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The SMEs' Internationalization Strategy

--Foreign Market Entry Modes Selection

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Abstract

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Keywords:	Internationalization, entry mode, SMEs, foreign market
Thesis purpose:	The purpose of this study is to understand the internationalization process of the SMEs, and try to define the motives and internal factors impact their foreign market entry mode selection.
Methodology:	This thesis is based on qualitative method using case study. The primary information sources are the interviews with key-persons in internationalization process of SMEs
Theoretical perspective:	The literature review in this study concerns areas of SMEs' motives for internationalization, foreign market entry mode approaches and influence of internal & external factors.
Empirical data:	The empirical data consisted of case studies of two Chinese companies active within the packaging industry and located in east and south coast of China. In-depth Interviews were conducted in the semi-structure form.
Conclusion:	Findings show that the level of demand for SME's products in foreign market is the major determinant for SMEs to go international. For the SMEs to be able to compete in the foreign market, they should have unique products with flexible pricing strategy. SMEs, due to their small size and limited resources, are more or less forced to use more simple and less costly entry modes, thus, most middle and small sized companies begin their internationalization with various forms of the export mode where less control and fewer resources to move abroad is needed.

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1. Introduction

This chapter will provide the background of the problem by briefly presenting the internationalization theories. The background will be followed by problem discussion that highlights the difficulties that packing companies face when going internationally. This will lead to the purpose of the study and the research questions. And finally, an outline of this thesis will be provided.

1.1 Background

Due to the global competition, the internationalization is becoming progressively more important for companies today, as Fletcher (2001) argues the research about internationalization focus on two aspects: one is the development process of international companies; another one is the factors that can influence the result of internationalization. Some researchers argue that the global market is not large enough for all the companies, and also the world becomes “borderless”, it means the movement of capital and technology turn to be easier.

According to Daniels & Radebaugh (1998), the main reasons for a company choose to enter the international market are very significant: *to expand sales, to acquire resources, to diversify sources of sales and suppliers and minimize competitive risk.* Companies' sales are dependent on two factors: the products or services are interested by customers, and also, they would like to buy. The home country needs the products, but the other countries need them as well, then manufactures and distributors search for products, services and components from abroad at the same time. Expect these, foreign capital, technologies, information even human resources are also involved. There are two reasons for those activities: one is find something not existing in the home country, another one is lower the cost. The unique resources could make the company differentiate from other competitors, no matter from quality or cost, at home or abroad, since increasing profits and market share is the ultimate target. Different economy cycle motivates companies go internationally when domestic market suffers recession and emergent market speed up its expansion. And large scale of sales on the same product or service in different countries could sufficiently or at least partly avoid the price swings or shortages in some where. Face on the competitors, one of the best way to defend would be enter their profit mine, and hurt them domestically when they try the same thing.

According to Kotler and Armstrong (2005), there are five stages in the process of a company's internationalization: (1) deciding to go international or not, (2) which market to enter, (3) how to enter the market, (4) use what programs when marketing globally, (5) how to organize global marketing. Czinkota & Ronkainen (2004) state, the participation in the international marketplace has become a reality for large or small and medium sized companies. This participation can be rewarding for both the companies and society.

1.2 Small and medium—sized enterprises—definition

In the definition of SMEs, Loecher (2000) has identified two groups of criteria: quantitative and qualitative. From a quantitative point of view, the term SME refers to companies in all sectors as long as a given size threshold is not exceeded. Economists propose indicators, such as profits, invested capital, balance-sheet total, earnings, total capital, equity, market position, production and sales volume, number of employees and turnover. Due to the simplicity, compatibility, and practical application, ‘number of employees’ and ‘turnovers’ are recommended as the most appropriate quantitative criteria.

Qualitative criteria generally provide information on the nature—the characteristic properties—of SMEs. In order to differentiate between SMEs and large companies, relationships between ‘owner’ and ‘company’ in the framework of ‘personal principle’, and ‘unity of leadership and capital’ are recommended as the qualitative criteria. The ‘personal principle’ means that the company manager performs a central role in the business decision making; he has an overview of fundamentally all technical, administrative and organizational procedures in the company. ‘Unity of leaderships and capital’ means that the company manager and proprietor is one and the same person, the owner-manager is much more self-sufficient and independent than the contracted management of large companies (Loecher, 2000).

In keeping with the above discussed criteria, in 2003, the Chinese economic and trade committee established the following ranked criteria for defining the industrial SMEs: less than 2000 employees, or sales fewer than 3 billion, or assets less than 0.4 billion, and middle sized company must have more than 300 employees, over 30million sales and more than 40million assets. In this study, the author uses these quantitative criteria so as to fit the Chinese regulation.

Since Chinese central government implements the open-door policy in 1978, Zhejiang province set up the first private owned enterprise in 1981, now it is one of the most developed areas in China after two and half decades. Compare with the developing model in the other area, Zhejiang focuses on developing private economy, and more than 70% of GDP is contributed by private firms. In this part, packaging industry takes an important role. As one the three largest packaging industry bases in China, the production value of packaging industry is over 50billion USD, and 94% of the packaging companies are private owned (Zhejiang statistic annual report 2005). According to the Chinese industrial development report (2005), more than 90% of Chinese companies are SMEs, and 85% of them still only operate in domestic market, more researches are needed to help the Chinese SMEs to be internationalized since there are very few researches concerned in this area.

1.3 Problem discussion

Root (1994) states that to managers in SMEs, planning entry strategies may appear to be something that only large companies could afford to do so. Investigate huge amount of data and information by using elaborate research techniques lead to a

misconception of the entry plan process. The truly important thing is the idea of planning entry strategies. Once the managers have this idea, the international market entry mode can be defined very easily, no matter how limited the company resources are. Without the internationalization strategy, which means don't know how to choose the entry mode, a company only has the sales approach in the foreign market. A large number of problems may face SMEs turning international, what are the major obstacles for internationalization experienced by SMEs and do this influence their choice of international target market and foreign entry mode, has not been sufficiently studied in the past. So it is vital for a SME to understand, and valuable for the author to investigate.

The author believes that the internationalization of SMEs is open for research on many levels. First of all, why a company should export at all and what criteria should be fulfilled before a company enters a foreign market. According to Bradley (2002), the concept of market entry refers to the difficulty or ease a company meet when entering a foreign market. "Entry is one of the supreme tests of competitive ability. No longer is the company providing itself on familiar ground, instead it has to expose its competences in a new area" (Bradley, 2002, p.244). The author further discuss that all aspects of marketing have to be of superior performance in order to have a successful market entry. When selecting the entry mode, companies have to answer two questions: do they have enough resources? And second, what level of control do they want to have? These questions include the main risk of entering a new foreign market. After selecting strategy companies have to select the right type of market entry mode. Does the company want to use the export entry modes or contractual entry modes, even investment entry modes?

Hollenstein (2005) explain that the internationalization process for small and medium sized enterprises (SMEs) has limitation of resources in form of finance, information and management capacity. Compare with multinational cooperation, SMEs also have to face external barriers such as laws and regulations since they do not have the power to negotiate and influence the government, so it is much harder for them to start the internationalizing process, which means they need to be very careful about the choice of entry modes. According to Hollensen (1998) if a company in the initial stage of its internationalization makes a bad selection of entry modes, it can be a threat in the future business activities. However, there is no omnipotent entry mode; the selection can be different from one company to another.

So the selection of foreign market entry mode is an important decision which all the SME's decision makers have to thorough think about. When selecting entry mode a wide range of factors must be taken into consideration before making the final decision (Young, Hamill, Wheeler & Davies, 1989). According to Root (1994), all the companies are set up for growth and profit, "*To say that a company cannot afford to plan an entry strategy is to say that it cannot afford to think systematically about its future in world market.*"(Root, 1994.p3)

While past research has dealt with the subject of entry mode selection by SME's, but the impact of a company's internal and external factors on the entry mode selection has not been discussed separately. Most previous empirical studies focus on the large multinational companies, but for SEMs, the factors are still not quite clear defined. Especially for those Chinese SMEs, there are very few researches discuss about their

internationalization and foreign market entry modes. They might have unique and different problems and challenges. So it is a research gap for the author to fill in. According to Hollensen (1998) there following external factors influencing company's choice of foreign market entry mode:

- Socio-cultural distance
- Country risk and demand uncertainty
- Market size and growth
- Direct and indirect trade barriers
- Competitive environment
- Small number of relevant intermediaries available

In addition, some other researchers point out the importance of following factors:

- Laws and regulations (Burca, Fletcher & Brown, 2004)
- Geographical distance (Root, 1994)

Since SMEs have limited resources, they are often driven by the size and quality of their internal factors, and they are not large enough to affect the government policy, laws, economic situation or other external factors, for SMEs most of the external factors are uncontrollable. And the author would like to investigate the factors from insider's point of view. Due to the limited time, it is a reasonable choice to focus on internal factors.

1.4 Purpose

The purpose of the thesis is to understand the internationalization process of the SMEs in packaging industry, and try to define the motives and internal factors impact their foreign market entry mode selection.

Research questions

To be able to reach the purpose, the following research questions have been made:

- Why do SMEs enter the international market? What are the main factors motivating them? How to describe the factors?
- How do they choose their foreign market? And the approach of selecting foreign market entry mode?
- What are the internal factors in these selecting processes? How to describe the influence of these factors in the selecting processes?

1.5 Delimitation

Many factors, including internal and external ones, can influence a company's foreign market selection, and also their market entry mode selection, but from insiders' point of view, "*it is impossible for a SME to evaluate all the external factors due to its limited resources*" (Du, 2006) However, this study tries to emphasize on the impact of internal factors, and limit itself to fulfill the time and resources limitation.

2. Review of literature

In this chapter, relevant theories to the chosen research questions will be announced, I will begin with presenting theories regarding company's internationalization, and then approaches to foreign market entry mode, and focus on SMEs' internal factors. In the end, the most relevant theories will be summarized for this study.

2.1 SMEs' motives for internationalization

Triggers to internationalization

Hollensen (1998) announces that when a company starts its internationalization, there must be something or someone inside or outside the company commences the implementation of the internationalization process. There are two groups of factors, named as internal and external triggers. The internal factors concern about perceptive management, specific internal events, and inward internationalization. The external factors include market demand, competing companies, trade association and outside experts.

Perceptive managers will discover new business opportunities when they enter a new company or country, Hollensen argued that those managers often has previous experience of entering a new foreign market and will apply these knowledge in the new company.

A *specific event* also can be a trigger when entering a new market, such as overproduction or reduction in domestic market. The CEO of the company always acts as the guider in the beginning of internationalization, then marketing division take the response of decision marking. By supporting from the market information, the CEO will take the final decision about the target market (Hollensen, 1998).

The connection between *inward internationalization* and *outward internationalization* also has been discussed by Hollensen (1998), form his point of view, the effective import activities can be one of the determinants for successful export activities, and it is clearer in the initial stage of internationalization process.

Hollensen (1998) also mentioned that if the international market grows, a demand for certain products can be created. It can be one of the motives to push the companies and their products into internationalization. Burca, Fletcher and Brown (2004) argues that a declining domestic market or the demand of larger customer base is another motive to enter the international market, especially for SME's, higher profit opportunities and larger sales volume could be very attractive.

Hollensen (1998) also argues that the information about a competing company works very well in a specific market, will trigger the SME's managers to start their own internationalization process. The reason for that is the managers have to think about that the competitors may sooner or later infringe on the company's business. Be afraid

of foreign competitors might come into the domestic market and offer better products or lower price also force SMEs to internationalize. This activity can be seen as a counterattack to the competitors (Burca, Fletcher and Brown, 2004).

A major external trigger comes from the meetings between managers, either formal or informal, those meetings such as trade associations, conventions, conference, etc may give the SMEs the opportunities to collect experience from other companies in the same business line, and help them to step on their own internationalization process (Hollensen, 1998).

According to Hollensen (1998) there are several expertise can support their internationalization, the first one is agent. The agents have the necessary contacts for internationalization and they have done some business in foreign markets. Since they have more experience, they could help SMEs market their product much easier. Governments always try to motivate companies go for internationalization, it often gives strong promotions by constitute government policy or law. The Chambers of commerce is also one of the organizations try to motivate individual companies to enter new markets, it helps the companies to get in touch with foreign partners and provide market information etc.

Proactive and reactive factors motivating internationalization

The factors influencing companies internationalization is first divided into internal and external factors, as Stewart and McAuley (1999) mention, these can be defined as proactive and reactive factors as well. Proactive factors explain that the companies' choice to internationalize is influenced by its interest in exploiting unique ideas/competences or the possibilities of the foreign market. Reactive factors stands for that the companies act passively and respond to internal or external pressure. Campbell (1996) announces that companies would be either reactive or proactive. Table 2.1 shows the different factors.

Table 2.1 Classification for internationalization motives

	Internal	External
Proactive	<ul style="list-style-type: none"> ● Managerial urge ● Unique production/competences ● Marketing advantages ● Economies of scale 	<ul style="list-style-type: none"> ● Foreign market opportunities
Reactive	<ul style="list-style-type: none"> ● Risk diversification ● Extended sales of seasonal products 	<ul style="list-style-type: none"> ● Samll home market

Source: Albaum, Strandskov and duerr, 1998, P40

Managerial urge is the driven force, desire, enthusiasm in entering a new foreign market. The decision to go international in SMEs is often made by one person, but in MNCs there always be a group-based decision. The decision of entering a new foreign market depends on the decision marker's awareness of the foreign market, expectations concerning these markets, and the perceptions of own company's ability (Albaum, Strandskov and duerr, 1998). According to Bradley (2002) the managerial urge also concerns about the managers attitudes towards internationalization—such as open-minded or close—minded. Open-minded managers are more likely to have positive vision on the internationalization process, but close-minded managers always

show the opposite point of view. It has been proved that a favorable attitude towards the new market from the decision maker is essential for the successful company internationalization process (Albaum, Strandskov & Duerr, 1998).

A unique produce or competence helps the company to go into a new foreign market much easier (Albaum, Strandskov & Duerr, 1998), since the company is more likely to receive inquiries from a foreign market, than those who don't have unique products or competences. Hollensen (1998) has the same opinion that the possibility of spreading unique ideas abroad is very high since the opportunity costs of exploiting these products in other markets are very low. One problem that a company must think about is how long they can stay unique since nowadays the new technology will provide the ability for the competitors to copy very quickly (Albaum, Strandskov & Duerr, 1998).

A company's specialized marketing knowledge or access to specific information will differentiate it from other competitors. Albaum, Strandskov & Duerr (1998) suggest that this is the incentive for the company enters the new markets, since the company will receive a competitive marketing advantage from this. It is also an entry barrier for competitors in foreign markets.

Economies of scale is another motivation for the company enters new markets, since the production will increase and the production cost will decrease at the same time (Hollensen, 1998). Albaum, Strandskov and Duerr (1998) explain that the fixed costs can be spread out over more units when a company sells to more markets. Lower costs enhance the company's profit ability and of course to be more competitive on the market, together with lower price will surely increase their market shares.

The opportunities of the foreign market often influence the company's willingness to go international (Albaum, Strandskov & Duerr, 1998), because the market opportunities only function as a stimuli when the company has already prepared to do so. Hollensen (1998) also mentions this point and further argues that the first foreign market the company enters into always has similar opportunities as the company's domestic market.

A company sells to several different foreign markets will have lower risk than those companies only running their business in domestic (Albaum, Strandskov & Duerr, 1998). It is because the economic situation is quite different in different countries; they often have economic recession or boom in different time, the sales drops in one market might be balanced by another growing market. And also different demands of products depending on the season in different markets are a strong incentive for companies that have products that are affected by seasons to enter new markets (Hollensen, 1998). According to Albaum, Strandskov and Duerr (1998) there are two main reasons why seasonality functions as stimuli for SME's internationalization:

1. It will reduce fluctuations in the product life cycle
2. It becomes a way to secure continued growth and profitability especially if the domestic market becomes eroded.

The stability in sales will also be increased for a SME by selling their products to those countries which has opposite seasons compared to domestic; also it means a more balanced production throughout the year (Albaum, Strandskov & Duerr, 1998).

A small domestic market is one of the reasons for many SMEs go for internationalization, sustain economies of scale and scope promote the companies search for larger markets (Hollensen, 1998). But some companies still choose to expand in foreign markets since there are better opportunities (Albaum, Strandskov & Duerr, 1998).

2.2 SME's approaches to foreign market entry mode selection

There are so many different entry and development modes for a company enters a foreign market, how to select the most effective way is the key to successful internationalization. Each mode of entry has its own advantages and disadvantages. The selection of strategy will be strongly influenced by a range of sometimes conflicting factors. There always be certain trade-offs between such as cost, risk and the extent of control of the chosen entry mode alternative. Another problem might be the speed of entry into a foreign market, both in long-run and short run penetration. For instance, export means a rapid entry but it is less suitable for long-run business development, because long term strategy always require production research and local production. The complexity of choosing the most suitable entry mode is the fact that the pros and cons of the different modes not only vary across a number of entry mode alternatives but also with each entry mode, of example indirect and direct export (Young, Hamill, Wheeler & Davies, 1989).

Entry mode selection approaches

According to Young, Hamill, Wheeler & Davies (1989), the analysis of the overall purpose and goal of the company is the basic requirement of making the right entry mode selection, at the same time, a systematic analysis of all the entry mode alternatives is needed. Since no market is the same, a specific entry and development strategy for every kind of product and each market has to be done. Four approaches have been discussed to establish the most appropriate overseas market entry and development mode: the economic approach, the stages-of-development approach, the business strategy approach and the alternative approach (Young, Hamill, Wheeler & Davies, 1989).

The economic approach emphasizes the rational behavior of decision makers, the approach focuses on the costs and benefits of the entry mode alternatives and identifies the alternative which has maximum profits in the long-run. It is based on a transaction cost analysis and willing to help managers to measure the alternatives on the terms of risk and return of investment (Young, Hamill, Wheeler & Davies, 1989). According to Young, Hamill, Wheeler & Davies (1989), control is the most important determinant of investment, both risk and return, since high control entry modes will increase the return and risk, on the other hand low control entry mode reduces resource commitment and therefore also the risk but this often at the expense of the return of investment. Then the selection of entry modes can be seen as a trade-off, trade different levels of control for a reduction of resource commitment, exchange for a reduction in risk and an increase in profit (Young, Hamill, Wheeler & Davies, 1989).

The stages-of-development approach based on the incremental model of

internationalization, Young, Hamill, Wheeler & Davies (1989) identify the incremental model as an evolutionary process where companies' gradually develop their commitment to overseas markets over time with an increase in international experience and foreign sales etc. In each stage of the companies' international expansion, there are some major entry mode options available. Young, Hamill, Wheeler & Davies (1989) believe that the decision regarding which foreign entry mode to chose are taken incrementally and also with a shift to other entry modes. And it only happens after the previous entry modes have become inappropriate. Entry modes can be inadequate when lack of profits or because of previous success for instance shifting form exporting to more involvement in the market (Young, Hamill, Wheeler & Davies, 1989).

Young, Hamill, Wheeler and Davies (1989) argue that the business strategy approach is different compare with other two approaches, it focuses on the pragmatic approach to decision marking, but the other two assume a rational decision making. This is because of the external uncertainty and political nature of decision making, especially in the context of international markets servicing decisions. Companies have several objectives for expanding abroad and conflict between these objectives is likely to occur. If the companies need to combine the objectives and the uncertainty, it is very hard to adapt a 'rational-analytic' approach, since SMEs always have very limited resources (Young, Hamill, Wheeler & Davies, 1989).

A number of steps are relevant to find out the most suitable foreign market entry mode, figure 2.1 shows the understanding from Young, Hamill, Wheeler and Davies (1989).

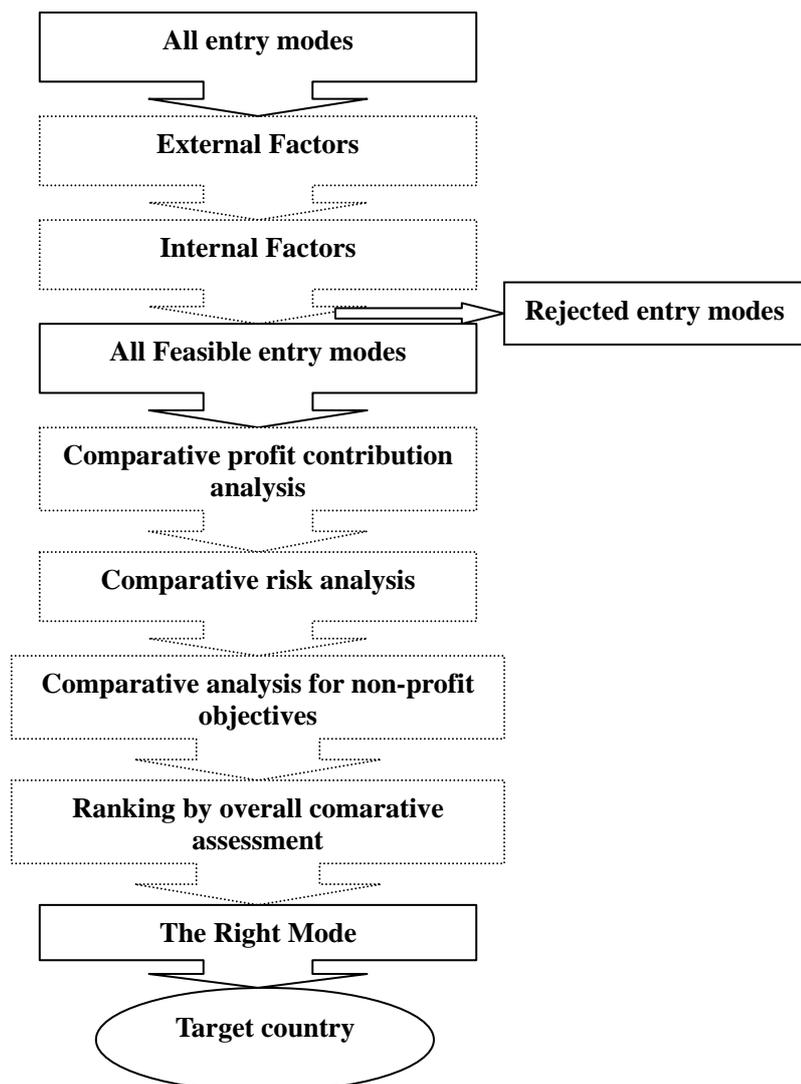


Figure 2.1 deciding the ideal market entry and development strategy

Source: Adapted from Young, Hamill, Wheeler and Davies, 1989, P265

First, the decision makers have to do a research about all the entry modes alternative and throw out those alternatives that are not possible to apply at this time. The external factors such as market size, law, and regulation etc, may eliminate some alternatives not fulfill the conditions. Then, the profitability of the entry mode alternative should be analyzed and compared. Finally, the rank of the entry mode alternatives base on the net profits, political risk and the companies' non-profit objectives should be made (Young, Hamill, Wheeler & Davies, 1989).

Further, Young, Hamill, Wheeler and Davies (1989) give another choice—alternative entry mode selection approach. The alternative market entry approach states that companies entering new foreign markets often have multiple objectives, for instance long-term market penetration and short-term profitability. The best entry mode is the one that can combine the multiple objectives including profit and non profit objectives (Young, Hamill, Wheeler & Davies, 1989). Figure 2.2 shows the evaluation of the appropriateness level of different entry modes.

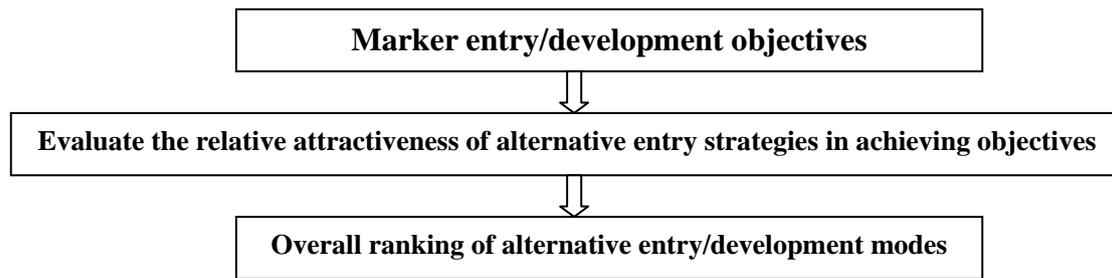


Figure 2.2 processes for selecting the most appropriate foreign market entry/development mode.

Source: Adapted from Young, Hamill, Wheeler and Davies, 1989, p.267

First, a clear statement about the company's main objectives for entering new foreign market is needed. Within this scope, the decision maker has to think about both the long-term and short-term objectives, the profit and non-profit objectives, and even further strategic objectives. The conflicts will arise between the company's objectives, so the next step is to rank the objectives in terms of importance. When evaluate the importance of the company's objective, the analysis in the previous approaches is very helpful, since both internal and external factors will influence the ranking of the objectives (Young, Hamill, Wheeler & Davies, 1989).

According to Young, Hamill, Wheeler and Davies (1989) companies have to evaluate the relative attractiveness for the entry mode strategies in achieving these objective. Since each entry mode alternative has been assigned its score from these rankings the companies have to make an overall ranking of the entry mode alternatives. This ranking will show the relative attractiveness of different entry modes alternative in simultaneous achieving the company's objectives. The factors that influences the final ranking is factors such as, financial costs, managers commitment, risk, and degree of control, etc (Young, Hamill, Wheeler & Davies, 1989).

This model identifies multiple objectives of the companies. When entering new foreign market and choose the entry mode, this model reflect both short-run and long-run, profit and non profit objectives. And it is more flexible because the number of comparable entry modes would be decided by the companies' mangers, so as the company's market objectives (Young, Hamill, Wheeler & Davies, 1989).

Entry modes selection rules

Both Hollensen (1998) and Albaum, Strandskov & Duerr (1998) mention that there are three entry modes selecting rules; the naive rule, the pragmatic rule and the strategy rule. The major difference of these rules present in their degree of sophistication.

Naive rule means the companies uses the same entry mode in any foreign market (Hollensen, 1998). This rule always be used when managers believe there is only one road to entry a foreign market. It ignores the individual foreign market entry modes heterogeneity, and inflexibility of the rule lower the chance of catch their foreign market opportunities (Albaum, Strandskov & Duerr, 1998).

With the pragmatic rule the companies specify an entry mode for each foreign market. Often it begins with export in order to lower the risk. Only when exporting is not profitable, then the company will change the mode, which means that the companies do not investigate all types of entry modes, and the chosen entry mode might not be the best one (Hollensen, 1998). The advantage of this rule is that it has the lowest possibility of chosen wrong types of entry modes since unworkable entry modes are rejected. Also, it has very little cost of information and management since not all entry mode alternatives are investigated. The weakness of this rule is that it fails to guide managers to select the most suitable entry mode base on the companies' capabilities and resources (Album, Strandskov & Duerr, 1998).

With the strategy rule companies systematically compare and evaluate all entry mode alternatives before making a decision. Choose the most profitable entry mode base on the companies' resources, risk control and non profit objectives (Hollensen, 1998). It is a complicated process to compare all the entry mode alternatives since there are a lot of objectives have to consider about and that might result in trade—offs for the companies. Companies need to use their own judgment to find out the most suitable entry mode since there is no exact formula to make an over all evaluation (Albaum, Strandskov & Duerr, 1998).

2.3 Influence of internal and external factors

Internal and external factors influencing SME's export decision

According to Root (1994) there are so many different factors, either direct or indirect, could effect the company's exporting choice. These factors can be either external or internal to the company (Root, 1994). Stewart and McAuley (1999) stated that internal factors are derived from influences inside the company. Burca, Fletcher and Brown (2004) state that the internal factors, which influence a company's choice of foreign market entry mode selection and form of expansion, can derive from the management and company concept. External factors are derived from outside the company, form markets where the company operates or will operate. Export stimulation is very important to SME's decision maker. Hollensen (1998) and Root (1994) have listed some internal and external factors that can influence SME's decision to export. The internal factors are company size, international experience and products, the external factors are socio-cultural distance between home country and host country, country risk/demand uncertainty, and market size and growth. Both the internal and external factors will be presented below.

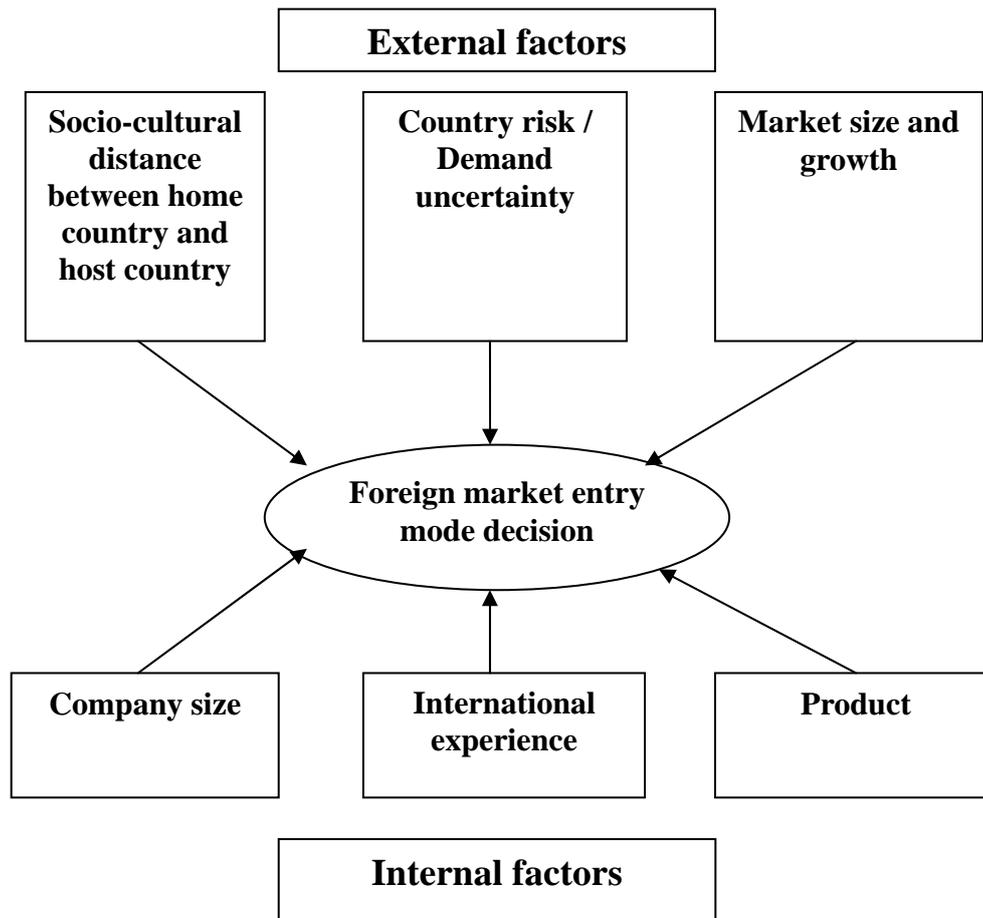


Figure 2.3 Factors in the entry mode decision

Source: adapted from Root, 1994, p.8

Hollensen (1998) states that a company's size is an indicator of its resources, the more resources a company has the more involvement of international it will have. Root (1994) also suggests the companies with limited resources should choose the entry mode requires a small amount of resource. Export as an entry mode is the most suitable way for SMEs to enter a new foreign market. Even though SMEs often desire to have higher control level in their international operations, this might not be possible in most of the time since in most situations operating in a new foreign market needs quite a lot of resource, and SMEs often can not afford that (Hollensen, 1998). The SMEs' small size has a great influence on what degree of freedom they have when selecting the foreign market entry mode.

A company's previous international experience on the market has a great influence on how it acts when entering a new foreign market according to Hollensen (1998). A company's previous international experience can come from operations either in a particular country or the general international environment and this refers to how much a company has been involved in international operations. The experience can reduce the cost and uncertainty in the new foreign market, and increase the possibility to commit more resources into there (Hollensen, 1998).

Root (1994) argues that a company with high differentiated products can set up the

price more freely. There sorts of products encourage the company to choose export as its foreign market entry mode (Root, 1994). Products that are distinguished by their physical variations, brand name, after sales service or other factors could help a company handle the higher costs of being on a foreign market. This differentiation allows the company to balance the cost and benefit by raising the product prices. Also helps the company create entry barriers for competitors, strengthen the market position and satisfy the customers' needs (Hollensen, 1998).

Socio-culture closeness between countries is that these countries have similar business, industrial practices, language and cultural characteristics. If there is a large difference between the target market and home market, a high internal uncertainty will appear. This highly influences the decision maker's entry mode selection (Hollensen, 1998).

To enter a new foreign market is always perceived to contain more risk for a company than to stay in the domestic market. There are different risks for instance economic risk and political risk. When a market's risk is high, a company always chooses export as entry mode since it requires very low resource commitment (Hollensen, 1998).

According to Hollensen (1998) if a country has a large market and high growth rate a company will be more willing to commit resources to there, if the market is very small, export is the most suitable strategy (Hollensen, 1998).

Export as an entry mode

The most common mode for SMEs is export. It can be divided into direct and indirect export depending to the number and type of intermediaries. Direct and indirect export is distinguished by how the exporting company carries out the transaction flow between itself and the host country buyer. The decision between direct and indirect depends on the exporting companies' desired control and involves two types of costs; the first one is the cost of actually performing necessary functions, the second one is transaction costs that arise in the organization of an activity or of contracting with other parties.

According to Albaum, Strandkov and Duerr (1998) the optimal degree of control should reflect both the risk that exporters exposes itself to and the amount of goods involved, by relying on other parties.

Direct export means the company sells the products directly to the buyer or user in a foreign market. The company is much more involved in the transaction. It has to handle the contacts, do market research, prepare the documentation and arrange the transportation (Hollensen, 1998).

Indirect export is when the company only uses independent organizations such as agent in the host country. The sales are almost the same as in domestic. Indirect export can be used as a test for the market response before entering that market (Hollensen, 1998).

Hollensen (1998) have constructed a table for the two different types of export. The table 2.4 shows both the advantages and disadvantages of them.

Table 2.4 Advantages and disadvantages of the different export modes

Export modes	Advantages	Disadvantages
Indirect exporting	<ul style="list-style-type: none"> ● Limited resources and investment required ● High degree of market diversification is possible as the company utilizes the internationalization of an experienced exporter. ● Minimal risk ● No export experience required 	<ul style="list-style-type: none"> ● No control over marketing mix elements other than the product ● An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer ● Lack of contact with the market ● Limited product experience
Direct exporting	<ul style="list-style-type: none"> ● Access to local market experience and contacts to potential customers ● Shorter distribution chain ● Market knowledge acquired ● More control over marketing mix ● Local selling support and services available 	<ul style="list-style-type: none"> ● Little control over market price because of tariffs and lack of distribution control ● Some investments in sales organization required ● Cultural difference, providing communication problems and information filtering ● Possible trade restrictions

Source: adapted from Hollensen, 1998.p.231

According to Crick and chaudhry (1997), company size, export involvement and export experience have great impact on the motive for export. And also export is the simplest way for SMEs to enter a new foreign market due to minimum risk and resource commitment.

2.4 Conceptual Framework

This section provides an overview of the relevant literature, which relates directly to the research questions. The section will give the reader a guide line to see how the author answers the stated research questions.

This study is willing to investigate the strategic choice of SMEs' internationalization, especially the foreign market entry mode selection. Hollensen (1998) discussed a lot of triggers for SMEs' internationalization which highly related to the topic, Burca, Fletcher and Brown (2004) defined the motives in internationalization process which also fulfill the purpose of the study and take the human nature thoughts from the insider's point of view. Albaum, Strandkov and Duerr (1998) not only identified the factors in a different way, but also generalized the different rules of selecting entry modes, since the author didn't find any specific rules for SMEs, these can be used as the polestar in this research. Also Root (1994) stated some factors could influence the choice of foreign market entry mode. In the end of this section, a figure will show up

the link among these theories, and all the theories above are highly related to the research questions, which are classified below. These theories are also somehow discussed the SMEs compare to the other more general theories, which stands for another reason to choose them.

Conceptualization of research question one

The purpose of the first research question is to provide a better understanding of how the motives for SME's internationalization can be described. The reviewed literature suggests a number of internal and external factors that influence SME's internationalization.

According to Hollensen (1998) before companies enter the internationalization process they have to have something or someone inside or outside the company to initiate the implementation of the internationalization process. Hollensen (1998) and Burca, Fletcher, Brown (2004) have made classification for the motives for SME's internationalization and referred to them as internal and external triggers to internationalization. These factors are the most relevant and important for this study. Below the author shows them in a table.

Table 2.5: Internal and external triggers to internationalization

Internal triggers	External triggers
Perceptive management	Market demand
Specific internal event	Competing companies
Importing as inward specialization	Trade associations
	Outside experts

Source: Adapted from Hollensen, 1998.p.31

Albaum, Strandkov and Duerr (1998) have divided the internal and external factors into proactive and reactive factors. The proactive factors refer to the company's interest in exploiting new thoughts and competences or the possibility of the market. Reactive factors refer to if the company act passively and respond to either internal or external pressure. Since this study only focuses on the internal factors influencing SMEs selection of entry mode, the author will only present the internal factors below.

Table 2.6 proactive and reactive factors for internationalization

	Internal
Proactive	<ul style="list-style-type: none"> ● Managerial urge ● Unique production/competences ● Marketing advantages ● Economies of scale
Reactive	<ul style="list-style-type: none"> ● Risk diversification ● Extended sales of seasonal products

Source: adapted from Albaum, Strandkov and Duerr, 1998, p.40

Conceptualization of research question two

The purpose of the second research question is to provide a better understand of how SME's approaches to market entry mode selection can be described. The reviewed literature displays different types of approaches and rules to help SME's choose entry

mode.

According to Young, Hamill, Wheeler and Davies (1989) the most complex decision international companies faces is selecting the most effective mode of entry. Each entry mode selection method has its advantages and disadvantages and is influence by several sometimes conflicting forces. A systematic analysis of all entry mode alternatives as well as the overall purpose and goal is required before making the right entry mode selection (Young, Hamill, Wheeler & Davies, 1989). Albaum, Strandskov and Duerr (1998) have suggested three different rules that can be used when selecting entry modes, these are; naive rule, the pragmatic rule and the strategy rule.

Tble2.7 Rules for selecting entry modes.

Naive	Companies use the same entry mode for all markets. This rule is inflexible since it Prevents companies form exploiting their foreign market opportunities.
Pragmatic	Companies use one entry mode for each market but no investigation of the most suitable entry mode is made. Although within this rule companies do not investigate all entry mode alternatives so the chosen alternative might not be the most suitable.
Strategy	Companies compare and evaluate all entry modes alternative before making a decision. Comparing all the entry mode alternatives is highly complicated and can result in trade-off for the companies' objectives.

The author chose to only conceptualize the rules for selecting entry mode. For this study they are the most appropriate ones. The theory is also important in order for the author to receive an overall point of view about how SME's entry mode selection functions in reality.

Conceptualization of research question three

The purpose of the third and final research question is to provide a better understanding of how SMEs' internal factors influence the choice of export as an entry mode. Based on our literature review a combination of previous research of export and the internal factors influencing SMEs' entry mode selection will be used.

Root (1994) states there are a lot of different factors could influence the SMEs' choice of start exporting, no matter direct or indirect. Hollensen (1998) divided them into internal factors and external factors, since this study focuses on the internal factors, the major factors influencing the SME's decision to start export are the company's size, their international experience and their product.

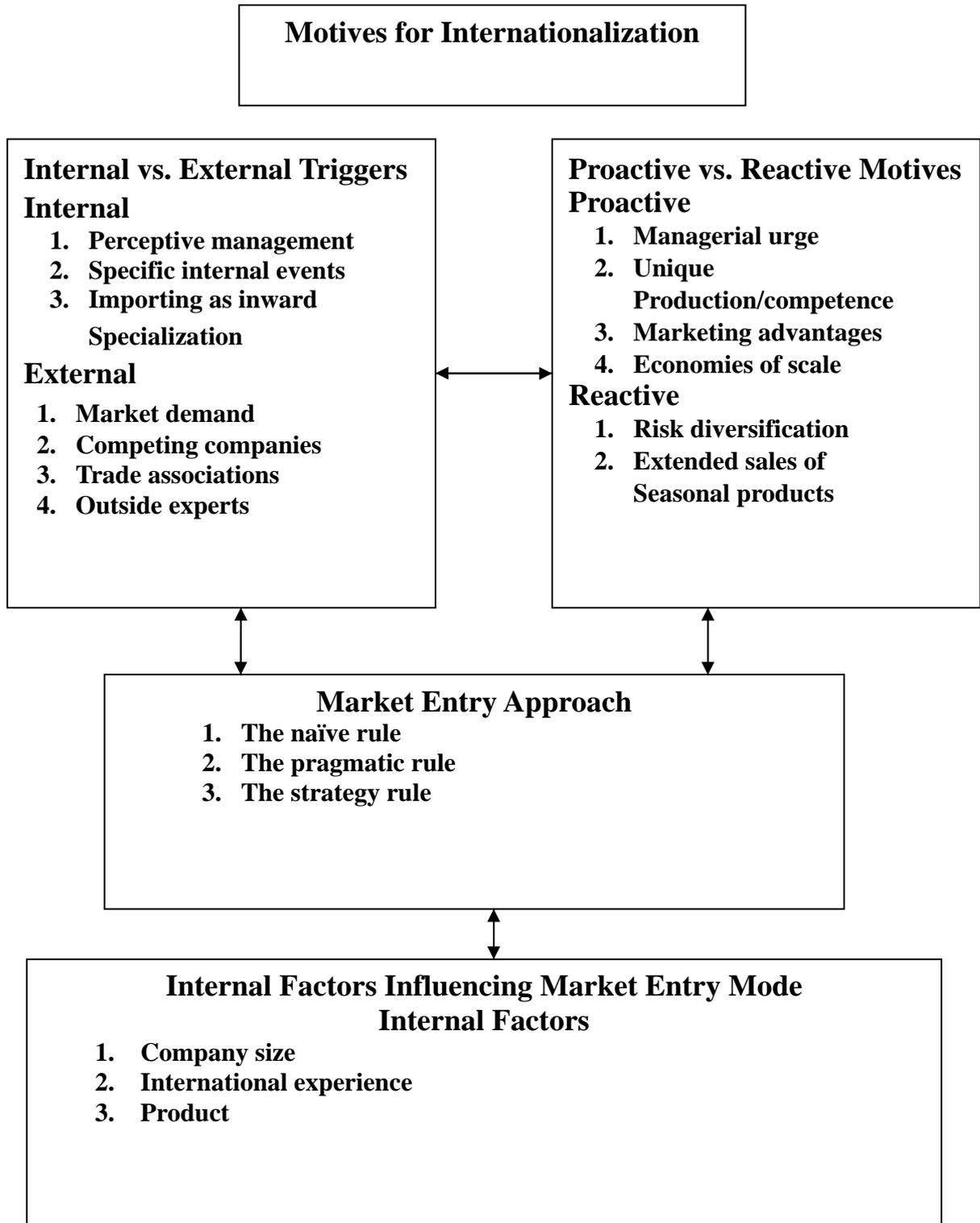


Figure 2.8 the combined elements influencing SMEs' choice of foreign market entry modes.

3. Methodology

In this chapter will present the methodology of the study and in each section methodological choices regarding the research will be discussed and justified. This chapter contains the purpose of the research, research approach, data collection methods, analytical strategy. Furthermore, this chapter will discuss about reliability and validity in the end as well.

3.1 Research purpose

There are three basic purposes for scientific research: explore, describe and explain (Easterby-Smith, 2002), therefore three classifications of research can be defined: exploratory, descriptive and explanatory. Exploratory research is often expressed as a hypothesis (Yin, 2003). Gather as much information as possible within a specific problem area is the main purpose of exploratory research, which means the researchers provide a broad view about this area. It often used in research about new or undiscovered topics, where very little research has been done (Yin, 2003). So it is important to have creativity and plenty of ideas since the aim of exploratory research are to get a guideline for further studies.

The descriptive research is used when a problem has already been well structured, and there is no intention to investigate the casual relationships, also a certain amount of knowledge should be exist in the form of models, but the researcher wants to know which aspects of a problem are relevant and prefer to describe these aspects more methodically. The result often ends with relatively exact and detailed facts, and the conclusion of the study is derived from a conclusive description of the examined aspects or variables.

It is suitable to use explanatory research when making assumptions on what kind of correlation exists between different variables. Explanatory research builds on previous knowledge and theories so as to reply the research questions. It focuses on explaining the situation or behavior and the consequences. In order to test hypothesizes the research has to be presented to avoid the risk that other factors except that the hypothesis states might influence the result (Yin, 2003).

The purpose of this thesis is to gain an understanding of how SMEs select and enter foreign markets. There are a lot of theories available in this area, in order to know how motives and internal factors impact SME's foreign markets entry mode selection; this thesis will first and foremost be descriptive.

3.2 Research approach

When conducting research there are two different methods that can be used:

qualitative and quantitative methods (Easterby-Smith et al., 2002), by choosing one of these approaches the researcher will also define the data collection and analysis method, which means the differences between these two approaches are mainly about how to deal with the gathered information. Quantitative research is based on numerical data, which can be presented in form of figures and other statistical ways. Qualitative research methods on the other hand is the researchers' comprehension or interpretations of the data that stands in the foreground and this data can not be explained in mathematic form.

According to Yin (2003), qualitative research is widely used in case studies in order to understand the research problem through gathering in-depth information about the research topic. It is less formal and based on unsystematic and unstructured observations, and always used to gain better understanding, especially to know and analyze the situation as a whole.

The qualitative approach will be used in this study, since deeper and broader understanding in the chosen research area is the aim of the research. There are few researches about this research area, a better understanding of "how" motives and internal factors impact SMEs' approach to foreign market entry mode selection are needed, so the author lacks of guideline to do a quantitative study. Since the author focuses on the company's thoughts, which means this study is concerning in understanding the situation and provide the instruction for further explore. And the reader should however keep in mind that the empirical data in this thesis is highly based on the companies' and respondents' attitudes and perceptions, and therefore the empirical data will be easier to collect in words instead of statistics.

3.3 Research strategy

There are five major research strategies according to Yin (2003): experiments, surveys, archival analysis, history and case studies. Each of them has its advantages and disadvantages, and the following three conditions help us to select the most suitable methods: (Yin, 2003)

1. The type of research questions posed.
2. The extent of control an investigator has over actual behavioral events.
3. The degree of focus on contemporary as opposed to historical events.

Table 1 3.1 shows the different situations for different research strategies.

Table 1:3.1

Strategy	Form of research question	Requires control over behavioral event	Focuses on contemporary events
Experiment	How, why	Yes	Yes
Survey	Who, what, where	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/no
History	How, why	No	No
Case study	How, why	No	Yes

Source: Yin (2003), case study research: design and methods.

When the research focuses on a few objects from different aspects, and researchers ask about “how” and “why”, case studies should be used. And also case studies are used when the researchers have very little control ability and the focus lies on contemporary phenomenon with in real-life context (Yin, 2003). The author also thinks about doing a survey, but it is hard to find a large number of respondents in quite limited time. Another reason is the Chinese SMEs are not willing to support the individual researcher except who has some connections or good relationship to them. The author tried to contact a number of SMEs, but only several replied.

Since this research questions ask both “how” and “why” questions and the author doesn’t need to have control over behavioral events to gain a thorough understanding, so within this selected research area the most appropriate strategy for this research was case studies.

3.4 Data collocation method

When a researcher willing to choose the data collection method, he or she should choose the most suitable method for the specific study and not the method that are superior over the other methods (Denscombe, 1998). According to Yin (2003), there are six types of data collecting methods: documentation, archival records, interviews, direct observations, participant observations and physical artifacts. The table below shows the strengths and weaknesses of these methods.

Table 3.2 Six sources of evidence

Source of Evidence	Strengths	Weaknesses
Documentation	<ul style="list-style-type: none"> ● Stable: can be reviewed repeatedly ● Unobtrusive: not created as a result of the case ● Exact: contains exact names references and details of an event 	<ul style="list-style-type: none"> ● Retrievability: can be low ● Biased selectivity: if collection is incomplete ● Reporting bias: reflects bias of author ● Access: may be

	<ul style="list-style-type: none"> ● Broad coverage: long span of time, many events and many settings. 	deliberately blocked
Archival Records	<ul style="list-style-type: none"> ● (same as above for documentation) ● Precise and quantitative 	<ul style="list-style-type: none"> ● (same as above for documentation) ● Accessibility due to privacy reasons.
Interviews	<ul style="list-style-type: none"> ● Targeted: Focuses directly on case study topic. ● Insightful: provides perceived casual inferences 	<ul style="list-style-type: none"> ● Bias due to poorly constructed questionnaires ● Response bias ● Inaccuracies due to poor recall ● Reflexivity: the interviewee gives what the interviewer wants
Direct observations	<ul style="list-style-type: none"> ● Reality: covers events in real time ● Contextual: cover context of events 	<ul style="list-style-type: none"> ● Time consuming ● Selectivity: unless broad coverage ● Reflexivity: event may proceed differently because it is being observe ● Cost: hours needed by human observers.
Participant observations	<ul style="list-style-type: none"> ● (Same as for direct observations) ● Insightful into inter-personal behavior and motives 	<ul style="list-style-type: none"> ● (Same as for direct observations) ● Bias due to investigator's manipulation of events
Physical Artifacts	<ul style="list-style-type: none"> ● Insightful into cultural features ● Insightful into technical operations 	<ul style="list-style-type: none"> ● Selectivity ● Availability

Source: Adapted from Yin, 2003, P86

In this study the author has chosen to use documentation and face-to-face interviews, since they fit the case study and are the most appropriate ones for this research. Gather different data about the same topic by using different data collection methods will help researchers get data from different angles and understand the study topic much better. And also researcher could compare the different data (Denscombe, 1998).

In this study, face-to-face interviews have been identified as the primary data collection method since it has the ability to ask the specific questions and gather specific data for my interest. The follow up questions could be made since there are face-to-face interviews, and the author used an interview guide as a base which means it is a semi-structure interview, but the author prefers to use this as a guideline not a

necessary list. And also the author would like to create a comfortable and relax communication, and let the interviewees have the possibility to influence the interview. And secondary data comes from documentation which including website, administrative records, public announcements etc.

3.5 Sample Selection

The author chooses two companies in China in packaging industry, the selected companies for this study base on following criteria:

1. A Chinese business major in packaging industry
2. A small or medium sized company or former SMEs before it turned out to be international.
3. Enter more than three countries at least one from other continents.
4. Have more than three years internationalization experience.

The first criteria the author set up are that the businesses had to exist in China since my research focus on Chinese companies and within packaging industry, there are many SMEs in this area, and also most of them are still only operate in domestic market compare to the other industries (Lu Zheng, 2005). And packaging industry is quite complex which means covers most of the possible situations in the internationalization process. Also the author believes it would be easier to get in contact and permission to take the research on them since the researcher has related background and knowledge. The author has some social relationships with some companies in this area, the reason to choose from those companies is that they are much easier to get in touch with and also increase the possibility to have face-to-face interviews which means increasing the validity of the research. And SMEs are more willing to use export as an entry mode due to their limited resources and lower risk, that's why the author limited the selection of possible companies. A company has more than three years and more than three different countries international experience will give the author enough material and data, since it should have already set up a steady and successful entry mode to survive that long and expand in that many countries.

There are a number of companies fulfill the requirement, the reason for choosing Ideal and Wanshun is that they are not only fit the request but also willing to help the author in providing all the information needed. Based on the rank criteria of the Chinese economic and trade committee, both of the companies have less than 2000 employees which fit the SME's criterion. But Ideal has more than 450 million assets which over the standard. Considering both companies are growing very fast, before they went to international market, they were definitely SMEs.

After contact these two companies, the author were told that Mr. Du and Mr Zhao was the most suitable person to interview for this study. Although the author also interviewed some other persons, they can not directly answer the questions since they are not key persons in the company and do not have enough information or the ability to answer the questions. In these two companies, only the decision makers have the ability to respond the questions related to the company's strategy. Mr. Du is the CEO of Wanshun packaging material Co.Ltd, and he was willing to participate in this study

and give the author a chance to interview him. Mr Zhao in Ideal packaging Co.Ltd also accepted to do the same thing with him. Then the interview took place at Mr. Du and Mr. Zhao's offices in Wanshun and Ideal, both two interviews lasted several hours, and additional information has been given by their secretaries in form of brochures and public announcements including the companies history and business development status. After interview, the author also has some informal discussions with them during some social activities, which gave the author a chance to do the observation but due to the time constrain, the author decided not to cover that.

3.6 Data analysis

According to Yin (2003) when performing a case study, it should always begin with an overall analytical strategy. He further states that there are three analytical strategies that a researcher can use when analyzing data.

- Relying on theoretical propositions: The researcher develops research question from previous studies about the subject. The data that the researcher collects about the subject are then compared with the previous theories.
- Thinking about rival explanations: The strategy is appropriate for case studies since it tries to define and test rival explanations.
- Developing a case description: This analytical strategy states that the researcher should develop a descriptive framework organize the framework.

Since there are many previous studies made within my subject, the author relied on theoretical propositions when the author formed my analytical strategy.

Miles and Huberman (1994) have constructed an analyzing process that contains three stages:

- Data reduction: In this first stage to make it possible for the researcher to verify and draw conclusions, the data are reduced, focused, and organized.
- Data display: In the second stage, the researcher displays the reduced data to be able to draw conclusions and verify them.
- Conclusion drawing and verification: In this final stage the researcher should be able to detect patterns, explanations, similarities etc. to be able to draw the conclusions.

The author also relied on Miles and Hubermans (1994) three stage analyzing process. In order for us to be able to perform the data reduction the author performed two within-case analyses where the author compares the data that the author gathered from the two companies, Stenvalls Tra and BAC with the gathered previous theories. The author also did a cross-case analysis where the author compared the data gathered at the two companies and then summarized my finding in a table in order to simplify the display of the data. After that the author drew some conclusions.

3.7 Validity and Reliability

Easterby-Smith (2002) states that in order to get high validity, the data collection method need to measure the variable very well. Denscombe (1998) states that “the idea of validity hinges around the extent to which research data and the methods for obtaining the data are deemed accurate, honest, and on target”(p.241).

Yin (2003) state that there are four tests to establish the quality of a research:

- Construct validity: This means to construct the correct measures for the topic that are being studied
- Internal validity: This means to establish a casual relationship, were certain relationships leads to other conditions. (This can only be used in explanatory studies)
- External validity: This means to establish a domain were the finding of a study can be generalized.
- Reliability: this means that if a researcher conducts a study with the same method and procedure as an earlier researcher they should reach the same conclusions as the first one. The goal of reliability is to minimize errors and biases.

There are many ways of increasing both the validity and the reliability. In order for us to increase the construct validity the author used multiple sources of evidence and compared these to each other, so called triangulation. The sources the author used were previous theories, interviews (face-to-face), and documentation (web pages etc.). This study was also reviewed by a person that knows the subject well; this in order to see that on errors had been made. The empirical data were gathered from face-to-face interviews with the persons that had the most knowledge about the subject in the two companies. To further increase the construct validity the interview guide was read prior to the interviews by a person that knows the subject well. This in order to make sure that the questions was easy to understand and that no misunderstandings would occur. The construct validity might have been lowered by the face the author first made my interview guide in English and then translated it into Chinese. The interviews were also conducted in Chinese and then translated into English. The author conducted the interviews in Chinese since it was easier for the respondents to understand and they would not misunderstand the questions.

The internal validity was increased since the author, in this study, used pattern-making when the author compared the gathered empirical data against each other and to the previous theories. To be able to increase the external validity a researcher must do multiple case studies. Even though the author performed two case studies this is not enough to be able to generalize.

The reliability in this study was increased through the use of an interview guide. Researchers that want to perform the same study again can use the same interview guide as a base for their interviews. The interview guide was also made in order for me as researchers to not influence the respondents with my previous knowledge and with that lower the reliability of this study.

During the interviews a tape-recorder was used and researcher took notes. This was

done so that the author was able to compare my note against the recorded tape and so that the author did not miss any important information. The note was also taken if the tape-recorder would not function.

3.8 Limitations

The limitations of this study mainly comes from the empirical setting, since only SMEs in packaging industry can not fully stands for all the SMEs, and also two companies can not cover the whole industry either. Only two interviewees in these two companies make the situation even worse. By aware of that, this study just wants to act as the descriptive guidance and contribute for further research, it is not a comprehensive study.

Time constrain and limited budget is another restrict, which force the author abandoned some possible research approaches and methods such as observations and survey, even though with them the result of this research could be applied more general.

4. Empirical data: Two case study

In this chapter the data gathered through face-to-face interviews at Wanshun package material Co.Ltd. And Ideal packaging Co.Ltd will be presented. The two following sections begin with a brief presentation of the companies, and then present the data.

The data for these case studies were collected through face-to-face interviews. At Wanshun package material Co.Ltd, the author interviewed the CEO Du Chenchen, and at Ideal packaging Co.Ltd the author interviewed Mr. Zhao Weidong who is the vice-general manager and works in export and foreign market sales. Both of them have worked over 10 years within these two companies, Mr. Zhao has had a lot of different positions before this one, such as manufacturing manager, exports manager and sales manager in domestic market, etc. This since Ideal group is a collectivity-owned company and therefore as he states himself, he has tried almost all positions in the company. Mr. Du was a teacher who has technical background as a researcher in University, but he always wanted to work within sales although he is the GM in Wanshun. Since Wanshun is a private-owned company, Mr. Du owned this company so he has had the only position in ten year.

4.1 Wanshun package material Co.Ltd.

Wanshun package material Co.Ltd was founded in 1994 by Du Chenchen and his family. The company first produce wine packaging paper board, however the company grew very fast and expanded its business to cigarette packaging paper, hand craft paper and wrap paper etc.

Today, the company is still managed and owned by Du Chenchen. The company is located at Shantou free trade zone in Guangdong province. It is close to the South China Sea. The company nowadays has very effective and flexible production; the company is running smoothly after the new workshop finished two years age. Wanshun has more than 400 employees and their main products are cigarette packaging paper and wine packaging paper board. Annual sales are approximately 400 million RMB and 30 percent of the sales come from foreign markets.

Wanshun goes international: Motives

The main reason Wanshun went international was due to the markets and customers demand for their products. The company got direct inquires from foreign companies which led Wanshun into the international market. This began about three years ago and in the beginning of 20th century Wanshun entered the international market. The first markets the company entered were Hong Kong, Taiwan and Malaysia. Today the company operates in Malaysia, Thailand and Hong Kong and also involved in international business in Germany, Spain, Saudi Arabia and U.S.A. The reason Wanshun began exporting to these countries was because of the demand of certain qualities that are only to be found in Wanshun, it is a long-term corporation between

some companies and Wanshun although their purchase volume is very low, but often has very high margin.

For Wanshun, along with the importance of having a perceptive management it is just as much important to have perceptive sales personnel that visits the customers and could find out the potential business opportunities. According to Du, it is highly significant to have good market knowledge, educated and skillful personnel as well as the right technology in order to succeed on the foreign market. Du makes sure to hire the right personnel as well as agents to be able to produce what the market and customers demands. It is important to have both good sales personnel who meet with the customers as well as a management who understands the information that the sales personnel returns with. The respondent explains that since he has had almost know all the processes and positions in the company and being as the CEO increases his understanding for the sales personnel and the information they return with. Since Du do not engage much in import he cannot see the connection between effective imports and successful exports for Wanshun. Neither can he relate to any special internal events that can function as motives for its internationalization.

The direct inquiries from foreign markets have for Wanshun been the largest motivator to go international. Chinese tobacco companies always require the best looking packaging paper for its cigarette package, so the printing companies work for them always demand high quality paper or paper board from package material company. And because of that, Wanshun has been driven to produce the best packaging paper, which led Wanshun into the international market. Du does not recognize competing companies as a motive for internationalization, and he does not look at other companies as competitors, they instead consider other materials as competitors to its paper products. The main material competitors for Wanshun are pure aluminum package, plastic package and wood package. Wanshun are not involved in any trade associations but certain trends can be seen at the market, and he looks at how other companies act and then considers how to best implement this strategy to its own foreign activities. Outside help comes from the cooperation with foreign agents who help Wanshun with finding potential foreign customers.

Another driving force to internationalization is the drive to make money. The opportunities to sell products and receive high profit work as motivators in doing international business. Every year Du look for new business opportunities and the company also receives inquiries that Du carefully consider. The criterion he is most concerned with is if the volume is large enough and how large the costs will be. Du prefers to trade with the already existing profitable customers than unknown customers since the company does not have enough resources to deliver to all customers. The company has thorough evaluations of the potential customers and in order to select the right customers, he has to consider both the risk and the conflicts that might arise. Du also emphasizes the importance of nurture the relationship with their already existing customers which are profitable for the company.

The proactive factor that Du can relate to the most is the managerial urge but the respondent also adds to this factor the urge of the company's salesmen. A company can not send a salesman that is not enthusiastic for selling to a market and who is not alert and can spot new business opportunities. This is why Du has focused much on agents together with his own salesmen; another reason was that the information of the

market and the customers now reaches Du directly. Within the former structure, with both Chinese and foreign agents this was not the case, Du felt that the company missed out on a lot of valuable information. A salesman has to have the ability to not only sell today but also tomorrow, next week and even the next year. The salesman must also be able to listen to the customer's needs and demands. Not to forget, the management has to have the ability to fully understand the valuable knowledge the salesman's possesses and the valuable information they bring back to the company concerning their customers.

Unique products effect Wanshun's internationalization since Wanshun is forced to have unique products due to the long distance to the foreign markets. Wanshun has to refine and redefine its paper products in order to lower the transportation costs and to be able to compete with other countries' products.

Specific knowledge and information that Du receives from his own salesmen about the customers wants and needs gives Wanshun advantages over its competitors. Du can through this develop the products and marketing activities in order to match the markets demands.

It is important and helpful to divide the market into several different markets in order to spread the risk. If Wanshun enters and sell to several different countries and markets Du can easily change the production volume in different types of paper if the demand of the product would increase or decrease in any of the countries or markets. In these cases Du can chose to either increase or decrease the production on the specific market but it is important to note that the demand of the product can change over time.

Wanshun is affected by increase sales of seasonal products, and the peak of the season in China is between October and January. During these four months the printing companies are working fully and the demand of package paper is very high. During the low seasons in China, Wanshun turns to other markets and mainly sells the other products.

Wanshun's approaches to foreign market entry

Du uses his own salesmen and agents to enter new foreign markets. The former traditional structure of the entry mode selection was that a company had contact with Chinese agents which in turn had contact with foreign agents. The foreign agents were then in contact with foreign importers who sold the product or use the products. Wanshun abandoned this mode of entry about one and half year ago because of the lack of information from the Chinese agents. Today Wanshun only work with its own salesmen and foreign agents who work directly towards the end users. This led to a higher degree of international involvement since the company due to the changes of agents receives more information and therefore dare to put more resources into the foreign markets. The most important factors for Wanshun's international development are that its own salesmen have to have a good and close relationship with the foreign agents and that the agents have good knowledge about the culture and the market. Du gradually develops the international engagement over time, and this is a constantly ongoing process within the company. The change of entry mode has forced Wanshun to change many agents since many of them only worked with one customer.

Unfortunately Wanshun has not succeeded with this change in all markets because the traditional manner of selecting entry mode is well ingrained. For Wanshun to succeed on the foreign market, own good salesmen and foreign agents who know the market very well are demanded. Wanshun's salesmen are also well trained about the products knowledge and the company's business concept in order to represent Wanshun in abroad.

During business trips, Du discussed with agents and customers and he realized the prerequisites to the selection of entry mode. He saw the business opportunities that existed on certain foreign markets and learned how to customers wanted to be received and on the basis of this he made the selection of entry mode.

Wanshun does not use the same entry mode for all markets, Du use different types of export entry modes and the difference lies in the use of agents. The company started to change the use of agents in domestic and abroad into only working with foreign agents for about one and half year ago. This change has not been fully successful since there are some key customers still use agents to purchase the products.

Wanshun's strategy comes from the company objectives and is shown in its business concept. The business concept is the base from which the company acts when making strategic choices of which markets to work with and how the company should enter there markets. The respondent states that Wanshun has a clear strategy which is: *"Base on the customer, provide the most advanced and environmental friendly product, serve to the society."*

Internal factors and Wanshun's entry mode selection

The largest part of Wanshun's export is direct export of paper products. The advantages with export are the awareness of the tough global competition. The higher degree of competition that export brings forces Wanshun to be more effective and strive for becoming even better everyday. The information that Du get while traveling abroad is that China is a large country and there are many foreigners would like to enter this market, and at the same time many competitors in domestic market would like to go abroad as well. Another advantage with export is that it spread the risks through selling in many different and independent markets. As an example, if the Thailand market decrease this year it is easier to ship the products to India or Malaysia than to take them back to China.

Du does not recognize any direct disadvantages with export but admits that the long distance to the markets give the company lack of control. This is solved through securing contracts with insurance company, export and import bank of China and the customer.

According to Du, the larger the company is the more risk is he willing and able to take. Therefore Du also believes the resources have a great influence on the degree of their international involvement. Smaller companies do not have the same prerequisites due to smaller amount of resources; therefore their degree of international involvement becomes limited. A company's earlier international experience can also influence the choice of export as an entry mode. In addition Du also looked at and evaluated how other companies have done before in order to make the best choice of entry mode and

avoided making the similar mistakes as others.

The product as an internal factor influencing the choice of export as an entry mode is a highly important factor. Wanshun does not have a standardized product, this because the different customer has different requirement about the color, size, and quality of the product. This is the reason why Du always travels a lot to gain awareness of the global competition and he also has the possibility to see other countries companies' business strategy and compare it to its own. This gives Du knowledge and valuable information on how he can develop Wanshun's own strategy abroad. Due to the global competition Wanshun is forced to redesign its product more and more because it higher the profit margin, which make the redesign of the products necessary.

The factors that have changed over time are the structure of entry mode. The former structure involved traditionally within China and the paper industry both a Chinese agent and a foreign agent. The foreign agent mediated businesses to importers or users then sold the products to them. It has been changed and now Wanshun only works with foreign agents and reduce the process in Chinese agent, and also Wanshun directly work with some key customers. Those changes save a lot of time and money for Wanshun, and bring back the fresh information from customers directly.

4.2 Ideal packaging Co.Ltd

Ideal packaging Co.Ltd was established in 1976 by Meilin village, it was a plastic goods factory in that time. In 1979, Mr. Wang Xinyan took the control of this company, now it becomes a large-scale national packaging enterprise. Ideal is specialized in packaging for export products, printing for cigarettes label, cartons, boxes, Vacuum aluminum material as well as stationary and gifts. Ideal is the champion for profitability in printing packaging industry and has been the first place of the same trade in Zhejiang province for years. It is also the biggest country enterprise for exporting and foreign currency gaining as well as the top profit and revenue enterprise. It has been chosen as the one of 500 biggest packaging enterprises in the world and No.1 in china. Ideal is famous due to the best workshops, the best equipments, the best management as well as the best benefit.

Vacuum aluminum material, this new project developed since 1998, total investment is 450 million RMB ,most advanced aluminum production lines were imported from Europe and America . Ideal has been awarded as industrial base of vacuum aluminum material by Economy & Trade Committee of China in 2001.

The company has advanced quality control equipment making the products meet or exceed the international standard. There are two ways of aluminum plating: direct plating and transferable plating in technology, ordinary vacuum aluminum paper and laser anti-forgery vacuum aluminum paper for product. It can be used in many fields, such as label for beer, inner sheets for cigarettes, packaging for food, packaging for gift and vacuum aluminum cardboard. The main competitors are other package material company in China

Now Ideal has over 0.9 billion assets, more than one thousand employees, annual

sales over one billion RMB, and keeps on growing more than twenty percent per year. And about 50 percent of sales were from export.

Ideal goes international: Motives

The main reason Ideal went international was to spread around their risks and not only depend on the success or failure of the Chinese market. Another factor was that Ideal had a large variety of products and qualities and the fact that certain markets have greater demand than others on a specific quality and type of product. The products that are not demanded and sold on the Chinese market can instead be sold to other countries where the demand is different.

Since the beginning of the 1990's Ideal have been active on the international market. The first country the company entered was U.S.A and today it export to more than 50 countries, spread in Asia, America, Europe and Oceania.

According to Ideal when the demand on the domestic market decreases it leads to incentives for the management to be perceptive and search for other customers via for example special internal event. While searching for new ways to sell the products companies might discover new and exciting business opportunities which they have not thought of before and consider adopting them.

Market demand as a motivator is explained through Ideal receiving inquires mostly from agents. As an example an agent in U.S.A can make an inquiry to Ideal for a customers account. Depending on the customer's demands and what Ideal can deliver, an offer can be submitted and sent to the customer via the agent. Another important factor is to be aware of the competitors, what they do and how they do to succeed. Before entering a new country or a specific foreign market Ideal research at how other companies have done before entering that specific market and how they have succeeded with certain products on those markets. Ideal also cares about the procedure of other companies' entry strategy, if the entry strategy has been successful and if the procedure is applicable for Ideal, Ideal will try to follow.

Outside experts such as the Chinese packaging council can assist with advice and help for Ideal before entering a new foreign market. The type of outside experts that Ideal mostly uses is large export and import agents which have experience in paper and packaging industry. For example when Ideal thought about entering Europe, the company contacted one of the largest paper import agent in Germany and asked about the consumer pattern in Germany and whole Europe. Then Ideal chose to not enter Spain due to its low prices and small volume. It would not be profitable to export to there. Another factor was that the Spain with their demand at that time still focus on low price, it is cheaper to import from Africa rather than China even though Ideal can provide better quality.

Ideal does not have any specific future plans of entering new foreign markets but as the respondent stated: "We keep all doors open.", if Ideal will come across some attractive markets and interesting opportunities the company is more than willing to engage in these business activities. The management of Ideal has a large impact on the company's internationalization and the choice of entry mode. The impact is explained through if a manager is working as a driving force and encourages the employees or if

they act restrained and hold back the employees. Ideal's management is as earlier stated not against further expansion abroad and if the right opportunity appears they will surely consider that.

Ideal has one part of its product line, Vacuum aluminum material, that is unique in its area and with this product Ideal is market leading in China. This product is already certified in China and Ideal is at the moment trying to get the product approved by the government's package material research center. If Ideal would receive this, it can set up the industry standard by itself and all the other competitors have to follow. And also having this unique product on the international market gives advantages within price setting which in turn can lead to large profits.

Advantages in marketing such as acquiring certain knowledge about specific markets have given Ideal competitive advantages. It can be good to compare Ideal with other companies marketing activities and hopefully not do the same mistake as others have done.

Ideal could not relate to economies of scale very much, because it has so many different products, which was decided by the various demands from the customers. But recently, when the company put more energy in domestic market, the economies of scale has more impact. However, it is not that much concern to the choice of foreign market entry mode.

Ideal strives for minimizing the risk in order to not face any major downswing in the economy. The company reduces the risk through entering several different markets and demand credit insurance from their customers or makes them pay in advance.

Ideal is to some extent influenced by selling of seasonal products, it is because before Christmas European and American market require more package material for the holiday use, so during this time the production is maximized. During the low season Ideal chose to put more effort in domestic market.

Ideal's approaches to foreign market entry

Although Ideal is a middle sized company the choice of entry mode to foreign markets was quite conservative, only export until now. According to Zhao, Ideal tries to find agents in the major foreign market such as U.S.A, to help them find new potential customers. Export as choice of entry mode was also based on the fact that it is the cheapest way to engage in international business. In order to gain the relevant information needed before deciding upon the right entry mode for entering new foreign markets Ideal contacted colleagues and others in the same line of business to get advice on how to act and what products to sell. Then it would approach the target market, first via an agent or a foreign importer, contacting the customer directly is fairly rare. Ideal will build up the first sales office abroad next year; it is on the action list.

The selection of entry mode to a new foreign market starts with the contact between Ideal and agents in the target market. Often the agents want to do a check up on the company that they will do the business with, they look for what type of company it is and how it keeps its deliveries. In the beginning of a relationship with an agent they

do check ups, and then they might introduce you to a customer or give out a small assignment. If this first contact works out well and the demand for the products still exist the existing relationship with the agent will develop and this might result in the company becoming a larger supplier and receiving more orders. The first customer the agent introduces a company to be one it has a very good relationship and contact with and that it is not afraid to introduce to new products or suppliers. The agent will persuade the customer to try one or a few deliveries and if this works out well it will continue on with more and larger deliveries. Due to the fact that it starts out in a small scale, it can take a couple of years before the company gains a larger volume of export. Ideal recognizes the connection between company objectives and risk as well as the conflicts that might arise.

When Ideal meets with potential and interesting foreign customers that are in need of Ideal's products, a problem can arise. The problem lies in that the demand of the foreign customer's product is not high at the moment and credit insurance is not possible although Ideal might believe that the demand of the customers' product will increase in the near future. The problem is due to Ideal's policy of credit insurance or that the customers have to pay in advance, although Ideal might see large potential in the customer they will not take the risk. Ideal refuse some offers because the risk averse.

Ideal strives for minimizing the risks as much as possible in order to avoid major downswings. Minimizing the risks is also a highly significant question for the agents or foreign importers in order to guarantee their customers good contracts and service agreements. Ideal reduces the risk through only contacting customers that they can credit insure pr that can pay in advance, this because although the market is full of potential customers some of them might for some reason be economically unstable and not be able to follow through the deals. Credit insurance is within Ideal a policy that they are strictly bound to, although Ideal is a middle sized company the risk of not following the policy is still quite big.

Ideal's strategy for selecting entry mode is to select the entry mode that will minimize the costs. Their main strategy is to contact an agent or foreign importer since they know the country and its culture, they also know how foreigners act, what they want and what they need. Before making a business trip abroad to for example Germany, ideal can ask the agent for advice on how to act, negotiate etc.

On all markets Ideal has entered it has selected export as an entry method. Ideal was not big enough to have its own representation abroad before, therefore it is forced to solve the export through agents or foreign importers. Direct contacts with customers are very rare for Ideal but if it would be directly contacted by a customer that satisfies its policies it would surely take the order. Now Ideal prefers to contact the customers directly, but when it was small, Ideal did not have the energy and resources to search by itself.

The influence of internal factors in shaping Ideal's export entry mode

Several years before, Ideal only engages in indirect export, which means export to customers abroad via an agent or foreign import. Ideal delivers their products directly to the customers but it is the agent that is still Ideal's first choice. Ideal has to be able

to fully trust the agent in order to have a strong and successful cooperation. When visiting customers abroad, which are usually done once a year, the representative for Ideal travels with an agent, therefore the relationship with the agent is very important for Ideal. It is important to note that this relationship do not end when the agent helps Ideal find a customer.

The advantage with export is for Ideal to be able to spread its risk. According to the respondent it is important to not "*put all the eggs in one basket*", spreading the risks helps securing the profits for Ideal and to sell as much as possible. The respondent explained through a metaphor how the packaging industry works. He explained the industry as a restaurant. All the customers have different use about the package material, with different shapes, sizes and even colors. Ideal's suppliers offer the original material such as paper, aluminum and other material, like the food supplier for the restaurant. Then Ideal takes the order from customers and produces different products, like serve the dishes for different menu. So offer the customer different kind of products is very important, like the restaurant needs to renew its menu.

The main disadvantage of exporting for Ideal is the long distance to the market but Ideal has protected itself for this long distance through its credit insurance policy. Ideal has turned to a credit insurance company which offers to do credit checks on companies in return for payment. These credit checks can sometimes offend customers because it questions the customers' credibility. However this is the strategy Ideal had chosen and if a company cannot fit the condition Ideal will not do the business with it. Even though Ideal has a large distance to the foreign markets, the new technology and transports are highly developed and it has the possibility to visit, discuss on the phone or contact via e-mail and other e-chat tools. But Ideal still want to meet its customers face-to-face when it is possible.

Now Ideal had grown quite a lot, and it has more resource and more possibilities when engaging in the international market. It will put more resources and more employees into the international engagement, and try to use different foreign market entry mode, since in a larger company there is greater knowledge inside the organization then within a smaller company. So Ideal might change the mode and try to work directly with some key customers in the near future. Also when Ideal enters a new foreign market, it will evaluate if it is possible to enter into another in the same way that has been used before.

Ideal cannot set the prices on their ordinary products. It has to follow the market price since there are so many competitors. But with its specific and unique products, the price can be set up by itself. Ideal has a few competitors in these products, but they have very limited capacity and their products were not as good as Ideal's.

Other internal factors that influence the choice of export as an entry mode on new markets for Ideal are personal contacts. An example would be if a company in a trade fair and by coincidence meet other persons from other company, and personally they have a good contact, then feel interested in Ideal's products. It happened some times and when it does the trust and connection is mutual. This is not a strategy within Ideal but it is a factor that cannot be overlooked since it is very important with good personal contacts especially in Asian market.

The one thing that has changed over time is economies of scale. What has happened is that large companies buy several smaller companies, which means the large companies on the market is increasing. For Ideal which means it have fewer but larger customers. The new larger companies look for one large supplier which can satisfy all the needs, in order to simplify the process. So Ideal needs to grow up quickly and take the chance to be a large company.

5. Data analysis

According to Miles and Huberman (1994) the data analysis consists of three parts, data reduction, data display, and conclusion drawing. The author will begin by using within case analysis to reduce the data and compare it to prior theories for both companies. Then the author will do a cross-case analysis in order to compare the data between the two companies. To simplify the data for the two companies the author will display it in a table and show the comparison with the theories I stated in the conceptual framework. The drawn conclusions will be presented in the final chapter

5.1 Within-case analysis—Wanshun package material Co.Ltd

Wanshun goes international: Motives

Hollensen (1998) states that before a company enters the international market it has to have something or someone inside or outside the company to initiate the implementation of the internationalization process. The main reason why Wanshun entered the international market was the foreign markets increased demand of its products. Customers also came to Wanshun with direct inquiries for its products. Another reason why Wanshun engaged in the international market was the demand of certain qualities that only can be produced by Wanshun.

Certain Classification for the motives for SME's internationalization has been developed by Hollensen (1998) and Burca, Fletcher and Brown (2004) and is referred to as internal and external triggers to internationalization. According to Hollensen (1998) perceptive managers have to be aware of the possible opportunities that internationalization can give the company. The author further states that through visiting other countries, managers can discover new business opportunities, (Hollensen, 1998) Wanshun follows with the stated theories but adds and highlights that it is equally important to have perceptive sales personnel. It is the sales personnel that travels abroad and have direct contact with the customers and due to this the sales personnel must be able to see the business opportunities that can arise on the market. For Wanshun it is important to hire the right personnel that are well educated, skillful and willing to work within the company spirit. Wanshun has to have skillful sales personnel that meet with the customers and understand their needs and wants as well as having a management that fully understands the information that the sales personnel bring back to the company.

A specific event can according to Hollensen (1998) work as a trigger for a company to enter a new market this can be for example overproduction or reduction in the domestic market. The author further suggests that the connection between inward internationalization (import) and outward internationalization (export) can function as an international internal trigger for companies. This means that a company's import activities can determine successful export activities especially in the beginning of the internationalization process (Hollensen, 1998). Wanshun doesn't follow these internal

factors since it depends on the external market and the customer's demands rather than specific events internal to the company. Wanshun does not have any significant amount of import; due to this it cannot see the connection between the import and export activities as a trigger for internationalization.

The theory further states that the growth of the international market can create a demand for certain products which can pull companies into the internationalization process (Hollensen, 1998). A shrinking domestic market or a need for a larger customer base can also function as an external trigger to enter the international market. Foreign markets can also offer higher profit opportunities than the domestic market (Burca, Fletcher & Brown, 2004). The main external trigger for Wanshun goes to international is direct inquiries from customers. Wanshun's unique quality of its paper produces had attracted a lot of foreign customers to come, which pushed Wanshun entered the international market.

According to Hollensen (1998) if managers within an SME receive information regarding that competitors within the same line of business values a specific market high, it will function as a trigger to internationalization. Another aspect is that foreign competitors can enter the domestic market and offer better products to lower prices (Hollensen, 1998). Wanshun does not agree with this theory because it does not consider other companies as competitors, but other materials. Since other kinds of material may take the market share of paper package.

Another example of external triggers influencing company's decision to go international is the formal and informal meeting. For example trade associations or conventions. SMEs have a trend of evaluating other companies experience on the international market and making their own decision based on that (Hollensen, 1998). Wanshun is not involved in any trade associations but it follows the evolving market trends and consider how other companies act successfully on foreign markets and if it is possible to use the same strategy.

Hollensen (1998) argues that the company always has several different sources from outside to support its internationalization. Wanshun uses foreign agents as the outside source to help it find more customers.

The factor that Wanshun added to this theory is that a noteworthy factor to go international is high margin. One of the main reasons to go international for Wanshun was the chance to sell more products and get much higher profits. Wanshun considers these opportunities very carefully, and it is important that the volume must be larger than minimal volume, and the costs should be kept low. Wanshun prefers to trade with existing customer rather than new ones, due to its capacity and resources limit.

According to Stewart and McAuley (1999), the factors which influence a company's internationalization include internal and external factors, it is a general division. Also these factors can be defined as proactive and reactive factors. The proactive factors are the company's willingness to change the strategy and it is based on the awareness of its unique competences or market opportunities. The reactive factors are the responses when the company faces pressures or threat, for instance acting passively and changing the activities. The managers' desire, drive enthusiasm and commitment towards exporting are referred to as managerial urge (Albaum, Strandkov and Duerr,

1998). The decision makers' awareness of the foreign market, the anticipation of these markets, and the perceptions of the company's ability to act in these markets can effect the decision of entering a new foreign market. When the decision maker has a positive attitude towards a specific market, it has been shown that the company would have better chance to get succeed on that specific market, compare with those markets that the decision maker has a negative attitude (Albaum, Strandskov and Duerr, 1998). For Wanshun, it is true but it is also very important with the urge of the salesmen. The salesmen need to be passionate on selling to the new market, and have the ability to detect potential business opportunities. So Wanshun puts more efforts on working with foreign agents and training its own salesmen, and hope they can gather as much information about the foreign markets and customers as possible. It means the salesmen not only have to sell today, but also in the future by fully understanding the customers' needs and wants. At the same time, the management team also needs to know the market situation and analysis the valuable information that the salesmen bring back.

When a company has a unique product, it is much easier to enter a new foreign market, and the company would prefer to get order from customers directly rather than get order from agents like the others (Albaum, Strandskov and Duerr, 1998). According to Hollensen (1998) the costs of exploiting a unique products in foreign markets is quite low, and it has a high possibility to get succeed. But still, the company must consider about the product life cycle, which means how long the product can stay unique in the market. In this age, the new technology can help other competitors copy the product quite easy (Albaum, Strandskov and Duerr, 1998). Unique products are crucial for Wanshun; it can effect its survival on the foreign market. Due to the long distance to the international markets, if Wanshun does not have these unique products, it would not have the chance to enter the new foreign markets since the ordinary products were lack of predominance.

The advantage of specialized marketing knowledge or access to specific information a company has beyond its competitors will effect the company's internationalization. Because the company will get a competitive advantage and it can be an entry barrier for other potential competitors (Albaum, Strandskov and Duerr, 1998). So it is important that Wanshun can get information about its customers' needs and wants from its salesmen, which can create the competitive advantage. The information can be used to further develop the products base on customers' demands and keep the predominance.

A company that enters and doing business within foreign markets could have lower risk than those who only act in domestic market. Since different markets often do not have economic recession and the same time, the sales decline in one market can be balanced by the increase of sales in another one (Albaum, Strandskov and Duerr, 1998). Wanshun followed this factor because the company willing to spread its risks in different markets. The company could change the sales target market when the sales of a product decrease in a specific market, but also it realized the customer's demand could be changed very fast, the company has to constantly evaluate the markets and customer's needs.

Hollensen (1998) states that it is a strong incentive for companies that have products that are dependent on the seasons to enter other markets, since different markets can

different demands of a product in different periods. Albaum, Strandkov and Duerr (1998) states that there are two main reasons that this function as an incentive for a company's internationalization, it will reduce fluctuations in the product life cycle and the continued growth and profitability are more secured especially if the domestic market becomes tough. It can help to balance the production for the whole year, also a more balance and stable sales when the company can sell the season dependent products to the markets where have opposite or quite different season compare to the domestic market (Albaum, Strandkov and Duerr, 1998). Wanshun is influenced by this factor since the company has a peak season in winter, since the customer will purchase more wine and cigarette packages during that time partly because of the cold weather. But in south Asia and Europe market the sales peak appear in summer and autumn since the nice weather will encourage people travel a lot and buy a lot of presents, so the sales of wrap paper will increase during that time.

Wanshun's foreign market entry approaches

Selecting the most suitable entry mode is one of the most difficult decisions it has to make. There are some advantages and disadvantages with each type of entry mode, and this makes the selection of strategy highly influenced by a range of sometimes conflicting forces. So the company might have to do certain compromise between some forces (Young, Hamill, Wheeler & Davies, 1989). When Wanshun enters new markets it had chosen to work with its own salesmen and foreign agents who works directly towards the customers. Good market and culture knowledge are the criteria for Wanshun to choose salesmen and foreign agent, to ensure the success on the foreign market. They are well educated both within sales and Wanshun's business concept and able to represent the company. And Wanshun realized that the selection of entry mode in a market should base on the existing opportunities on the market, so the information form salesmen and foreign agent become more important in the decision marking.

When a company choose the naïve rule, it means it would use the same entry mode for all the foreign market, it is an inflexible choice since it prevents companies from exploiting their foreign market opportunities and it will ignores the differentiation need for individual foreign market (Albaum, Strandkov and Duerr, 1998). Wanshun does not follow the naïve rule since Wanshun uses different types of export as entry modes. Before it used both Chinese and foreign agents, now it uses salesmen and foreign agent to extend the business. And now Wanshun got more information directly, which is preferable. But due to the unsuccessful change in some countries, Wanshun still works with more than one mode, so it does not follow the naïve rule.

The pragmatic rule uses one entry mode for each foreign market, but companies following the pragmatic rule do not investigate all the different entry modes, therefore the selection might not be the best. Due to the limit cost of investigation (Albaum, Strandkov and Duerr, 1998). Wanshun searches for potential customer and the opportunity to enter a new foreign market all the time, when there is one chance to go, Wanshun has to evaluate the market and customers carefully to avoid the risk. Although it is important to gain some new customers but it is also very important to maintain the existing ones. Because of this, the pragmatic rule can not be applied to Wanshun.

Within the strategy rule compare and evaluate each entry mode alternative before a company makes the final decision (Hollensen, 1998). The comparison of all the entry mode alternative is highly complicated since companies have a number of objectives to think about, and those conflicting objectives might result in trade-offs (Albaum, Strandkov and Duerr, 1998). Wanshun has a clear business concept, base on the customer means it has to think about the not only itself but also the customers. The strategy rule is the most suitable entry mode selection rule, a comprehensive evaluation could guide the company's choice of which markets to enter and how it should act on those markets.

Internal factors and Wanshun's entry mode selection

The theory tells that the most common initial entry mode for SMEs into foreign markets is export. According to Hollensen (1998), the number and type of intermediaries can separate the export into two types: direct and indirect export. The major part of Wanshun's export is direct export of paper products. Bennett (1998) and Hollensen (1998) suggest a number of advantages such as lower risk, easy entry and disadvantage such as less control and litter contact with the foreign market. Wanshun has already known about the tough competition, so it always works on improving itself. And the export help Wanshun spreading the risk. Lack of control was aware due to the long distance, so the company will not send the products unless it had received the payment or credit insurance from the customer. But the problem of high transportation cost is not able to solve.

Root (1994) argues that the company's decision to start exporting is affected by a number of different factors that can be either internal or external to the company. The internal factors influencing a company's choice of foreign entry mode is derived from the company and management characteristics (Burca, Fletcher & Brown, 2004). A company's size is one of the determinants of its international involvement (Hollensen, 1998). For SMEs, export is the most appropriate entry mode although lack of control. A high control entry mode always need large amount of resources which is not possible for SMEs (Hollensen, 1998). Wanshun can relate to this factor since the company is not big enough to make the direct investment on foreign market. The limit resources makes Wanshun lower the degree of international involvement and influence the company's choice of export as an entry mode.

According to Hollensen (1998) the previous international experience that a company has can influence the company's activity when entering a new foreign market. This international experience comes from either operation in the general international environment or operation in a specific country (Hollensen, 1998). When Wanshun enter new foreign markets it look at and evaluate how it has entered new markets before and also how other companies have done. This may help Wanshun to choice the most successful market entry mode and reduce the risk of making mistakes that others have done before.

A company has a product that is highly differentiated, has an advantage over other products and receives a high degree of pricing discretion over their competitors (Root, 1994). Companies that have high differentiated products often favors export as an entry mode into new foreign markets more than companies that have low differentiated product (Root, 1994). According to Hollensen (1998) the unique

products could help the company raise the products price and gain more profit. The company can also satisfy its customers needs, create entry barriers and strengthen its competitive position. Wanshun does not have standardized products since it would not be able to survive on the market without differentiated products. The fact that Wanshun has its differentiated products shows that this is a highly important internal factor that influences its choice of export as an entry mode. Wanshun is focused to design its products to be able to keep its good quality and differentiated products this since it is necessary for it to be able to set a higher price on its products. Because Wanshun has to cover the high transportation cost since the international markets have long distance.

Wanshun's structure of entry mode has been changed over time, before Wanshun worked with both Chinese agents and foreign agents, and never directly get in touch with customers in abroad. Now Wanshun started to work with its own salesmen and contact the foreign customer directly, although it still use foreign agent as a complement, but for those key customers it has a direct connection with them, which makes the information and knowledge collection much easier.

5.2 Within-case analysis-Ideal packaging Co.Ltd

Ideal goes international: Motives

According to Hollensen (1998) a company needs to have some critical factors for the company to start the initiation of the internationalization process. Ideal decided to enter the international market due to its risk averseness attitude, Ideal wants to spread the risks in different market since the domestic market has a tough competition. Large variety and unique products help Ideal satisfies the large demands in other markets, it is another motivator. And the demands for different products encourage the company to be more internationalized; because it helps the company improves the production line.

The motives for SMEs' internationalization has been developed and identified by Hollensen (1998) and Burca, Fletcher and Brown (2004), they identify the motives as internal and external triggers. Within Ideal the reason to go internal is the domestic market was not perform so well, so the company was forced to search for more opportunities. Then Ideal met new opportunities and entering the new foreign market, which just follow the Hollensen's (1998) states, the overproduction or reduction in the domestic market can be a trigger.

According to Hollensen (1998) there is a connection between outward internationalization (export) and inward internationalization (import), smoothly import activities can lead to successful export. But Ideal has almost no import, so it is not relate to this factor.

Further Burca, Fletcher and Brown (2004) states the weak domestic demand and increasing foreign market demand can also function as triggers for internationalization. And the foreign markets might also be able to offer higher profit opportunities. Ideal strongly follows this factor since it has a lot of inquires from foreign agents and

customers.

Further competing companies can work as a trigger to internationalization; they can enter the domestic market and might offer better products or lower prices. So the activities of competitors can be triggered to go international (Hollensen, 1998). Before Ideal enters a new foreign market, it looked at how the other companies have done before and if they have done well or not. Ideal also looked at their entry strategy to see if it is applicable for itself.

For a company there are several different sources of outside expertise available to support their internationalization, such as agents and government (Hollensen, 1998). Ideal corporate with Chinese packaging council and get help from this outside expertise. The other outside expert is large paper product agents who have experience in this package industry. Those agents give Ideal a lot of useful information and help it to choose the suitable market.

Albaum, Strandkov and Duerr (1998) discuss about the internal and external factors influencing a company's internationalization by dividing them into proactive and reactive factors. And they argue a good attitude from the management towards the new market is quite important for the company to get succeed in that market. Ideal's choice of entry mode was strongly influence by its management. Ideal is willing to expand when there is a suitable opportunity

Unique product and competences makes the new foreign markets enter much more easier since the company often get direct inquires from the customers in that foreign market (Albaum, Strandkov & Duerr, 1998). According to Hollensen (1998) there is higher chance for companies to sell their unique products to new markets since the cost of promotion can be very low. As mentioned before Ideal has some unique products, in some countries, Ideal got direct inquires from the customers which is quite easy for Ideal to enter the market.

If a company has more information and knowledge about a specific market, it would show some differences between other competitors, and when entering a new market, it always helps the company to create some competitive advantages and act as an entry barrier towards its competitors (Albaum, Strandkov & Duerr, 1998). Ideal agrees on this comment, the company has an advantage against their competitors because of its specific knowledge and the company also collect the competitors information as a guideline to avoid any similar mistakes as them did.

According to Hollensen (1998) when a company has already enter several new markets, the economies of scale becomes more important since the costs of production will decrease and more units would be made to take more market share (Albaum, Strandkov & Duerr, 1998). Ideal cannot relate to this factor now since the company needs to produce many different kinds of products due to the different requirement from customers, which means each kind of product does not larger enough to benefit from economies of scale. But when the company gets some large orders from several key customers, the situation will be changed.

According to Albaum, Strandkov and Duerr (1998) if the company extends to more markets will lower the risk compare with those companies only stay in domestic

market. Since the different economic situation will differentiate the demand of the products, a company with more markets to operate will be able to balance the sales in different market. Ideal can related to this factor since it is struggling in reducing the risk all the time, so it keeps on growing since the company set up. Ideal also uses credit insurance or advance payment to avoid the risk besides enter into many different markets.

For companies which are depending on the seasonal sales, entering several new markets is a strong incentive (Hollensen, 1998). It is an advantage for them since they can sell the product in the markets where has different seasons. This will increase the stability in both production and sales, also guaranty the growth and profit (Albaum, Standskov and Duerr, 1998). Ideal is to some extent influenced by this factor, it is because before Christmas there are some many orders from European and American markets, Asian market peak appears in winter time because of the demand for annual spring festival.

Ideal's approaches to foreign market entry

In the problem discussion part, some literatures state that when a company would like to enter a foreign market, one of the most complex decisions is how to select the entry mode. A number of conflicting forces can influence the entry mode since all of them have their advantages and disadvantages. So the company has to find a balance point in different objectives such as cost, risk and control. It is a complex process. Due to its limited resources, Ideal chose the simplest one, which is export. It is the cheapest way to get involved in international market. Even though export is the easiest entry mode, Ideal collected a lot of information from agents, expertise and other companies in the same line; to be sure it is the right decision. When approaching a market, Ideal cooperates with foreign agents to find customers and try to build up good relationship with them. Start with small order and then increase the export when they have better relationship. It is a safety way of doing business in foreign market but it could take very long time to build up the trust and cooperation. By aware of this, the company will choose some other entry modes soon, the first foreign sales office is processing.

The author has already discussed three different rules for selecting foreign market entry mode. Ideal really cares about the economic aspect of entry mode selection. The company always wants to minimize the risk in all strategic choice. It shows in its contracts with foreign agents and customers. The company only corporate with customers that can offer credit insurance or that can pay in advance. But this policy has problems when it faces the customer that has very litter demand now but will be rise in the near future. Due to its strict policy, the customer has to pay in advance or cost some money and time to make credit insurance even in very small purchase volume. This may forces some customers turn to other suppliers.

Major export from Ideal is indirect export, and direct export to some key customers is increasing these years. Now the applicable foreign market entry mode is the naive rule, since it does not use any other modes except export. It was not big enough to have its own representation abroad, but now the rule will be changed since the company grows up very quickly and large enough to pay for the cost.

Internal factors and Ideal's export entry mode selection

The most common initial entry mode for SMEs is export, which was divided into direct or indirect export (Hollensen, 1998). Ideal was only focus on indirect export via some foreign agents before, which means the relationship with foreign agents is very important for Ideal. The main advantage that Ideal aware from export is spread the risk. The disadvantages that Ideal has from export are mainly from the long distance to the market and its strict payment policy. If a customer can not be credit insured or pay in advanced Ideal will not corporate with it. This policy might offend customers who feel their credit credibility has been questioned and made them feel very inconvenient. The new technology partly solved the long distance problem, but personal contact still should be done since none of the communication tool can replace the face-to-face meeting.

There are many different factors influencing companies' choice to begin exporting, these can be defined as internal and external factors (Roots, 1994) Burca, Fletcher and Brown (2004) states that the internal factors of a company's choice of entry mode comes from its characteristics and management. Hollensen (1998) also argues the connection between the company's size and its entry mode choice. Ideal's management aware about that and willing to have more alternatives to choice when they have enough resources. And actually they are changing the selection of entry modes now although the author can not wait to see the result.

Hollensen (1998) states the previous international experience can be one of the internal factors for a company's selection of entry mode. Ideal follows that since it asked for other companies about their experience when entered a specific foreign market. And Ideal also evaluates the type of entry modes that other companies have used before. Finally, the successful experience can be copied by Ideal to see if it is adoptable.

Ideal was not the only producer for ordinary product. As Hollensen (1998) mentioned a product with high differentiation and advantage can also function as an internal factor to affect the foreign market entry mode, Ideal follows this statement since it has some unique products, and these products help Ideal opens a number of market. Without these unique products, it is not possible for Ideal to export anything since the ordinary products are not profitable when add up the long distance transportation cost.

Another internal factor that Ideal detects is the personal contacts. When Ideal takes part in some trade fairs, establish good contact always lead to future business between each other. It is not a strategy within Ideal, but the management aware it as an important factor.

5.3 Cross-case analysis

In this section the two case studies will be compared against each other. In order to give the reader an overview of two case studies the author creates several tables and a brief discussion to explain them.

Motives

Table 5.1 Cross-case Analysis: Motives to Internationalization

Company	Wanshun	Ideal
Theories		
Internal triggers		
Inward internationalization	No(very little import)	No(no import)
Perceptive management	Yes (employ more salesmen)	Yes (try to operate in abroad)
Specific internal events	No	Yes (search for new customers)
Enternal triggers		
Market demand	Yes (direct inquiries from customers)	Yes (direct sales from customers and sales from agents)
competitors	No (other materials)	Yes
Trade associations	No	No
Outside experts	Yes (agents)	Yes (agents)
Additional triggers	High margin	
Proactive factors		
Managerial urge	Yes	Yes
Economies of scale	No	No (will be yes later)
Unique products or competences	Yes	Yes
Marketing advatnages	Yes	Yes
Reactive Factors		
Risk diversification	Yes	Yes
Extended sales of seasonal products	Yes	Yes

Source: author's discussion

Table 5.1 shows how the triggers for internationalization could influence the two case studies. The main factors that both SMEs' agree to are that market demand is a highly significant factor in encouraging SMEs to go international. The use of agents is also a factor that works as an incentive to internationalization, and this simplifying the entering into new foreign markets. The inward internationalization could not be identified because both of them lack of import. And due to their unique products and specific customer demand they don't recognize the economies of scale. But both case studies agree that the managerial urge is important since managers in SMEs play a significant role when selecting the foreign market entry mode. The question of risk diversification is essential for SMEs due to their size, they have to avoid the risk and keep on growing.

Approaches

Table 5.2 Cross-case analysis: approaches to foreign market entry mode selection

Company	Wanshun	Ideal
Theories		
Rules		
Naive rule	No	Yes (will change soon)
Pragmatic rule	No	No
Strategy rule	Yes	No

Source: Author's discussion

Table 5.2 shows the rules to foreign market entry mode selection. Both of the case studies considered to not only use one mode of entry although now are only export. This is due to their size, limited resources and export is the most easy entry mode.

Internal factors

Table 5.3 Cross-case analysis: Internal factors influencing export entry mode

Company	Wanshun	Ideal
Theory		
Internal factors		
Company size	Yes	Yes
International experience	Yes	Yes
product	Unique products	Unique products
Additional internal factors		Personal contact

Source: author's discussion

Table 5.3 shows the internal factor that influences SMEs' market entry mode selection. Both case studies agree with all the internal factors. The main internal factor is their size, since they lack of resources and experience they are kind of forced to choose export as an entry mode. And they all agree that the previous international experience is valuable and will guide them to choose new foreign market entry mode when they grow up.

6. Findings and Conclusions

In this chapter the findings and conclusions will be presented and at the end of this chapter the author will present the implications of this study.

6.1 Introduction

As stated in the first chapter of this study, the main purpose of this thesis was to “*understand the internationalization process of the SMEs in packaging industry, and try to define the motives and internal factors impact their foreign market entry mode selection.*” Regarding the continued debate on the nature of the process of internationalization, an important question that needed to be answered was “*Why internationalization?*” Internationalization is not spontaneous, it is result of decision; therefore, if the author wants to understand that then the author has to explain why an entrepreneur undertakes to become involved in international operations. To have a firm with resources and opportunities to go for international is not enough, because *internationalization must be wanted and triggered by the entrepreneur who makes key decisions and carries out the international activities* (Andersson, 2000). To investigate the motives and triggers, the author concentrated on the entry mode, since the internationalization is a multi-dimensional concept, a more focus study could strengthen the findings.

In order to fulfill the purpose of the study, three research questions were discussed; two cases were selected purposefully in China and studied to either predict similar results (a literal replication) or produce contrasting results, but for predictable reasons (a theoretical replication). The following sessions shows up the details by following the order of the research questions.

6.2 Why do SMEs entry the international market? What are the main factors motivating them? How to describe the factors?

This research shows that one of the main motives for SMEs entered the international market is the increased demand from foreign customers and market for their products. The author has found that SMEs who only used to do business domestically are pulled into the international market through the foreign markets demand. One of the other major motives for them is to spread their risks. The risks are spread when the SMEs enters new markets since the different markets often do not face economic downswings at the same time and also may have different seasons can flat the sales curve in the statistic figure. An additional motive that the author discovered when conducting this study is direct inquires from foreign markets or customers, but the author believes that this is more a motive for larger companies or companies with highly differentiated products. From the two case studies the author found that the

larger companies or those companies have more differentiated products often can receive direct inquiries from different foreign companies and markets, but those smaller companies or those ordinary products makers very seldom receive such kind of inquiries.

The author has discovered in the study that managers have a great influence on SME's foreign market entry mode selection. This is because they are the ones that decide if, when, and how the SMEs are going to enter a foreign market. However, the author also discovered that it is equally important for a SMEs' internationalization to have good salesmen, this because the salesmen are the ones that are out traveling, meeting potential customers and see the markets potential. The managers and salesmen have to be able to understand each other in order to work smoothly, the managers must also be able to detect the valuable information and knowledge from salesmen, and the salesmen must be able to share the information and knowledge with the managers. This since it is so important for SMEs when they are entering new markets to have this information and knowledge. In this study the author found out that special internal events are not that important for an SME's foreign market entry mode selection, it is only important in the SMEs' new customers searching activities.

This study has shown that SMEs must have a great amount of import to be able to see if there are a connection between import and export. SMEs that do not have or only have a small amount of import are not affected by inward internationalization as a motive for internationalization.

The author has found in this study that the demand from a market works in different ways for different SME's. It has been shown that market demand is the most important motive for some SMEs' internationalization. the author have discovered that direct inquiries from both foreign customers and agents as well as the higher profit opportunities that SMEs can receive from the demand of foreign markets has a high influence on their internationalization.

Competing companies can also to some extent function as a motive for SMEs' internationalization because SMEs can receive knowledge on how other companies have done and what markets that is best suited to enter with their specific products. However, one interesting factor that the author discovered in the study is that not all SMEs considered other companies as competitors instead they considered other materials that functions as a substitute for their products, as competitors.

Since the foreign agents comes to SMEs with direct inquiries from foreign customers and markets to start doing business there, the author has seen in this study that the foreign agents has a great influence on SME's internationalization. The author has also found in the study that trade associations do not influence SMEs internationalization, the author believe that trade associations are more likely to influence larger companies internationalization, and that the larger companies receives more benefits from these.

Another factor that the author discovered as a motive for SMEs' internationalization when the author conducted this study was the drive to make profits. When SMEs' enter a new foreign market they gain the opportunity to sell more products than they were able to sell if they were to stay only in their domestic market.

The study shows that the managers urge is a strong driving force for SMEs internationalization. However, the salesmen also have a large impact on this since they have to be open-minded and able to see the potential opportunities for the different markets. Therefore it is not just up to the managers to be the driving force inside the SME in order for them to succeed. Information about the market and the customers' wants and demands are very important to a SME in order for them to succeed on the foreign market. The study have shown that it is more likely that SMEs would succeed on the foreign market if they have this valuable knowledge and information, than if they would not have it, this since it gives the SMEs a competitive advantage over their competitors. The author has found in my study that it is harder for a smaller company to create economies of scale. The SMEs often have limited resources and are dependent on raw material and costs. Therefore it is impossible for them to receive any advantage from economies of scale.

The author have discovered that if an SME have several different markets that they are doing business with and selling to, they will be able to minimize their risks. This due to that the different markets do not have economic downswings at the same time. The study has also shown that it is highly important for a company that has products that are influenced by seasons to enter several foreign markets.

Finally the author can draw certain specific conclusions out of the study concerning SMEs' motives for internationalization:

- The author found in the study that the main motives for SMEs' to go international are the increased foreign demand and the opportunity to spread the risk.
- According to the study perceptive managers and salesmen are highly significant for SME's when entering new foreign markets.
- This study shows that foreign agents are important to establish SMEs' international contacts.

6.3 How do they choose their foreign market? And the approach of selecting foreign market entry mode?

The research shows that due to the SMEs' small size and limited resources they prefer an entry mode that is easy and do not demand a lot of resources. SMEs can therefore be seen as very limited in their foreign market entry mode selection. Due to the fact that SMEs have limited resources they are more or less forced to choose the cheapest and easiest entry mode which for most SMEs is export.

The most important factors the author found in this study that influenced the SMEs in their foreign market entry mode selection was the drive to minimize costs, and reduce and spread their risks in order to avoid economic downswings and to be able to sell their whole assortment. Another important factor is developing and nurture the relationship with SMEs' agents, this in order to further develop the companies international engagement. In order to avoid risk the author could in my study see that especially SME's which have limited resources have to consider some type of risk reduction. The trend the author could see in my study was that SMEs have to demand

credit insurance, secure contracts or in advance payment, this to secure their profits.

Due to the SMEs small size and limited resources they do not have the possibility to establish their own production abroad and are more or less forced to choose export as their entry mode the research shows that SMEs still evaluates the different foreign market entry mode alternatives before making the final selection. However, the author found that this was connected to the selection of the different export entry modes rather than the overall foreign market entry mode selection.

Finally the author can draw certain specific conclusions out of the study concerning SMEs' approaches to foreign market entry mode selection.

- The study found that most SMEs' choice of export as entry mode is due to their small size and limited resources.

- The study found that the stated theories concerning approaches to foreign market entry mode selection are more suited for MNCs and that SMEs often uses a mix of the stated approaches.

6.4 What are the internal factors in these selecting processes? How to describe the influence of these factors in the selecting processes?

One advantage that SMEs believes is the most important advantage with export is the ability to spread their risks. When SMEs enters several different markets with export it creates a protection against economic downswings since not all market are likely to face them at the same time. the author have found the study that selling to several markets which have different level of demands during the year gives the SMEs the possibility to sell the products in different quality level and makes the capacity in full sail. Further the author found that export is one of the easiest entry modes for SMEs and it is also the one entry mode that generates the smallest amount of costs for the SMEs.

The main disadvantage the author has found in this study is the lack of control that SMEs experiences with export and this is due to the long distance to the different foreign markets. Since SMEs do not have unlimited amounts of resources to spend, they are not able to have an office or personnel in all countries they enter, this will also generate in lack of control for the SME's business operations. The SMEs will also because of the long distance not have the valuable personal contacts with the customers in the foreign markets. The long distance will also generate in high transportation costs for the SMEs and this is also a major disadvantage with export that might have been avoided with another entry mode.

This study shows that SMEs do not have the same prerequisites as larger companies have when entering new foreign markets. An SME do not have the same amount of resources that a larger company have since the resources are often limited, and therefore the SME are forced to choose an entry mode that only demands a small resource commitment as for example export. When entering a new market, SMEs often look at how other companies have done and also how they themselves have done in the past. This will give the SME knowledge about how to best enter the market and reduce the risk making any mistakes.

The author found in this study that if an SME has a unique product it is easier for them to enter into a new market. This since they are more likely to receive direct inquiries from foreign markets than SMEs that only sells standardized products. With the unique products the SME also have more freedom inside certain frames when setting the price. With the standardized products this is not possible, then the SME must follow the market price for their products or they will not be able to sell their whole assortment. It is also important for an SME to have several different markets to export their products to because different markets have different demands and a product that is not demanded in one market can be demanded in another market.

To the study, personal contacts have been added as a factor that influence export as an entry mode. The personal contacts can be received through informal meetings when mutual trust and connection arise and here the company can receive a contact in a foreign market that they can receive direct inquiries from.

Finally the author can draw certain specific conclusions out of this study concerning the internal factors influencing SME's foreign market entry mode.

- The study showed that main advantages with export for SMEs are that they are able to spread their risks and that export is a cheap and easy entry mode.

- According to this study the main disadvantages with export for SMEs are the lack of Control and the long distance to the market.

- The study found that some of the most important internal factors are for SMEs to receive information about customers and markets, to have managerial urge and unique and differentiated products.

6.5 Summary

As Hollensen (1998) mentioned, an increase demand of certain products can be one of the motives to push the companies into internationalization. The findings in this study support this argument, since it acts as the main motives for these packaging industry SMEs to go international. Also the motives of risk diversification stated by Albaum, Strandkov and Duerr (1998) has been proved either, the findings also strongly support this theory.

Hollensen (1998) states that the outside expertise can support the internationalization of SMEs, especially the agent, and this study supports his point of view by proving those packaging industry SMEs relay on agents to establish international contacts. Also he argued that the resources of the company were represented by its size, and forced them to use export as entry mode. It has been verified in these cases.

Since export is SME's most common entry mode, the advantages and disadvantages have been totally proved in this study, which means similar results have been found. But there are still some unique points in this study, as the author announced in the introduction session, there are also some contrasting results can be found. The approaches to foreign market entry mode selection are not often used by SMEs, the findings shows SMEs often uses a mix of the approaches. The rules generalized by Hollensen (1998) and other researchers were not applicable in this study. Relate to the

packaging industry, the unique and differentiated products are one of the most important internal factors for SMEs' foreign market entry mode. It is quite different compare to some other production industries, since the economies of scale seems like their key factor. These findings need to be further researched; the author will mention that in the end of the chapter.

6.6 Implications

The following sections will cover the implications this study has for managers, theory and possible future research. The purpose of this study is to gain a better understanding of how motives and internal factors impact SMEs' approach to foreign market entry mode selection, and therefore the implications will be directed towards SMEs.

Implications for Managers

The SME's managers can find some benefits from this research, especially for Chinese SMEs, it is highly important for managers within SMEs to apply some sort of risk control in order to secure their profits. This is due to the SMEs' small size and the fact that they often have limited resources.

Managers within SMEs must also be able to spread the company's risks, in order to avoid any major economic downswings or financial crisis. Spreading the risks is done through SMEs entering several different foreign markets. If managers succeed in spreading the SMEs risks they also have the opportunity to gain more profit and market shares in different markets.

Since the salesmen of SMEs are the one in contact with the customers, it is important for managers to have the right and skillful sales personnel who can spot new business opportunities. However, the managers must also be able to fully understand the valuable and important information the salesmen gather from the foreign markets and customers.

Another important relationship that the managers have to develop is the relationship between the SME and the foreign agents. The contact with the foreign agents has to be constantly nurtured in order for the SMEs to have successful foreign business operations.

Implications for Theory

The purpose of this study is to gain a better understanding of how motives and internal factors impact SMEs approach to foreign market entry mode selection. the author have focused on how SMEs are motivated to enter new foreign markets, how they go about selecting entry mode and what internal factors impact the SMEs' choice of entry mode.

In order to fulfill the purpose the author have explored what triggers a SMEs' internationalization and looked at how SMEs approaches the entry mode selection.

Further the author aimed at describing the SMEs' internal factors that impacts the choice of entry mode.

This thesis contributes to theory by providing an empirical investigation as to what motivates SMEs to go international, what approaches to foreign market entry they use and what internal factors influence their choice of entry mode. Since it do not exists much research especially concerning SMEs' entry mode selection, this thesis contributes to theory by providing a base from which further studies can be done. And also this study shows that the reality does not always follow the existing theories. The conclusion would be that each company's specific prerequisites must be examined separately in order to gain a better understanding why the company does or does not follow the most common theoretical patterns concerning a company's internationalization and choice of foreign market entry mode. Some particular factors or motives are very depending on the company's situation. Furthermore, the type of products and industry the company is acting on, could affect the extent of different factors of internationalization.

Implications for Future Research

The author limited the study to only concentrate on the approach and the impact of internal factors influencing SMEs' entry mode selection. The choice of only focusing on SMEs was made since little research has been done within that area. During the research several different interesting topics to future research have came up:

- External factors influencing SMEs' foreign market entry mode selection.
- Economies of scale and the SMEs' choice of foreign market entry mode
- Risk reduction for SMEs going international.
- Research how other entry modes are applicable for SMEs.
- The importance of the relationship between SMEs and foreign agents as well as how these relationships can be developed and nurtured.

In order to better explain the internationalization process of SMEs, a modification of existing models can be done either, and also the specific models for Chinese companies can be made by research more Chinese SMEs. And also, the SME's approaches to foreign market entry mode selection can be tested in a quantitative method.

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Interviews

Du Chenchen, CEO, Wanshun Package material Co. Ltd., Shantou, China (May 8th, 2006)

Zhao Weidong, Vice general manager, Ideal Packaging Co. Ltd. Zhejiang, China (May 18th, 2006)

APPENDIX 1

Interview Guide, English Version

General information of the company background

1. Year of established?
2. Number of employees?
3. Main products?
4. Total annual sales?
5. Ratio of export to total annual sales? (%)
6. Main competitors?
7. Respondent name?
8. Years in the company?
9. Respondents position in the company?
10. Have the respondent had any other position in the company?

Research Question One

Why do SMEs enter the international market? What are the main factors motivating them? How to describe the factors?

1. What was the main reason your company went international?
2. How many years have your company been on the international market?
3. What countries did your company first enter?
 - a. Why?
4. In which countries are your companies operating in today?
5. Have any of the following internal and external triggers influenced your company's Internationalization?

Internal Triggers	<ul style="list-style-type: none"> ● .Perceptive management--Managers discover new Business opportunities ● Specific internal events--Overproduction or reduction in the domestic market functions as triggers. ● Inward internationalization--effective import activities Can determine successful exports.
External Triggers	<ul style="list-style-type: none"> ● Market demand--international market growth triggers internationalization. ● Competing companies- competition can work as Trigger to internationalization. ● Trade associations – other companies' positive experiences function as triggers. ● Outside experts –they provide help, information and useful connections for companies.

- a. Have any of these factors influence your company?
 - b. If so, how have these factors influenced your company?
6. Further the Literature states that the internal factors can be divided into proactive and reactive factors:

	Internal	
Proactive	Managerial Urge	The desire, drive, enthusiasm and Commitment the management has towards exporting.
	Unique production/competences	Unique products or competences facilitate a company's entry into a foreign market.
	Marketing Advantages	Specialized marketing knowledge or access to specific information will give the company's entry into a foreign market.
	Economies of scale	When a company starts to export their production will increase and production costs will decrease both for the foreign and domestic market, this will result in economies of scale
Reactive	Risk Diversification	Company's doing export faces lower risk than company's only operating in the domestic market, this because all markets do not face economic downswings at the same time.
	Extended sales of seasonal products	Different markets have different demands of products depending on the season.

- a. Do you recognize any of these proactive or reactive factors?
- b. If so, have they influenced your company's choice of export as an entry mode?

7. Are there other triggers to internationalization that I have not mentioned that have Influenced your company?

- a. If so, which and how have they influenced your company?

8. Does your company have further plans to expand in the future?

Research Question Two

How do they choose their foreign market? And the approach of selecting foreign market entry mode?

1. Which entry modes does your company use?
 - a. Why?
2. How did your company select entry mode?

3. The Literature suggested three different rules when selecting entry modes;

Naïve	Companies use the same entry mode four all markets.
Pragmatic	Companies use one entry mode for each market but on investigation of the most Suitable entry mode is made
Strategy	Companies compare and evaluate all entry modes alternative before making a decision.

- a. Does your company follow any of these rules?
- b. If not, does your company follow any other rule?

Research Question Three

What are the internal factors in these selecting processes? How to describe the influence of these factors in the selecting processes?

- 1. Which part of your company’s export is largest, direct or indirect export?
 - a. Why?
- 2. What advantages have your company experienced with exports?
 - For example low risk, low resource commitment, easy entry mode, lower unit costs etc.
- 3. What disadvantages have your company experienced with exports?
 - For example lack of control, little contact with the host country market, inappropriate sales channels and over-or under priced products etc.
- 4. Have your company experienced any specific factors internal to the company that influenced your choice of export as an entry mode?
 - b. Which?
- 5. The literature suggest the three following internal factors influencing the choice of export as an entry mode;

Internal Factors	
Company size	.Companies size is an indicator of its resources, the more resources a Company gains the more the International involvement will increase.
International Experience	Companies’ previous international experience influence how companies act When entering a new foreign market.
Product	Companies with high product differentiation and advantage give the companies a high degree of pricing discretion over its competitors.

- b. Do you recognize any of these internal factors?

- c. If so, have they influenced your company's choice of export as an entry mode?
- 6. Have the any of these factors influencing the choice of export as an entry mode changed over time?
 - a. If so, how?

APPENDIX 2

Interview guide Chinese version

公司背景信息

1. 兴办年数
2. 雇员人数
3. 主要产品
4. 年度销售额
5. 出口额占总销售额比例
6. 主要竞争对手
7. 受访人姓名
8. 受访人在公司服务年数
9. 受访人在公司内的职务
10. 受访人在公司曾经担任过的职务

第一个研究问题

包装工业中小企业为何要进入国际市场？主要的影响因素是什么？如何描述这些因素？

1. 你所在这家企业走向国际市场的主要原因是什么？
2. 你所在这家企业在国际市场上运作了多少年？
3. 你公司选择进入的首个国家是那个？为什么这样选？
4. 现在你公司在哪些国家运作？
5. 以下的一些内部或外部触发因素是否影响了你公司的国际化进程？

内部触发因素：

- 管理层知觉--管理人员发现新的商业机会
- 特殊内部事件—超额生产或国内市场萧条
- 内向国际化—有效的进口活动成就成功的出口

外部触发因素：

- 市场需求—国际市场需求的的增长触发国际化
- 竞争企业—竞争可以作为触发国际化的因素
- 贸易协助—其他企业的正面积积极经验作为触发因素
- 外部专家—他们可以提供协助,信息和有用的相关企业的联系渠道.

a. 这些因素是否影响了你所在的公司？

b. 如果是，这些因素是如何影响你所在公司的？

6. 根据文献资料内部因素可以分为主动和被动因素：

a. 你是否了解这些主动或被动因素

b. 如果是，它们是否影响你所在公司以出口为市场进入模式的选择？

7. 是否有一些其他的我没有提到的触发企业国际化的因素影响了你所在的公司？

a. 如果是，是什么因素以及如何影响你所在的公司？

8. 你所在的公司未来是否有进一步的发展计划？

第二个研究问题

这些企业是如何选择外国市场的？又是如何选择外国市场进入模式的？

1. 你所在的公司使用了哪些模式？为什么使用这些模式？
2. 你所在的公司是如何选择进入模式的？
3. 文献中提出了三种不同市场进入模式选择的规则，a. 你所在的公司是否采用了其中的规则，b. 如果没有，你所在的公司是否采用了其他的规则？

第三个研究问题

在这些选择的过程中,有哪些内部因素起作用？如何描述这些因素在选择过程中的影响？

1. 哪种形式的出口在你所在公司占有最大比重？直接还是间接出口？a. 为什么？
2. 在你所在公司里有哪些出口优势？例如低风险，低资源占用，简易进入模式，单位成本低廉等。
3. 你所在公司有哪些出口劣势？例如缺乏控制，与出口国市场缺乏联系，不合适的销售渠道和不适当定价等？
4. 你所在公司是否有特殊的内部因素影响以出口为进入模式的选择？a. 是什么因素？
5. 文献中提出三个方面的内部因素可以影响以出口为进入模式的选择。
 - a. 你是否了解这些内部因素？
 - b. 如果是，它们是否影响了你所在公司的以出口为进入模式的选择？
6. 这些影响了你所在公司以出口为进入模式的因素是否会随着时间而改变？
 - a. 如果是，是如何改变的？