings are preferred over debt since debt carries with it some form of bankruptcy cost. Under the assumption that manager's act in the interest of existing shareholders issuing debt will ultimately make the existing shareholders take on greater risk; which they initially did not sign up for.

In conclusion, due to market imperfections and cost to existing shareholders it is more favorably for firms to invest in lucrative projects with retained earnings rather than debt and equity and in turn prefer debt over equity.

3.4.3 Contentment hypothesis

This theory proposes that financing follows the same sequence as the theory on asymmetric information (Bell & Vos, 2009). The main difference between the contentment hypothesis and the pecking order theory is that of the main objective of the firm. It assumes that the manager's main objective is to maintain control over the firm. Consequently, equity would be the least preferable source of capital. This would be true if the manager is also the owner of the firm. The true contentment in managing a firm is not making money (which is merely a means to maintain commitment) but is in the connectedness with other entrepreneurs (Vos, Yeh, Carter & Tagg, 2007). This would imply that the owner of a firm is more interested in the social aspect of managing a firm rather than maximizing their own wealth.

In conclusion, this theory assumes SMEs desire growth and subsequently do not wish to maximize its financial wealth. The preferred source of finance is personal savings and retained earnings thus showing a tendency to follow the pecking order theory.

3.4.4 M&M theorem

The assumptions of the model are that the firm's objective is profit maximization and value maximization. Thus, since investments can be financed through either debt or equity, if a firm wants to maximize profit the investment must create a yield greater than the interest rate. The same reasoning applies to a firm that wants to maximize firm value. Consequently, in order to venture out with an investment, the cost of capital must at a minimum be equal to the interest rate if and only if the return of an asset is certain. The essential in this theorem is the irrelevance whether to fund an investment through debt or equity (Modigliani & Miller, 1958).

Ross (1977) explains that since debt payment is not part of a firms' income it would be reasonable to believe that the more debt a firm undertake the more it would benefit the firm thanks to the tax shield created out of the tax deductibility on interest payments. However, Modigliani and Miller (1958) did not take tax deductibility into consideration in this theorem. The assumption is based on perfect market conditions where a rise in leverage must yield a fall in the price per dollar of a levered cash-flow (Modigliani & Miller, 1958). As such, added leverage will add little, or none, to the decrease in cost of capital whereby funding investments through either debt or common stock issuance need little distinction.

However, Modigliani and Miller (1963) later made a correction to their first proposition by including the tax advantage of debt. In this paper they came to the conclusion that debt financing would be cheaper than equity due to the tax deductibility on interest payment. As such, a value/profit maximizing firm would take on maximum amount of debt. The authors did however issue a warning of acquiring too much debt. This would provide the firm with a reserve so as to meet future obligations, such as unexpected increase in spending on a particular project.

In conclusion, regardless of the type of funding used the cost of capital will remain neither decrease nor increase. Therefore, the main concern when evaluating investment opportunities is to find whether it adds value or increase the firm's profit above the interest

rate, which again is the cost of capital. In particular cases where tax advantage of debt is most advantages of the two type of financing options a firm is expected to issue more debt than common stocks for financing purposes.

4 Empirical findings

After conducting interview with the four chosen firms, we have conducted the empirical here. The information is drawn through interviews with the firms. The interviews were based upon the research questions.

4.1 Liljas Plast

Liljas Plast was founded in 1964 and the current owner acquired the corporation in 1979. The firm is currently under the ownership of the Granstrand family which consists of four family members which each controls 25% of the firm. In addition to this, they compose the board of directors which also includes one member from outside the family. The entirety of the family takes part in the day to day operations of the firm. Liljas Plast is a holding firm which control three wholly owned subsidiaries located in Sweden; in addition to this it controls 50% of a subsidiary in China. The group's annual total turnover is around SEK 260 million and employs approximately 180 people.

At the time of the expansion the firm had approximately half of the employee base and turnover that it has today. The firm also considers its Chinese subsidiary a major success. The subsidiary in China was wholly owned by Liljas Plast however they joined forces with another Swedish company.

4.1.1 Internationalization

The first contact that Liljas Plast experienced with China occurred in the middle of the 90s, when they began importing machinery equipment from China. However, at this time the contact was limited, and was limited to importing. The initial expansion into China occurred in 2008, at which point they had no previous experience with internationalization, and subsequently had no experiential knowledge.

The initial trigger to internationalization was customer recommendation. There were customers who claimed that it would be of benefit to the Liljas Plast if it underwent an expansion into China. Customers wished for Liljas Plast to be able to serve them in China. The company claims that there were internal network structures which initiated the expansion, the company in effect, followed its customers. Currently the company's customers are the same in China as in Sweden and as such the network has sustained

and developed to the Chinese expansion. In addition, they believed that a presence in China would contribute to the growth of the firm.

Liljas Plast presence in China has generated advantages since they are now able to produce samples for customers as well as mass-produce them.

The company recognizes many advantages of being in China, they consider China to be a low cost country and claims that the possibility of cheap manufacturing is attractive to them, but above all the advantage drawn from Chinese presence is the marketing value of owning a subsidiary in China, the company can always claim to offer Chinese production and proximity within the Asian region to potential customers. The company uses the same business model in China as it does in Sweden, and does not change this depending on the market it is operating in.

The company had no knowledge of China prior to the expansion, in order to bridge this they, through references hired a consultant who was given a sum of money with which he was to create a subsidiary in China. The company at no point intervened and the entirety of the expansion was put upon the consultant's supervision.

The company acknowledged a large risk with entering into China, both due to the lack of knowledge, and the instability of China in itself. Due to this the amount of resources spent on entering China was limited and the company felt that if the money was lost, the company would be able to handle the recoil. The firm's idea was to initially spend a minimum amount of resources and after that expands it organically as they acquired a deeper understanding of the market. In addition, they did not experience any difficulties with the Chinese culture.

4.1.2 Entry modes

Liljas Plast decided in 2005 to hire a consultant to help them enter China. This consultant was told to procure a warehouse, machinery, equipment and personnel which he had previous experience in performing. For the simplicity Liljas Plast tries to use the same business model in Sweden as in China; however CEO of Liljas states that they have to be open minded to the Chinese business practices.

CEO of Liljas also states: 'It is 100 percent owned by Swedish absolutely and it has never been on the table to do a joint ventures or that we would have Chinese partners'. CEO of Liljas also mentions that during the entry in China they were recommended to avoid Joint ventures. As Liljas Plast is a small company, the entry did not require a lot of capital rather they want the freedom of controlling everything in the company.

Liljas Plast has the opportunity to sell to the Chinese market but due to regulations it is considered to be too complicated. The major issue for Liljas Plast is the bureaucracy in China. The CEO of Liljas said that in order 'to receive our business license we had to have a warehouse, or we would not have everything ready for it, and when we meet with the landlord he told us we needed to have a business license already before we could rent the warehouse'.

In addition, when Liljas Plast decided to change Business Park they had to close down everything before setting up a new facility in the other business park, Suzhou.

4.1.3 Finance

The role of the CEO is entrusted outside of the family with control of the firm's resources and was so from the beginning of the appointment. The resources under control are set by the CEO up until the board meetings, whereby he makes a presentation and receives sanctions from the board of directors. The CEO of Liljas Plast is also the CEO of two of their wholly owned subsidiaries and reports back to the owners on a regular basis and through board meetings. The board meetings are conducted on a quarterly basis where the decisions are made.

The decisions made by the CEO, may it be investments or acquisitions, are supported even though conflict of interest may arise. However these conflicts are resolved during the board meetings as well as during balancing meetings in their day to day operations. Since the owners are involved in the day to day operations these meetings occur frequently. In addition, the firm is located in a small town where the information flows unhindered by word of mouth whereby these meetings serve the purpose of distributing the information. Even though the owners do not agree with the CEO investments and acquisitions have occurred without restrictions because the firm have been able to be profitable.

The investment to China was financed through internally generated capital; they can afford to do so since it is a profitable firm. “We didn’t put in a lot of money ... on our part we didn’t want to risk too much in the firm” said the CEO when asked if their investment was heavy and supported. The proposition to invest in a subsidiary in China was brought up on a board meeting, whereby the amount of capital was decided. They conducted an analysis to determine the yield and riskiness of the investment. The CEO believes that if necessary the firm has possibility to take on more debt. Before the investment Liljas Plast lower the pay-out to owners in order to retain as much profits that are needed.

4.2 BUFAB

BUFAB is a Swedish holding company whose headquarters is located in Värnamo. It is a trading company; 20 percent of the products they sell are produced in their wholly owned production facility. The imports are mainly from Asia.

As of today BUFAB group consists of 750 employees located over 32 subsidiaries across 25 countries. The annual turnover is approximately SEK 2 billion. The company was founded in 1977 by Hans Björnstrand. In 2005 Nordic Capital, a private equity fund, acquired the majority of the company and have since then been the largest shareholder. However, Hans Björnstrand is still the CEO of BUFAB.

During the acquisition in 2005 BUFAB was reorganized and was split from the original company and subsequently became independent under the ownership of Nordic Capital. At the time of the expansion the firm employs 468 people and had a turnover of approximately SEK 1 billion.

BUFAB acquired a French firm in 2008 with presence in Shanghai. It was incorporated into the organization and the custom which allowed them to increase their presence and their customer

For the purpose of the study BUFABs presence in China will be looked on, only the year that they initially moved into China. The firm has since then undergone significant managerial changes. But these are overlooked for the purpose of the study.

4.2.1 Internationalization

BUFABs first contact with China occurred in the early 80s, when they began importing basic goods, this was strictly import with no sales representatives or customers located in China. In the early 2000s the company had subsidiaries in the Nordic countries as well as Germany, the Netherlands and England. Decision was at this point made to expand into China.

The decision was taken because the firm felt a need to have presence near the firms existing customers in China. The company decided to not export or franchise and the investment made was done without having any presence in the China at the time. The main advantages drawn from having a Chinese subsidiary, was the ability to serve their current customers wherever in the world they were located.

The company's previous expansions had been made to countries physically and psychologically close. However, the process for internationalization utilized when entering China followed the same pattern as it did which it had done during previous expansions. The decision was made without extensive research, and was largely seen as a gamble.

There was however internal knowledge of China within the company, due to a CEO within the company had previously worked in China. This CEO had extensive contacts in China and was given a lot of responsibility and he had a great amount of influence on the process. For instance the location that was chosen for the Chinese subsidiary was due to the CEO's previous contacts were located there. The firm also acknowledges the fact that they pursued their existing customers; as such they used the network that they previously had during their expansion. In addition, they did not perceive the Chinese culture to influence the way they conduct their business

The firm used the same process of internationalization that it had used previously, it aimed at minimizing the resources committed initially and subsequently aimed for the subsidiary to grow organically.

4.2.2 Entry mode

BUFAB has established a sales subsidiary in China. During the establishment in China they entered with a fully owned sales subsidiary that buys and sells products to customers in China. Since they did not have a Chinese partner it became more difficult for them to sell to the domestic market. However the possibility to sell to the Chinese mar-

ket is believed to be the main advantage of their presence in China. The interviewee mentioned that BUFAB perceive the Chinese market to be extensive and lucrative due to the high GDP growth. The increasing salaries in China is not perceived to create an impact to their operation in China, rather it is a natural development in undeveloped countries.

The firm has wholly owned subsidiaries in Ningbo and Shanghai. The reason to establish a presence in Ningbo was due to the already existent cluster. The subsidiary was part of an acquisition the firm made back in 2008. Most of the business decisions for the Chinese market are made in the Shanghai subsidiary.

The interviewee explains that BUFAB are experiencing competition from 10 other firms. However, since these firms are more niched and do not share the same omnipresence as BUFAB.

4.2.3 Finance

BUFAB is not willing to take on too much risk when entering a market or expanding their business operations. In order to achieve this they invest solely with internally generated capital because it is seemed to be more beneficial to the company than financing an investment with debt or owner's capital. Their initial contact with a new market builds up slowly and gradually grows as they attract new customers and increase their employee base.

The rational for this investment policy is to limit the cost to shareholders but mostly to maintain independence between the holding company and its subsidiaries. Although the subsidiaries are independent, the firm do practice attest-routines but try to be as little bureaucratic as possible so as to achieve a short decision-making process. The whole firm run monthly closing of accounts which is transferred to the consolidated accounting system and by the end of the year extra information is gathered to complete the annual report. The annual report includes both numbers and words to describe the company.

The former owner as well as the current owner is both present on the board. Furthermore, BUFAB does not fully take advantage of their borrowing capacity and has a good relationship with their bank, Handelsbanken. They have had this bank since the earlier stages of the company which have generated this personal relationship.

4.3 Konstsmide

Konstsmide was founded 1942 in Gnosjö. Today they are selling incandescent lamps that are mainly used during Christmas. The product range varies from indoor to outdoor lamps, such as candle sticks and string light strands, as well as electric heaters.

Their total annual turnover is around 450 to 600 million, much depending on the currency. The variation in currency is of importance due to Konstsmide's presence in Germany, England, Norway, Finland, Hungary, and Hong Kong; thus much of the trade is in the Euro currency. Their Hong Kong subsidiary employs six people and are part of their quality control and delivery guarantee

4.3.1 Internationalization

The presence that is accounted for by Konstsmide was initiated due to the need for first hand quality control. The firm had presence in china due to imports from China, and, through this Konstsmide realized they were in need of actual presence in China. The company had internal knowledge of the China due to the fact that an owner had previously lived in China. The owner set up the subsidiary on his own, and took the responsibility for the effects of it. The resources committed by Konstsmide were kept at a minimum, and they have since then not expanded further.

The main issue with the Chinese culture from the point of view of Konstsmide is that they perceive Chinese to lacks understanding in the nature of their business. Technology was implemented that helped Konstsmide in the process of informing the subcontractors so as to bridge this issue.

4.3.2 Entry mode

Due to the importation from China they established a quality control subsidiary in Hong Kong that would make sure the deliveries are up to Konstsmide's high standards. The establishment in Hong Kong was mainly due to their perception that mainland China was too bureaucratic.

The office houses 6 employees all of which are from Chinese natives. It is 100 percent owned by Konstsmide and they do not sell anything to the Chinese market rather they export everything to Europe. Konstsmide does not have any production in Asia; they see themselves as a trading company which imports most of their Christmas decoration from China.

4.3.3 Finance

Konstsmide is owned by four brothers through the holding company, Gunnar Johansson Gruppen AB. Three of the brothers work in Konstsmide as Purchasing Manager, Product Developer, and CEO. The four brothers have equal share in the company making up 25 percent each. Gunnar Johansson Gruppen has full ownership of three subsidiaries, Konstsmide, Klimatprodukter, and Tenso.

The board made a decision to investing in a subsidiary located in Hong Kong that would align quality control with delivery guarantee so as to be able to meet demand during Christmas and their high standard of quality. This however was not a huge capital investment because “are you a trading company you do not need to invest that much in machinery”, instead “we have invested in storage- and distribution facilities”.

The company typically borrow money to maintain an even cash balance since the revenues will not start to show until October. The profit is used for dividends and to pay back debt. They are reluctant to invest, unless it is to build up facilities which help with logistics, presenting, and storage which they borrow money for.

4.4 Midsummer

Midsummer provides turnkey solutions to end costumers that want to manufacture thin film solar cells. They do so by assembling machines capable of producing such end products. The founders of the firm had a background in CD, DVD manufacturing, whereat the idea was originated.

Since the start-up in 2004 the firm’s total annual turnover has grown to be around 65 million in 2011. The communication with shareholders is done through a biannual information letter. However there is expressed demand for more frequent information.

4.4.1 Internationalization

Midsummer began its expansion into China at the very foundation of the company. The idea was always to pursue the Chinese market due to the very large demand for green technology. As such the company began exporting early on. The firm had customers lined up at the dawn of its operations and these were pursued initially.

In addition to this one of the founders of the company had knowledge of China and its market, and thus there was no need to bring in external knowledge. The company, due

to the entrepreneurial nature considers itself as being a risk seeking firm, which is prominent throughout the firm. Another owner also had experience with working abroad.

4.4.2 Entry modes

Midsummer was aware that China had a large market with a lot of potential since one of the founders had previous experience with Hong Kong. As of now they do not have a subsidiary in China rather they have hired agents to help find potential customers in China.

The firm does not experience any major issues with not having a subsidiary in China. They do feel that a presence in China could be to their benefit. However the firm feels that an expansion into China would bring along a plethora of further issues that they would have to deal with. The amount of bureaucracy would be immense as well as other issues that would arise from such a move.

In addition, the firm feels a slight cultural hurdle due to the agents that they hire. They experience problems in the way they conduct business and that the agents are willing to bargain with the margins.

4.4.3 Finance

The company is made up of four founders that together own a total of 40% of the firm, the remaining part of the firm is, to the most part, owned by angel investors. The majority of the capital has been acquired from different grants and private equity. Although a small part of their capital is debt the firm completely rules out the possibility of further debt funding. Before 2008 they were too small and lacked track record and after 2008 it has been difficult even for bigger companies to acquire debt, despite showing profit.

They have a mortgage certificate from Svenska Exportkreditnämnden (EKN) which would allow them to finance some customer projects; however in spite of this the loan has not yet been employed. The start-up was financed by grants from EU and funds from public organizations. However, since these require 50% of the total amount to be counter financed they have acquired private equity from investors.

5 Analysis

5.1 Triggers of expansion

What initially pushes a firm to internationalize will have a large effect on the internationalization choice of the firm due to the desired effect. According to the Network approach theory (Johansson & Vahlne, 1992) one of the most important aspects when the firm internationalizes are the personal relationships of individuals within the firm. This is present in all the cases, the effect of individuals' knowledge and their relationships have greatly influenced the internationalization process of each firm. Liljas Plast listened to their consultant to a great extent and the consultant's previous experience with China had a huge impact on the expansion. Johanson & Vahlne (1977) point out the importance of experiential knowledge and these individuals knowledge carries an importance to a great extent.

Hadley & Wilson state that the firm operates in the vicinity of different actors all exerting pressure on the firm. This is present in the cases of BUFAB and Liljas Plast who all had customers who wished for an expansion. As stated by the European commission (2008) the globalized world is changing the environment for SMEs, this is prominent in the case of Midsummer who expanded due to the market in China being vastly larger than that of the western countries.

5.2 Effects of advantages drawn on the mode of entry

Depending on the advantages that the firm wishes to draw will cause the entry mode to change. According to Dunning (1988) in order for a firm to internationalize it has to be able to draw advantages from doing so and this has been present in all the firms. Liljas Plast was able to draw both locational and ownership advantages from having a subsidiary in China. They felt that the perceived production capabilities which it could employ in China would satisfy a production facility. BUFAB on the other hand, drew only ownership advantages in having a sales subsidiary in China. This was due to the perceived advantages of being near its customers in China. They did, however not feel that any locational advantages, and as such the subsidiary which was established had no production capabilities. Konstsmide experienced that the advantages that could be drawn from subsidiaries would not satisfy the risk. This case is also true for Midsummer who felt that a subsidiary in China would not present any major advantages for the firm.

5.3 The effect of the amount of knowledge

As acknowledged by the Uppsala Model (Johanson & Vahlne 1977) one key component for the firm is the access to experiential knowledge. This will have a great effect on the amount of capital that the firm will utilize during its Chinese expansion. The firms interviewed had differentiated amounts of this experiential knowledge. BUFAB and Konstsmide experienced that they had a sufficient amount of experiential knowledge within the firm in order to expand to China. However these firms knowledge was limited to a few select individuals within the firm. The result is that the perceived risk of a Chinese expansion was rather high; as such the firm's resource commitment was kept at a minimum. The effect of this is as stated in the Uppsala model is that as the firm gains further experience and knowledge in China the resource commitment over time will increase.

However, BUFAB had previous knowledge of internationalizing as it had subsidiaries in other countries. This means that BUFAB had some deal of experiential knowledge from these previous expansions. They also used the same manner of expansion as they had done previously, which meant that the initial expansion was limited and aimed for the subsidiary to experience organic growth. The Uppsala model states that modes of entry between different countries are not interchangeable, but at certain times it may still function. In the case of BUFAB the present finding shows that it has been feasible utilizing the same process.

Liljas Plast felt a lack of knowledge within the firm, and as such reached outside the firm in order to acquire this required knowledge. This resulted in the firm bridging the knowledge constraint that the firm experienced through external means. Ergo the knowledge constraint existed and the firm would not have gone through with the process if it had not been able to bridge the knowledge gap. This could imply that even though firms are experiencing a lack of experiential knowledge when internationalizing there is external help which could be acquired.

Midsummer stated that they had no intention to expand into China. The reason stated for this was the amount of bureaucracy required would be immense. They at one point claimed that it was far easier to conduct business through exporting rather than setting up a subsidiary. This is interpreted as a lack of experiential knowledge of China for the

firm, and as such the experienced potential risk of entering China was greater than the company was willing to take on, as the Uppsala model states.

5.4 The effect on entry modes

Depending on the amount of knowledge the firm has access to the amount of resources committed will differ (Johanson & Vahlne 1977). This will affect the entry mode decision, due to the fact that different entry modes will require different amounts of resources committed to them. They will also entail different amount of risks. The firm will also pursue different advantages (Dunning 1988) as such the different entry modes will entail different advantages.

Liljas Plast were advised against utilizing joint ventures during their time of entry, Liljas decided to follow this advice, this displays the great importance of personal experiential knowledge and highlights Johanson's & Vahlne's (1992) theory that personal relationships will have a large impact on the internationalization process. This also holds true for BUFAB, where the personal relations would play a major role in the process. This also meant that Liljas Plast would be able to control the subsidiary on their own, in addition to this they would have to finance it on their own without the assistance of a partner. The importance of personal relations is also present in.

As for Konstsmide and Midsummer the amount of capital utilized was minimal. Due to the fact that the advantages pursued and the knowledge held did not acknowledge a large financial commitment. As such the entry mode used, was not costly.

5.5 Knowledge constraints' effect on financing behavior

Since the knowledge of the market was minimal, the amount of capital invested in the internationalization was set at a minimum. Neither firms wanted to invest more than what could be comprehensible as a loss, which led them to utilize internal sources of capital. Modigliani and Miller (1958), Myers and Majluf (1984), as well as Vos et al. (2007) confirms that internal sources are the most preferred source of capital for firms. The reason for the firms to utilize internal capital was that it minimized the risks involved in the internationalization as perceived by the firm. According to the theories on corporate finance, internal sources of capital are considered to be the cheapest of the available sources in comparison to both debt and equity.

5.6 Corporate finance

Debt was seen to be an integral part of the firms, although Konstsmide experienced it to be more important. Myers and Majluf (1984), and Vos et al. (2007) argue that firms' capital preferences follows a pecking order model, although this is true for three of the firms, it was not the case for Midsummer. It is arguable that this was the result of both firm characteristics and market characteristics. Equity was the main source of capital for Midsummer, and was perceived to be more preferable as well. The CEO argued that this was the case since they lacked track record before 2008 and afterward it was too difficult to acquire.

Modigliani and Miller (1958; 1963) evaluate the cost of capital in order to arrive at a perfect mix of debt and equity for a firm, which is supposed to strive for the maximization of firm value. Due to the tax benefit of debt, equity is more costly to acquire than debt. However, considering both the firm specific risk and the market specific risk that Midsummer is exposed to, issuing equity to finance the operations could be considered to reduce the cost associated with equity. Diluting the founders' ownership in the firm could be seen to reduce their dependency on the success of the venture (Harris & Raviv, 1991; Jensen & Meckling, 1976), which in turn is dependent on the future of the market they are operating in. However, in order to establish a deeper understanding of this, further research must be conducted.

In accordance with the established theories on corporate finance, internal sources of capital are considered to be the most preferable source of capital. However, the findings resulted in three out of four firms displaying an objective identical to the one presented by Vos et al. (2007); to maintain control over the firm. Konstsmide, Liljas Plast, and BUFAB, that all are/were family owned firms, which will not issue shares to finance investments. This could be the result from the higher perceived cost of financing with equity, which is also confirmed by Modigliani and Miller (1963), Myers and Majluf (1984), and Vost et al. (2007). Diluting family ownership to outside investors could be seen to include increased internal conflict of interests, since the objective of the external investors would not be aligned with that of the family. Thus, the reason to not issue equity is not created out of information asymmetry as proposed by Myers and Majluf (1984), rather it is because these firms wants to maintain ownership of the firm (Vos et al., 2007). These three firms follows, thus, a pecking order behavior, where internal

sources of capital is preferred over debt, and debt preferred over equity, with the motives established by Vost et al. (2007).

The agency cost theory, proposed by Jensen and Meckling (1976), provided an aspect of the ownership structure of the firms. Liljas Plast could be seen to acquire higher monitoring cost since the CEO is not the owner and could, as such, have separate objectives than that of the owners. However, the monitoring of the agent was established through other means than accounting procedures, and resource restrictions. The location of which the firm operates in coupled with the owners' positions in the firm provides monitoring practices.

One of Konstsmide's owners is also the CEO, which naturally align the managerial interest with that of the owners'. Since the agency cost theory applies to firms where the principle is not the agent (Jensen & Meckling, 1976), it is assumable that Konstsmide incur minimal amount of agency cost.

Analyzing BUFAB's agency cost is limited because it had, at the time of the interview, changed ownership. However, since Hans Björnstrand is still the CEO of Bufabgruppen, the holding company of BUFAB, it is assumable that the interest of the agent and the principle is naturally aligned. Midsummer practices are only giving out biannual information to the rest of the shareholders which can be seen to generate low agency cost.

6 Conclusion

This thesis set out to observe the internationalization process of four different Swedish SMEs; this was accomplished through answering a series of stated research questions. The research questions stated in this thesis and the corresponding answers acquired after interviews and analysis were the following.

What triggered the Chinese internationalization?

The firms, interviewed, differed in their perceived triggers, but some apparent similarities were identified. Two firms had customer recommendations and as such pursued these there. One firm acknowledged the need for first hand presence in the Chinese market, which was identified internally. The fourth and final firm intended to tap into the Chinese market, and as such chased the market potential of China.

In what manner was the knowledge gap bridged?

In three of the firms the knowledge gap was bridged through internal knowledge. This knowledge was experiential knowledge of a few select individuals. The acquisition of this knowledge was not planned and existed within the firm. The fourth firm reached externally in order to bridge the gap. This was done through hiring a consultant with the required experiential knowledge.

How was the firm influenced by network structures?

All firms experienced some extent of network structure influence. In all of the firms personal relationships had a big impact on the internationalization, both on the entry mode chosen and the location of the corresponding subsidiary. In addition to this two of the firms followed their existing customer structures to China. As such the network has had a major impact on each of the firms.

What entry mode did the firm utilize in their initial internationalization?

All firms utilized entry modes, the difference between the entry were depending on if the firm wanted a subsidiary or utilize the market itself. Wholly foreign owned enterprise is the most common type of entry due to its advantages over the other entry modes. Midsummer was the only firm which did not use WFOE as they did not perceive it as a necessity.

In what manner was the financing gap bridged?

The internationalization to China was financed in a similar manner as the firms' typical investments. The financing gap was mostly bridged through the usage of internal sources of capital; this coupled with the preference of debt over equity issuance implies a pecking order behavior in at least three of the interviewed firms. In the fourth case, equity and internal sources of capital was more utilized than debt to finance the business operations. This is not aligned with the theories on corporate finance established in Chapter 3.

What influences this manner in the choice of financing?

The amount of knowledge was a key indicator of how much resources the firms' were willing to commit. However, ownership structure and the nature of the business were the main factors for what sources of capital that were used. Family businesses made use of internal sources of capital before debt financing. Equity issuance was not part of their financing behavior as it could be perceived as more costly since it would involve external investors. In a firm where seasonal cash-flow occurred, debt was an integral part of the business operations as well as investments.

In a fourth case, equity financing was more common than debt financing. The nature of the business, such as market specific risk as well as firm specific risk, might be an explanation for this choice, since the amount of equity in a high risk venture influences the amount of risk the owners are exposed to.

7 Discussion

The results concluded in this study provide a foundation for further research on this topic. Since the connection between the two seemingly distant theories, on internationalization and corporate finance, is not entirely clear, a quantitative study on the dependency between the two could be developed. Knowledge and capital constraint are variables that have been acknowledged to influence each other, however the degree between their integrate nature could serve the foundation for such a study.

Since the theories and models served as the foundation for the interview questions, the empirical data could be seen to be limited to the theories and models researched. There were a wide variety of theories which could be applicable, however only a selection of these was chosen, which limited the interview questions to only consider the variables presented in the researched theories. In addition, the empirical data could have been interpreted in favour to these theories, which would provide biased results. However, the unstructured nature of the interviews coupled with the open-end questions provided a dimension that assisted the empirical data gathering to avoid as much of the potential biases.

7.1 Further research

In regards to the triggers to move to China, there seem to be tendencies in this study to follow customers, however a general consensus cannot be given. This could serve as point of departure for further research.

Furthermore, more research needs to be conducted in order to establish the weight that the special economic zones had in the choice of location in China. In accordance with the research questions the following conclusion can be drawn.

Midsummer provided an aspect in financing behaviour which the researched theories on corporate finance could not explain. More research must be conducted in order to establish if the financing behavior is a unique case or if the riskiness of startup, coupled with industry risk, provides an explanation for the preference of equity finance.

7.2 Limitations

The findings in this study are only applicable to the interviewed firms; thus, they cannot be used to explain the financing behaviors of other firms and in what manner the

knowledge and financing bridge has been bridged. The findings in this study can merely be used to help indicate how SMEs can bridge the knowledge and financing gap based on previous endeavors of the interviewed firms.

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8 Appendix

8.1 Interview formulary

The interview was semi structured and conducted through open end questions and as such the answers were long and touched several subjects. The first questions regarded the firm in general and its operations in order to establish a foundation for further questions.

What was the first contact you experienced with China?

What was the first step into China?

What triggered an expansion into China?

What sort of knowledge did you have of China previously?

Did the firm experience any difficulties in dealing with Chinese?

Did the firm have any sort of contacts in China prior to the expansion?

How did the internationalization process proceed?

Which type of entry mode was used during the transition to China?

Who is the owner(s) of the firm and what role do they have in the company?

Which key individuals were involved in the decision to enter China?

How was this investment funded? From which source was the capital acquired?

How was this financing different in comparison to other investments the firm undertakes?

Is there any established accounting systems? How extensive are they?

How is your free-cash flow distributed? Do you practice any dividend pay-out policies to the owners? Is there established reinvestment policies?

What is the ownership structure of the subsidiary in China?

Do you have Chinese partners?

Do you have the opportunity to sell to the Chinese domestic market?

Did Special Economic zone impact on your decision to enter in just that area?

What was the main complication during the expansion to China?