

Let's get social on the way to the market

A study of German companies'
internationalization processes

Balázs Abonyi
Martin Johansson

Tutor: Rian Drogendijk

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Abstract

Germany and Sweden have been significant trade partners throughout history, which has even strengthened during the last decades. Many German firms have established their business in Sweden and vice versa. The Uppsala model has often been used to describe the way a company becomes international. However, in recent years there has been a demand for a new perspective that also takes the social aspect of internationalization into account. This paper focuses on these two approaches and tries to combine them. We have conducted a survey amongst German companies that are members in the Swedish-German Chamber of Commerce and also conducted an interview with the CEO of the Chamber Dipl.Ing. Klaus Bohler. We analyzed our answers and presented our conclusions, which suggests that a significant part of the firms questioned relied on their former social ties when they decided about entering the Swedish market. However, the mode of entry was not influenced remarkably. Furthermore, we concluded that the German counterparts were more active in seeking business opportunities; in more than 60 percent of the cases the initiative was taken by the German seller.

Foreword

First and foremost we would like to thank Dipl.Ing. Klaus Bohler at the Swedish-German Chamber of Commerce for taking his time to do an interview. He has given us many insightful and useful comments, which helped us during the work on this paper. We would also like to thank the companies that took their time to fill out the questionnaire and explain their processes of becoming active on the Swedish market. Finally we would like to thank our tutor Rian Drogendijk for her comments and guidance.

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Balázs Abonyi

Martin Johansson

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1 The entry problem

Imagine that you are a CEO in a German firm with little or no former experience of internationalization considering expansion of the business. After participating on a lecture on the nearby university you have just recognized the importance and benefits of being present on several markets. Most of your competitors you have heard of have already established themselves abroad and you don't want to be left behind. Achieving greater scale-economies through globalisation, new, international sources of knowledge and efficiency have become desirable to you and soon you identify the market of your dreams: Sweden. You think of Sweden as one of the most advanced economies in Europe, it is geographically close, the language and the culture are quite similar to the German not to mention the common history you have read about. Besides, you know that most international German firms are already present on the Swedish market and most of them became successful. However, the question arises after first consideration: How should I go on with this idea? Maybe you decide to take the first steps by gathering all information on the country and the business opportunities from official reports but you might soon come to the insight that this problem can't be solved most effectively by you alone. You need some partners. You may choose to go out and start seeking after potential business companions or make it possible for them to find you. You suddenly come to think about a friend from your old university who has worked in Sweden, perhaps he may have some contacts that can provide you with some help during the process. There are several factors that need to be taken into account before a decision is made. In this thesis we would like to present some possible ways to go down this path.

1.1 Background

Germany is Sweden's most important trading partner since it accounts for 18,2 percent of the total imports and receives 10,4 percent of Sweden's total export. In both categories, Germany has the leading position concerning trade with Sweden (SCB-Statistics Sweden, 2007). According to the Swedish Institute for Growth Policy Studies (2006) the number of German firms in Sweden in 1990 was 222 and they employed slightly over 11 000 people. This number had by 2005 grown to 836 firms with almost 50 000 employees, which makes Germany one of the ten most significant countries concerning foreign ownership in number of companies in Sweden. The most

common way of establishing has been acquisition, which could be observed in half of the cases. The next most common way of establishing abroad is greenfield investment followed by joint ventures (Swedish Institute for Growth Policy Studies, 2006). However, the statistics don't show what the preceding activities were, i.e. if the investments were foregone by exporting, for instance, and what led to the investment decisions.

Decisions concerning market entry are amongst the most important in a firm's international development. These decisions will affect the future progress of the internationalization of the company and although this is an important area there has been little research into how firms identify opportunities in foreign markets (Ellis, 2000). Internationalization is a complex matter and may be described as the process of gradually increasing involvement in international operations (Morgan & Katsikeas, 1997, Johanson & Vahlne, 1990). This definition is broad enough to explain the many factors that affect the process and the many paths available on the way to become international.

A prominent approach describing the process of internationalization is the Uppsala process model (Johanson & Vahlne, 1977). Stage models like this are important to create a foundation for international involvement and have set the stage for internationalization research, but we would like to look beyond these models and focus more on how the whole process is started. Therefore, we are going to analyze the role of networks and social ties in international expansion and entry decisions. Much of the literature discusses the different modes of entering a foreign country and the benefits that firms receive through internationalization, which play as underlying causes for the process. However, we feel there is a need for understanding what events may act as triggers that lead up to entry decisions. This might be relevant today when the importance of business relationships and the firm's network appear to be important sources for the identification of business opportunities (Ellis, 2000). Besides the formal business relationships, social ties and informal connections may play an important, but unknown role in finding the most appropriate way to start internationalizing. Therefore, we would like to concentrate our study on how significant both informal and formal social aspects have been for German firms in their decisions.

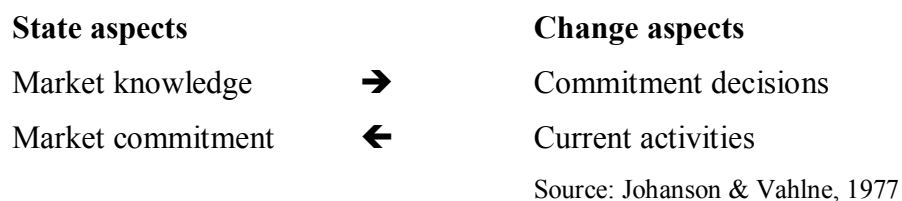
Summarizing, the purpose of this thesis is to examine to what degree social ties affected German firms that are established in Sweden to come to the decision to enter the Swedish market. This is interesting and important, because there are signals that informal channels have become more important but we lack studies on how firms exploit these channels in order to obtain information. Formal channels may not be able to provide the knowledge needed for rational and accurate decisions. Social ties, for instance, might be more efficient in gathering useful knowledge and they even may provide the incentive to start considering market entry. In the following paper we would like to present this perspective.

2 Support in the literature

In this section we present the literature we found relevant for this study and which may give us a deeper understanding of the aspects discussed. From a basic model of internationalization we go further to explain the network and the social perspective as well. We finish with discussing our own model, which we created in order to combine and summarize the theories.

2.1 The process of internationalization

In order to analyze the phenomenon of internationalization and the factors that affect it, we would like to start with discussing the Uppsala model, which we consider the basic model for this purpose. In this model, Johanson and Vahlne describe the process as “an interplay between the development of knowledge about foreign markets on one hand and an increasing commitment of resources to foreign market on the other” (Johanson & Vahlne, 1990, p. 11). The model consists of causal cycles, in which ever-changing aspects as current business activities and commitment decisions have an impact on market commitment and market knowledge. The latter “state aspects” in their turn successively modify the change aspects and the cycle is complete:



When it comes to identifying knowledge in a market, a distinction has to be made between objective knowledge and experiential knowledge. According to other points of view, these different types of knowledge may also be described as explicit and tacit knowledge. Explicit knowledge is easily codified and taught, while tacit knowledge can only be acquired through experience and is difficult to manage and share (Nonaka, 1991). Tacit or experiential knowledge is a key factor in the internationalization process, because it generates specific business opportunities and decreases uncertainty about foreign markets. Specific opportunities include possessing information, which is not available to or codifiable for others and thus gives a unique advantage. Therefore, increasing market knowledge acts as a trigger

for further commitment by reducing the psychic distance to the new market (Johanson & Vahlne, 1977). In this context, tacit knowledge may be knowledge of local unwritten rules concerning business relationships, while explicit knowledge may be information on legal procedures.

Psychic distance is a measure of the difference between certain nations, which includes those country-specific factors that prevent interpreting and understanding the local conditions, e.g. culture, language, political system, industrial development, practices in administration etcetera (Johanson & Vahlne, 1977; O'Grady & Lane, 1996). Measuring psychic distance is a complicated process, since complex differences are to be found between all countries. Those differences all have their effect on the intensity of trade between countries in question, but this effect might sometimes be positive, due to former historical or cultural ties, for instance (Dow & Karunaratna, 2006). Psychic distance may become greater as geographical distance increases, however, research showed that even neighbouring countries with a similar culture like Sweden and Germany might be affected by psychic distance in other areas. Additionally, psychic distance might be smaller between two geographically distant countries than between two neighbouring countries (O'Grady & Lane, 1996).

Firms tend to choose new targets for international expansion with successively greater psychic distance and they also adjust the degree of commitment to the respective psychic distance according to the establishment chain. The establishment chain involves stages from no export activities at all to exporting via independent representatives, then sales subsidiary and eventually local manufacturing. This might include committing more resources and dependency on local performance. This pattern has been observed in the internationalization process of Swedish multinationals (Johanson & Vahlne, 1977), although it may differ in many ways according to the following circumstances: First, firms with greater resources may choose to take bigger steps or leapfrog stages presented in the chain. Second, market knowledge might be gained in other ways than self-experiencing, assuming that market conditions are stable. Third, former experience from similar markets can allow firms to generalize knowledge (Johanson & Vahlne, 1990).

Additionally, Forsgren (2001) agrees with the former authors in the question of different factors that may have an impact on the entry process and cause the process not to follow the way explained in the general model. He argues that knowledge, for instance, may not primarily be acquired by collecting data before entry, but by becoming active in the new environment. The activeness of the firm leads to a greater connection to that certain market, which in its turn adjusts the firm's resources to that specific purpose.

He stresses furthermore the importance of business relationships, which allow the firm to gain access to other actors' knowledge without experiencing itself. The imitation of already established modes of entry might be another strategy because they have the advantage of already being proven successful. If imitating is not suitable, grafting may also be an efficient and well-established method. This involves acquiring local firms on the foreign market in order to get possession of the market knowledge needed. It might also mean hiring managers with the necessary experience. Forsgren argues that a high degree of acquisitions as market entry modes could be explained with this phenomenon (Forsgren, 2001).

2.2 A network-perspective

The older models of internationalization seem to still be in use but at the same time new and more network-based models are needed. Due to the modern criticism against the old models of internationalization the need to adjust them and integrate different approaches to form a "business network model of the internationalization process" (Johanson & Vahlne, 2003, p 84) is increasing. In addition to the above-mentioned views of which steps firms might choose or avoid in the internationalization process, the network view of foreign market entry makes a contribution. This approach adds to the former perspective first by helping to understand how firms identify opportunities in a market, second by explaining that the company is not only affected by path dependency of its own actions and experience, but also of its relations to other actors. In other words, internationalization is a cumulative process, in which choices, decisions and actions are influenced by actors that are interdependent in the network. The entry process is a chain of interactions, which is a result of several adjustments during progress according to upcoming events and ever-changing circumstances. The

exchange relationships established on the foreign market act as foundations for further development, i.e. the foreign market entry becomes a reality. (Blankenburg, 1995)

Forsgren (2001) has also concluded the importance of business relationships in a network during the entry process. He argues that networks create opportunities to learn from other firms, even if it means that one has to share one's own knowledge too. Well-established business relationships involve the assimilation of tacit knowledge, which most firms in the network gain from. However, he also points out that information may be interpreted in different ways by different individuals that leads to a loose coupling of knowledge and decisions regarding market commitment, for instance.

The network discussed by Blankenburg (1995) involves relationships, both direct and indirect, meaning that it includes actors standing in direct exchange with the firm as well as actors that are connected to the firm through its direct counterparts. According to this view, a distinction can be made between the effects these parts exert on the entry process, dividing the impacts in internal and external.

The external entry forces, to start with, are circumstances and characteristics on the foreign market or just outside the own network, which the firm has no control over. These factors might hinder the firm from entering, or pull it to enter the specific market. On one hand, a high degree of conflicting interests between the actors or the tight structuring of the foreign market network may create difficulties that are hard to overcome. On the other hand, the visibility of the firm, the internationalization of the foreign country network and the activeness of the external actors can all make the market entry easier. The latter aspects contribute even to the creation of business opportunities, because higher levels of visibility, activeness and international thinking make it possible for firms to seek partners abroad and be found by others too (Blankenburg, 1995).

The factors that can be summarized as the internal entry forces influence the internationalization process from inside the firm's already existing network context. Thus, interrelating firms in the own network have a great impact on the firm's ambitions and commitment to the future foreign context. The internal factors often

depend on personal relationships, as well as ambitions and interests, and these in their turn may lead the firm to new opportunities. The network knowledge, for instance, might appear on different levels in the organization and can often be described as tacit, but it may provide the firm with new knowledge or relationships with other actors. Hereby, it contributes to the identification of new business opportunities with the help of already existing relationships. If the firm and its network are greatly internationalized, it involves international contacts even on individual levels that also help gaining further international knowledge and the recognition of new business ideas (Blankenburg, 1995).

Summarizing the statements above, foreign market entry is a process in which several actors take part shaping it from the beginning and influencing the outcome. The firm is not a lonely actor that takes all decisions by itself rather it may only be one of the leading participants. The entry forces discussed above are all results of the interactions within the business network, i.e. rely greatly on social ties, both by creating them and being developed by them. In the following, we shall discuss how we find social ties might be important in triggering internationalization.

2.3 Social ties

As mentioned earlier, some of the most important decisions concerning internationalization are choice of market and entry mode. The choice of country will often affect future international expansions made by the firm. Although this is considered to be an important decision there is little known about the process by which the firm identifies opportunities abroad, i.e. foreign markets and potential buyers on these markets (Ellis, 2000). The decision to start exporting should be a rational reaction to the situation on the market and based on information gathered for example through market research (Ellis and Pecotich, 2001). However, the “textbook” way of choosing a market is seldom used in practise. Instead these decisions are often ad hoc, not made for rational reasons and they are not always the best response to the situation on the market.

It is significant to consider that in an exchange relationship all transacting parts, and not only the exporter may have an impact, i.e. including that the buyer's role is also important and therefore focus must be on the buyer-seller relationship. Ellis (2000) points out that there might even be other exchange parties that may be significant in the foreign market entry decision. An exchange relationship could be initiated by either the seller, the buyer or a third part. A fourth possibility according to the author is exchange relationships created by chance or encounters at trade fairs (Ellis, 2000).

It is not always the potential exporter that learns about the opportunities in the foreign country. Often it is the buyer or importer in the foreign country that creates the relationship between the local market and the foreign product. In addition there might be a related third party, for example a government agency or a chamber of commerce with formal or informal ties to the other two, which first notices the opportunity instead of the trading parties. The trade-fair initiated relationship should be treated as a special kind of scenario, since at these trade fairs the foreign market opportunities might be discovered by chance with no clear initiating party (Ellis, 2000).

Ellis (2000) concluded that knowledge of foreign market opportunities is often obtained through existing social ties. The knowledge of opportunities abroad is dependent on the information the seller, buyer or third party can obtain through their social network. Ad hoc searches on for example trade fairs or responses on advertisement also proved to be a common way to start an exchange relationship. Additionally, "formal search activities based on objective data collected by professional or government agencies were virtually never used to identify opportunities abroad..." (Ellis, 2000, p. 462). Furthermore it is often considered to be an uncertain and complex process to find an international exchange partner, which could increase the search costs. The decision-makers are parts of social networks and they must often make their decisions based on incomplete information. Thus, the decision-makers in practice place more reliance on their social networks to keep the search costs down, or in other words try to follow the line of least resistance when they go abroad (Ellis, 2000).

Chetty and Angdal (2007) add some important aspects to the discussion about social networks and its effect on the internationalization of a firm. The fact that many small and medium-sized companies lack resources makes it more difficult to go through the process of internationalization. Therefore social capital needs to be managed because it might help a firm to overcome these difficulties. A firm might due to its social capital be able to change its choice of entry mode into a foreign country, even despite its lack of experience. This social capital is acquired through regular social interaction with the other partners in the network. Not only strong social ties i.e. the regular social interactions matter but weak social ties might also play an important role since they also could make the firms aware of new information and new opportunities.

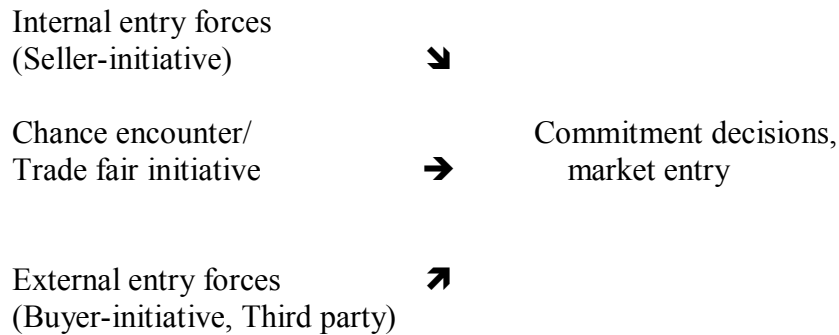
Furthermore, market knowledge is one of the most important factors affecting the pace of a firm's internationalization, thus a firm might be able to change the modes more quickly because of the knowledge it acquired through its social capital. It is also important to consider the costs that might be reduced when setting up a subsidiary, if there is already an established relationship with a local partner. To sum up, social capital can help firms reduce costs when going international but also help the firm develop knowledge and information about new opportunities (Chetty & Angdal, 2007). Considering the former aspects, some of the market entries might seem illogical and sub-optimal if you see them from a normative perspective. The logic in these export initiations are only made clear when you consider the firms behaviour from a social network perspective (Ellis & Pecotich, 2001).

2.4 The social initiative model

In the above, we aimed to summarize the literature we considered as relevant for this study. In this section, we would like to contribute with our own interpretation of the internationalization process. The Uppsala model, which we considered as a basic model for increasing market commitment involves casual cycles and therefore assumes that the process is already started. However, we are interested in the incentives before the whole procedure is put into motion. In order to be able to present our thoughts, we draw the model below imitating parts of the Uppsala model. We believe that social initiation might be a plausible way to get the process started,

thus social ties can replace the need for former market knowledge and market commitment and through that create the incentive for internationalization.

Social state aspects



The social state aspects part of our model consists of social aspects based on the theories of Blankenburg (1995) and Ellis (2000). Here we mean that former social ties might act as entry forces, internal or external, depending on which part takes the initiative. The third category, chance encounter or trade fair initiative are also connected to social ties in a way that meetings may provide you with the incentive to start to think about a possible business opportunity on a certain market. Our model may be most useful when it comes to analyzing those informal and formal relationships that have an impact on market entry decisions. We still believe that if the firm does not have the necessary social ties, or it relies on formal channels or own market research, then the Uppsala model is enough to interpreting the process.

3 Our way of research

In the following we describe the way we went on with our study. The whole procedure is presented with explanation as well as the sample of our research. We also discuss the problems we faced during this process and the disadvantages we find worth mentioning.

3.1 Procedure

Our purpose with this study was to examine to what degree social ties affected German firms that are established in Sweden to come to the decision to enter the Swedish market. In order to fulfil this goal we chose to carry out a survey. This survey is based on a questionnaire that we sent via email to a number of companies. Our aim was to find how often a specific behaviour can be observed during the internationalization process, in other words how many of the firms followed a certain pattern. According to Yin (2003) this kind of inquiry is most efficiently investigated by a survey. Andersen (1998) argues that a survey is best suited if a few variables need to be investigated among a greater number of units. Even different relationships can be discovered within the population. The advantages of this method are on one hand that it may provide a general explanation for the outcome; on the other hand the frequency reveals how often this behaviour occurs. The questionnaire has been sent to all German companies, which are members in the German-Swedish Chamber of Commerce that are actively participating in the trade between the two markets. The questions in the questionnaire are to be found in Appendix 1.

In addition to the former procedure, we decided to make our research more complete by interviewing a person, who has experience in this topic and may give some more in depth perspective. For this aim, we contacted Dipl.Ing. Klaus Bohler, CEO of the German-Swedish Chamber of Commerce in Stockholm with additional questions (see Appendix 2). This interview was conducted via telephone due to different time constraints, after having sent the main questions of the interview in advance. We needed additional information that could complement our results from the survey. Thus, in this interview guide we used only a few main questions in order to be able to speak more freely. According to Andersen (1998) a semi-structured interview is preferred, if both parts have former knowledge about the topic.

3.2 Sample

Our study is carried out within a certain group of companies but not in any specific industry. The sample is made up of German companies that are members in the German-Swedish Chamber of Commerce and registered their contact details within the Chamber. This list included all kinds of firms in all possible sectors, from manufacturing to service and distribution. We believe that this register was most suited for our research, because it included all kinds of sectors and firms with all possible kinds of market presence. Although it doesn't include all German firms in relevance with Sweden, the lack of similar lists made this one seem the most appropriate. Its diversity, i.e. it doesn't only include subsidiaries in Sweden but also companies in Germany connected to the Swedish market, may serve our purpose most efficiently. This way we were able to reach even those firms that are only trading via agents, both German and Swedish. We are aware of the disadvantages this might include, i.e. the members of the Chamber are already influenced in their market entry processes through their contacts with the Chamber. However, we argue that this will not affect our outcome on a higher level due to the fact that the sample is so diversified.

3.3 Survey and Questionnaire

To be able to answer our research question we sent a questionnaire to 315 different mail addresses, which were found on the member list of the German-Swedish Chamber of Commerce. The questionnaire began with an introduction that explained who carried out the survey and the overall aim of the survey. A person within the company with knowledge of the internationalization and history of it was asked to fill out the questionnaire and return it to us within a week. A reminder was sent to the firms that did not answer after the deadline asking them to please partake and answer the survey within an additional week.

3.4 Measurements

Considering our questionnaire, we strived for a method, which would give us the most information with the simplest and shortest questions possible. We argue that this might raise our response frequency since it would take less time for the respondents to interpret it and then fill it out. Questions 1-4 (Appendix 1) were created to gather some basic facts about the companies and to make sure that they fit our survey. The responses on these questions showed us the degree of the diversification of the sample as well. Question 5 (Appendix 1) was included to see the initial modes of entry the firms chose. These results could have supplied us with an additional perspective completed with question 2 regarding to the development of market presence, which would have been useful to follow up the relevant literature on how firms proceed with their establishment (Johanson & Vahlne, 1977, 1990, 2003; Forsgren, 2001). However, as we stated earlier, the relatively long time frames hindered us from drawing such conclusions. Question 6 was meant to clarify which party was the initiator to the business exchange relationships or under which circumstances it came to life. Questions 7-9 investigated if there were any social contacts of importance during the initial phase, according to the theories of Ellis (2000). We asked the companies to explain in their own words how the business opportunity was detected, whether socially influenced or not. Through this we wished to shed light on those events, which were specific for the firms.

3.5 Response statistics

As mentioned, our questionnaire was sent to 315 different mail addresses. Several mail addresses had to be updated since they were out of date or out of service. Even though, 13 mails never reached their targets due to delivery failures. We received 11 automated answers regarding that the message was forwarded or the persons in question were out of office. No responses were received from these sources. Altogether, we got 35 responses of which 26 answered our questionnaire. Of the remaining 9 companies, 5 ignored answering due to company policy or lack of time and capacity. 2 more replied that they are unable to fill out the questionnaire, because the persons with the required knowledge have left the company. One receiver denied to open the attached file due to their fear from virus and one company appeared to be of Austrian origin and therefore not relevant for our study. Naturally, not all the

answers were useful for this research, mainly on the basis of misinterpretation of the questions or unclear answers. Although some of these may have been disturbing, we are convinced that they didn't influence our results to a higher degree. Saunders, Lewis & Thornhill (2003) states that there is limited goodwill within all research population and therefore you can't expect the response frequency to be too high. We are aware of the fact that we have faced the same problem, but we still argue that our general conclusions will still be accurate.

4 Findings

In this section we will present the empirical data to find support for our thesis in reality. First, we will discuss different aspects that we believe create a platform for social contacts between Sweden and Germany, Later, we follow up with the views of Dipl.Ing. Klaus Bohler, CEO of the German Swedish Chamber of Commerce. Finally we present and discuss the findings from our survey.

4.1 Germany and Sweden

The contacts between Sweden and Germany have been and are still extensive and diverse. Starting from the cultural aspects, e.g. similar language, many events throughout history made sure that people of these two nations have always been aware of each other and considered each other as important partners. Both countries belong to the world's most industrialized countries and both are specified in similar sectors, e.g. manufacturing. Thanks to this and the geographical neighbourhood, trade has always been lively between them (Swedish Trade Council, 2006). Not to mention that Germany is the greatest exporter of merchandise goods in the world with 9,3 percent of overall world exports (International Trade Statistics, WTO, 2006). Beside the extensive trade were military and cultural contacts reinforced recently, for instance. The military contacts involve amongst other things collaboration in defence material and cooperation between the defence industries (Swedish Trade Council, 2006).

Concerning culture, the similarities between the two nations can be observed most easily with the help of Hofstede's¹ (1983, 2007) cultural dimensions. According to this research, Sweden and Germany achieved similar scores in three categories out of five, namely power distance, individualism vs. collectivism and long term-orientation. Greater differences were found when it comes to masculinity vs. femininity and uncertainty avoidance, meaning that Sweden is found to be a feminine culture, while Germany is rather masculine. When it comes to uncertainty avoidance, Swedes are found to be less concerned about uncertainty than Germans. These results imply that

¹ Hofstede's research identified initially four cultural dimensions according to a worldwide survey at IBM, based on which he determined the cultural characteristics of each specific country. These were: power distance, individualism vs. collectivism, masculinity vs. femininity and uncertainty avoidance. Later on, these were completed with a fifth dimension: long term orientation.

several aspects of culture may contribute to a mutual understanding of each other's values. However, there are still perspectives, which might strengthen the psychic distance between these two countries, most importantly two such dimensions as those above, which could have an impact on the way of doing business.

According to Dipl.Ing. Klaus Bohler², the connection between culture and international business is as important today as they always have been, but today it is more recognized to be a crucial factor. Before, he argued, it was common that German firms cared much less about these aspects due to geographical closeness, they entered the Swedish market with less thorough preparation, which sometimes resulted in failure. The German-Swedish Chamber of Commerce, for instance, is nowadays offering seminars to discuss and understand intercultural aspects. The intercultural perspective is even going to be the main topic on the Chamber of Commerce's annual meeting in Stockholm this year.

According to the Swedish Trade Council (2006) the fact that Sweden and Germany share many interests makes trade and collaboration over the borders easier. On the political arena the contact between the two governments has intensified since the German election in 1998. Swedish and German ministers visit each other's countries regularly and once a year the two governments meet to discuss economic and trade related issues. Additionally, both countries are members of the European Community. As mentioned earlier Germany is the most important trade partner to Sweden and many Swedish companies has their biggest market in Germany and vice versa. There are about 750 Swedish subsidiaries in Germany and about 700 German subsidiaries in Sweden. The Swedish export consists amongst others of telecommunication equipment and paper while the import consists of power generating machines and chemical products, for example (Swedish Trade Council, 2006).

4.1.1 Arenas for business contacts

German firms find it essential to have the opportunity to regularly be able to present their products and be gathered with other companies in their respective industries. This is a way of being part in the flow of new innovations and development. In

² Dipl.Ing. Klaus Bohler, German-Swedish Chamber of Commerce, telephone interview, May 15, 2007

Germany it is common that every major industry, for instance the automotive, boat or paper industry has its own trade fair. If a company is not present at one of these trade fairs it basically doesn't exist to the other competitors in the industry. The reason why trade fairs are less common in Sweden is simply because the market is too small. A trade fair in Stockholm would reach maybe 2 million people while a trade fair in Düsseldorf could reach up to 100 million people. Many cities and companies have specialized themselves in organizing trade fairs, among the largest trade fair cities one could mention Hannover, Frankfurt, Düsseldorf and Cologne according to Klaus Bohler³.

Another interesting example of cooperation and contacts between Sweden and Germany is concerning the automotive industry according to Minister for Foreign Trade Sten Tolgfors. To increase the competitiveness of the European automotive industry there need to be more common regulations and standards for the automotive industry in the EU and the US. Since both Germany and Sweden are big manufacturing countries of cars and trucks they share a common interest in this issue. Therefore they have created a joint expert group to see what needs to be done to create a common market for the European and US automotive industry, which would benefit both the German and Swedish companies (Government Offices of Sweden, 2007).

Several governmental agencies were created in order to promote contacts between the two focal countries. Besides The chambers of commerce, Invest in Sweden Agency (ISA) is a good example of a state agency that promotes trade and makes the Swedish market more attractive, amongst others for German investors. This agency is seen as a role model for other governments throughout Europe wishing to attract more companies to their specific country. ISA's strategy consists of placing their personnel in countries from where they wish to attract more firms and then offer their help and expertise for international firms with growing interests in expanding their business to Sweden. This is often more important for smaller companies since the bigger firms often have established an international network of their own (Klaus Bohler⁴).

³ Dipl.Ing. Klaus Bohler, German-Swedish Chamber of Commerce, telephone interview, May 15, 2007

⁴ ibid

Other important arenas for the creation of social networks are the Swedish universities with their expanding international focus. Through offering several programmes for exchange students, for instance, these schools have created a competence in developing international personal contacts. They also strive for establishing relationships between students and companies, both domestic and international, first of all through arranged meetings (Klaus Bohler⁵).

The circumstances above are only some examples that show how Germany and Sweden may be considered as close partners. We find this important, because connections on several levels create opportunities for social ties. One could argue that it's just this closeness, which makes that social ties lose their meaning due to the similar markets. However, we argue that there are still perspectives, e.g. different aspects of psychic distance, which can't always be avoided by market research.

4.1.2 Acknowledging the importance of social ties

The social ties affecting German companies that are about to establish themselves in Sweden are very important, but not necessarily more than earlier. Companies today are simply more aware of their existence and importance and they try to exploit them more efficiently. There is more awareness that different aspects of a country, e.g. the business culture could affect your company and the way it is doing business. The industry where social aspects receive most attention may be the service industry, since the service provided is often tied to a person. A "normal" product can speak for itself while the service is closely associated to the person delivering it. This has become more important since the western world has shifted from a manufacturing economy to a more service focused economy according to Klaus Bohler⁶.

We believe that all the presented notions contribute to generate the conditions for social contacts beyond national borders. It should be added that these factors not only strengthen the formal connections, but even the informal ties, which arise as a result of the relationship-creating efforts. Governmental agencies' country marketing activities, for instance, could also form informal bonds, though that not being their

⁵ Dipl.Ing. Klaus Bohler, German-Swedish Chamber of Commerce, telephone interview, May 15, 2007

⁶ *ibid*

initial purpose. We move on to find evidence for this belief, which we will do by accounting for the findings in our survey.

4.2 Survey results

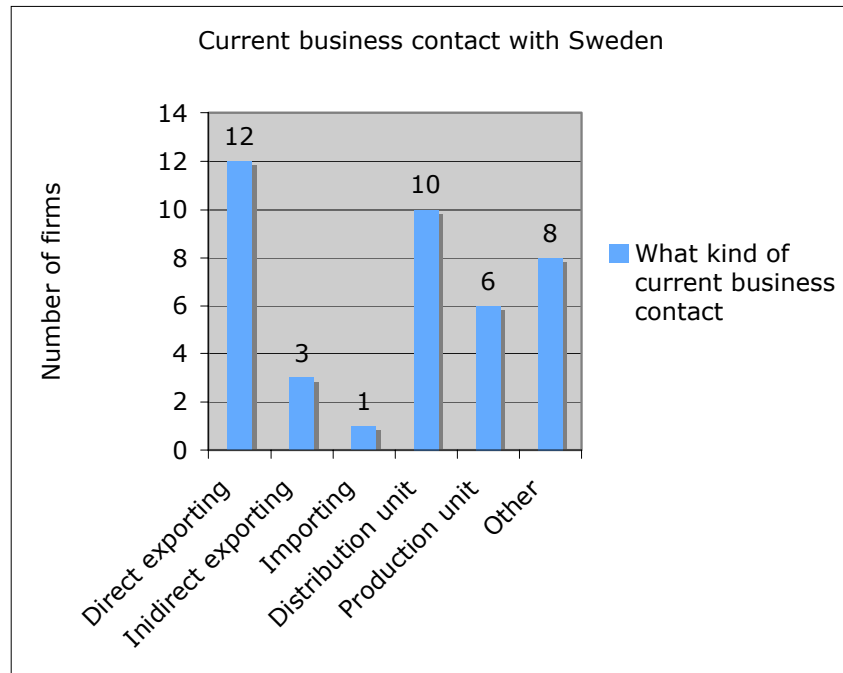
Out of our sample of 315 German firms we got a total of 26 answers. These responses came from a diversified group of companies concerning size and the time being established in Sweden. According to the replies, employment counts were ranging from 3 to 67000, 69 percent of the firms had less than 5000 employees while 12 percent had more than 20000 employees. In our questionnaire, we asked for number of employees in the entire company/concern, which explains the great counts.

When discussing “time having been in contact with the Swedish market”, we found that the firms in question were evenly spread from the end of 19th century until today. The earliest date for establishment among the companies involved was 1893, the latest 2006. The period characterized by most entries was between 1981 and 2000 when 35% of the firms discussed entered Sweden.

Concerning industries, most of the companies we received answers from were manufacturing firms, some of them suppliers to Swedish automobile-manufacturers or tool-producers. Manufacturing companies accounted for 65 percent of the total, i.e. 17 firms. Among the questioned firms, 6 companies represented the service industry, 2 companies came from the biotech-industry and 1 was a mail-order firm of electronics.

As for business activities in Sweden, most of the companies involved in our survey were exporting, directly or indirectly to the Swedish market. Many of them had subsidiaries in Sweden, both distribution and production units. The number of answers exceeds the number of firms questioned, which can be explained with companies having several different business contacts at the same time depending on certain product lines. One respondent, for instance, answered that they had all kinds of contacts except for indirect exporting. Defining the category “Others”, we received answers that couldn’t be divided in the groups below, partially because of unclear information from the respondent. Further, firms that belong to this category consisted

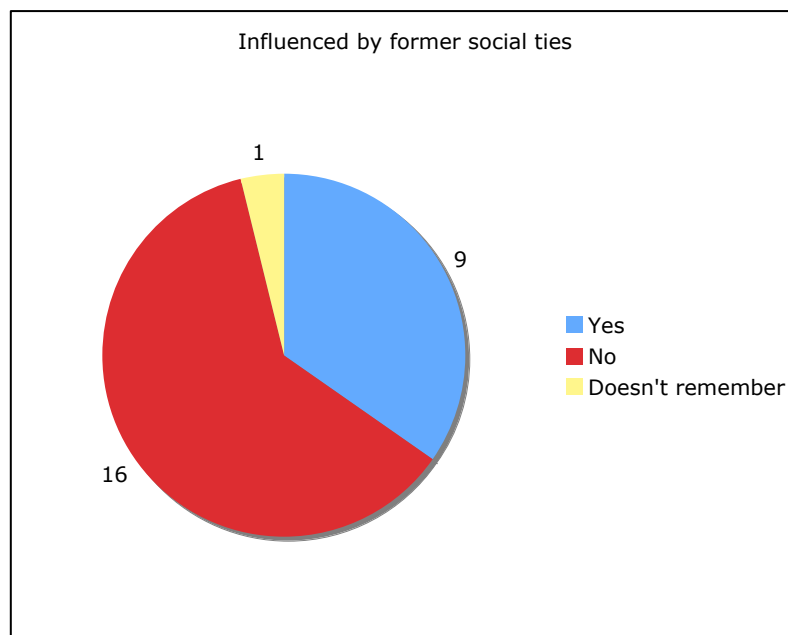
to a certain extent of service-companies that couldn't clearly determine the kind of contact they have had with the market.



Concerning initial introduction to the business opportunity in Sweden 17 firms considered themselves as initiator for the contact, i.e. the relationship was seller-initiated. Furthermore, 8 business contacts were initiated by the buyer, i.e. the Swedish part. Only one respondent found that a third part played a role in identifying the business opportunity. Additionally, it's interesting to see that none had been initiated at a trade fair or by a chance encounter.

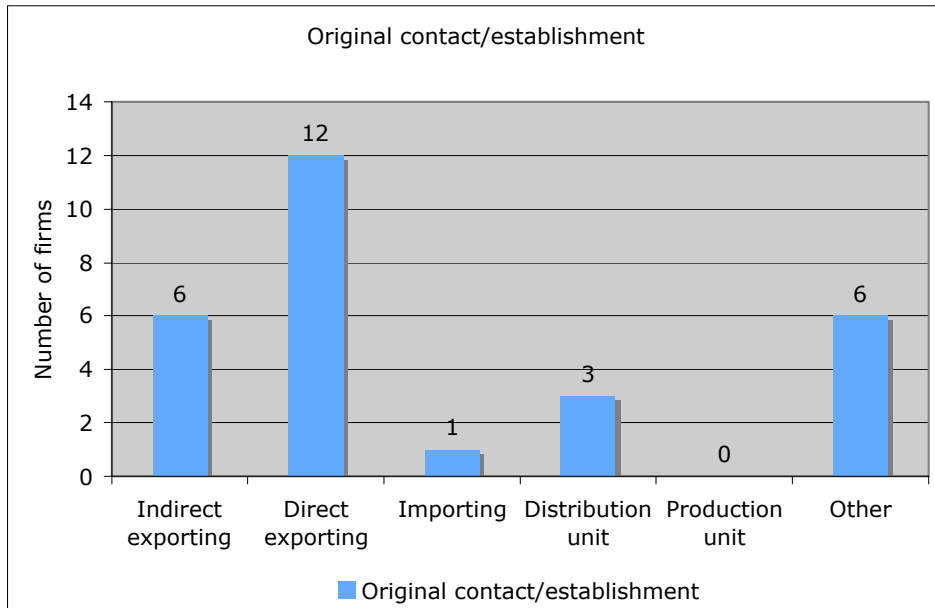


Looking at the question whether or not the company was influenced by former social ties in their decision to enter the Swedish market, we found 9 firms that were influenced and 16 that were not. One respondent claimed that employees, who were involved in the market entry, have quit the company since then, ergo they didn't have that specific information. Those who admitted that their firm's decision was influenced by former social contacts gave us the following descriptions of the way it happened, among others: friends in the same industry made the firm aware of the demand in Sweden; contact to the market through former distributor, who introduced the firm to end-users; German customers, who entered the Swedish market and pulled the supplier with them; contact through Swedish employee, who came up with the idea and persuaded the firm to enter Sweden. Examples of explanations for the ways not influenced by social ties and contacts were amongst others: relying on own market research; taking help of a trading company, either Swedish or German; acquisition of a Swedish competitor to reach out to Swedish customers.



Finally, we would like to present what original entry modes the companies in question chose while approaching the Swedish market. The results show clearly, that most firms chose exporting as first business activity, mainly exporting via Swedish partner. Only three firms chose to establish a subsidiary directly. Among the other ways, service companies are worth mentioning, which either started with service-exchange or opened up sales offices or customer service units. Hereby, the line between

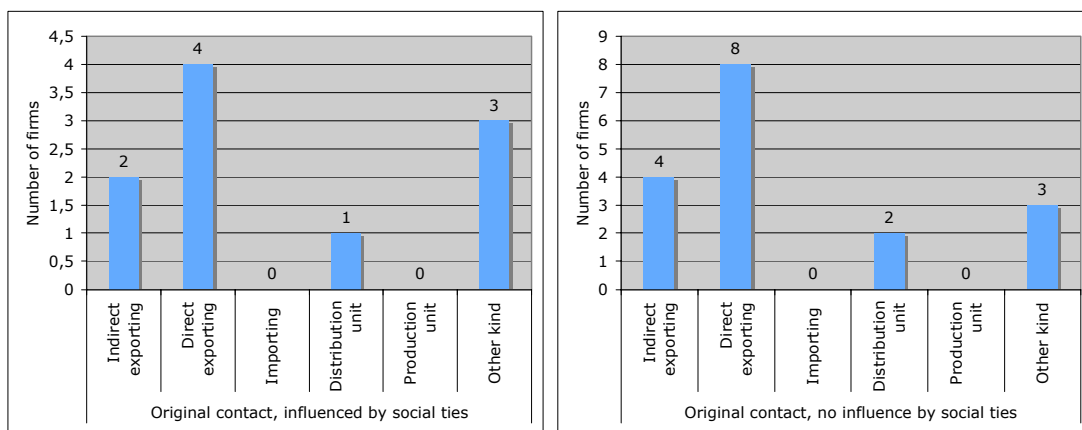
subsidiary and sales office may seem thin sometimes, but we found it appropriate to distinguish between units for distribution and representation.



After having presented the basic results of our survey, we would like to continue with identifying certain patterns by a comparison of different groupings out of several perspectives. We hope to find signs of specific behaviours, which could distinguish the effects how certain market entry decisions influenced the entry process.

4.3 Cross tabulation of the results

One of the main questions of this thesis has been if social ties have an impact on the entry process. Therefore, we proceed with the question wondering if social ties affected the companies' choice of entry modes. We compare the answers given to questions 7 and 5 (see Appendix 1).



The result of the comparison shows no difference in the distribution of the chosen entry modes, on the contrary, the proportions are basically the same. In order to visualize the similar proportions, we chose different scales in the graphs. In both categories, direct exporting was the most common way of establishing market presence, followed by indirect exporting. Only a few companies chose opening a distribution unit as the initial market entry mode. Altogether, social ties had no impact on this part of the process at all. This phenomenon was the same even split up to different timeframes.

We couldn't identify any clear pattern in the development of the establishments, i.e. if social ties affected how the companies advanced on the establishment chain. Drawing such a conclusion would be irrelevant too because of the differences in the duration of time the firms has been in contact with Sweden. Furthermore, no distinction has appeared according to the size of the companies. Hereby, as stated in the method description, the greatest hinder was the small amount of test firms.

Concerning initial introduction to the Swedish market, there was an equal distribution between seller-initiated contacts and buyer-initiated contacts both among those entries affected by social ties and those, which were not. However, we recognized that German sellers were more active in seeking relationships on the Swedish market, than Swedish buyers looking for German exporters. The situation was most concrete before 1980, when all relationships investigated in our survey had been initiated by the sellers, i.e. the German counterpart. It appears that Swedish firms started to actively seek German business partners only in the last 20-30 years.

5 Examining the findings

In this part we would like to analyze the results of our survey with the help of the theories we described in the literature section. We try to find explanations for the phenomena we observed following the line of topic in the former parts of this thesis. We start with the social platform aspect between Germany and Sweden and continue by going through the responses on our questions.

As mentioned above Germany and Sweden have lots of similarities and share many trade and political interests. The fact that both countries are members of the European Union is one significant factor that lowers the barriers between them. This can explain the large number of German subsidiaries in Sweden and the large number of Swedish subsidiaries in Germany, as well as the high level of mutual dependence in trade. All these factors bring Germany and Sweden closer to each other and act as a good foundation for the creation of social contacts and ties. As stated by Klaus Bohler⁷ the recognition by the companies in recent years that culture affects the way they do business has meant that there is much more focus and discussion about this subject.

As discussed in the literature review, psychic distance could have an impact on how companies manage in a foreign market, but according to the huge number of German companies present in Sweden these hindrances might not seem as important or difficult to overcome. Additionally, the different methods of grafting or hiring competent personnel, following the example of those many other firms already established, might facilitate the process and contribute to a future success in Sweden. The huge number of already existing firms from the homeland raises the possibility of having contacts on the market through the own network. Firms may seek the opportunities to exploit their contact network in order to simplify the internationalization process.

As mentioned, we had a sample of 315 companies and got a total of 26 answers. This is equivalent to 8,25 percent, which might be considered as low but we argue, that it is still adequate for an analysis. We feel that the diversification of the group of companies that answered compensates this rather low answering frequency. We found evidence for social ties' influence among those German companies that established on

⁷ Dipl.Ing. Klaus Bohler, German-Swedish Chamber of Commerce, telephone interview, May 15, 2007

the Swedish market. Altogether, about 35 percent of the firms in question admitted that former social ties played a role before and during the entry process.

Furthermore, we identified that, as far as export-initiative is concerned, German companies were the most active in seeking exchange partners. 65 percent of the firms in this survey considered themselves to be the initiators to the businesses in Sweden. This might depend on Germany's position as an exporter in the global market. The country is the world leader in exporting of merchandise goods and even one of the biggest markets in Europe. According to our results, Swedish firms started to promote German export on a greater scale only in the 1980s, so far it was almost always German companies, who were the initiators. Surprisingly, we found very little evidence for business contacts being initiated by chance or at a trade fair. Considering the views of Klaus Bohler⁸, the German trade fairs are among the largest in the world, besides, there is a strong tradition of participating and being recognized on those events. This may though not be the case in Sweden, where the smaller market doesn't have the same range and therefore the tradition didn't develop. Swedish firms may not find it as important to be seen on trade fairs, which can furthermore be explained by the smaller number of existing firms and the smaller public in Sweden. Summarizing, the lack of chance encounter or trade fair initiatives may illustrate that all the exchange relationships come to life are the results of a conscious search for business associates or social contacts.

The companies involved in this thesis were mainly manufacturing companies that could lower the reliability of the generalisations made, but we believe that this reflects the reality. As stated, the manufacturing industry is very strong in Germany and contributes to the country's economic power. Additionally, most firms exporting to Sweden in our study were merchandise-producers supporting the Swedish manufacturing. We discussed in the literature section that there might be a difference in behaviour due to access to resources or firm size. In our results, though, we couldn't support this assumption. Rather, we found that German companies follow similar patterns independently on size. Naturally, we concluded this based on the initial entry mode the firms chose and there could be the problem with the different

⁸ Dipl.Ing. Klaus Bohler, German-Swedish Chamber of Commerce, telephone interview, May 15, 2007

timeframes arise again. Companies may have had other values and ideas about going abroad a hundred years ago than now, having more information about the topic.

Discussing the issue whether or not social contacts affected the entry mode, we found little support for firms being able or willing to leapfrog any stages in the establishment chain due to their social ties. The findings in our survey showed a very evenly dispersed pattern between the companies that had been influenced by social contacts and those who had not concerning the choice of entry mode. This is interesting since this represents that social contacts do not affect the internationalisation process itself. We argue that it acts more of an initiator to the process as shown in our “social initiative model”. The social contacts could though contribute to making the establishment process go faster or smoother since the social network will develop as the company becomes more embedded in the new market. Additionally, social ties help the firm to obtain the knowledge, tacit or experiential, that can’t be gathered as easily through other channels. Through this phenomenon, the relationships build up the company’s social capital. However, this could not be supported in our survey because of the too long time frames between the establishment and the firms’ current activities on the Swedish market.

Hereby, we present the “social initiative model” according to our findings. We believe that it could be a contribution to the Uppsala model, which is less effective in explaining the early stages and the initiation of the internationalization process.

Social state aspects

Internal entry forces (Seller-initiative)



*Chance encounter/
Trade fair initiative*



Commitment decisions,
market entry

External entry forces (Buyer-initiative, Third party)



Above, we adjusted our model due to the results of the research. Those factors that were proven to be important in the context of German companies’ initiatives for

entering Sweden were highlighted and the factors we found to be less significant were changed to *italic*. These forces play an important role in triggering internationalization, however, the fact that we determine who has taken the initiative doesn't necessarily mean that they depended on former social ties. We believe that all exchange relationship-initiatives build more or less on social contacts, but in only part of the cases do they come to life thanks the social ties' former existence.

It is additionally important to mention that the "social initiative model" tries to find a deeper understanding for how the internationalization is set in motion, what are the forces that lead to commitment decisions. After the first commitment decisions and market entry, the Uppsala-model may be the tool to analyse how the firm's activities proceed.

6 Possible solutions for a problem

Finally, let's get back to you, our dear reader, the German CEO. We promised in the beginning to demonstrate some possible solutions for the market entry problem you had back then. We suggest heavily that you seek up your old friend from the university and discuss with him about what kind of contacts he had in Sweden. We really believe that you should make the most of such a contact, if you find it useful. These contacts could work as an initiator for your Swedish business and determine the mode of your approach. Depending on what the characteristics of your firm are, the mode of the first establishment, for instance, has to be decided. A partner on the market could provide you with information that may lighten the initial burden.

Our overall purpose with this thesis was to illustrate to you to what degree other German firms were influenced by their former social ties during their entry processes on the Swedish market. The results showed that former social ties affected about 35 percent of the companies that identified Sweden as the desired market, as you did. This relatively high percentage of companies can be explained with the similarities between the two countries. This acts as a foundation for the continuing development of the social ties and contacts. Furthermore, we found that although exploiting former relationships is quite common, they will probably have little or no impact on your choice of entry mode. These contacts' main goal might be making the early process of your establishment easier by granting knowledge that is difficult to obtain in other ways.

It is less surprising that the person who started considering entering the Swedish market is you, the German CEO. Our results showed that you're not alone when it comes to initiating business contacts in Sweden. 65 percent of all exchange relationships investigated were initiated by the German counterpart, which we found explanation for in the German exporters' position in the global trade. However, we didn't find evidence for if former social contacts had any influence on which part took the initiative. So, our idea for you is to start to search for business opportunities through your contact and don't rely on seeking on trade fairs too much. Just get social!

6.1 Suggestions for further research

After having investigated the importance of social ties for German firms establishing in Sweden, we thought it would be interesting to see if the impact of such contacts is as frequent in the opposite direction. Based on the facts that create the platform for social relationships between these countries, there should be an influence on Swedish companies moving to Germany. Are the German firms still the more active in seeking business contacts when it comes to importing? Could there be other means of initiatives that play a role, trade fairs, to start with? Are Swedish firms more willing to exploit the advantages of social ties by leapfrogging stages in the establishment chain? Could the same social initiative model be applicable?

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8 Appendices

Appendix 1

Dear Sir/Madame,

We are two students from Uppsala University and we would like to ask for your time to fill out a survey. With this survey we aim to find empirical data for our research in International Business. We are investigating how German companies reached the decision to enter or to get in contact with the Swedish market. What kinds of information sources were used to identify the business opportunity in Sweden?

We received your contact information from the German-Swedish Chamber of Commerce in Stockholm with recommendation from CEO Dipl-Ing. Klaus Bohler.

The questionnaire will take approximately 5-10 minutes to fill out and please send it back as an attachment to our email Balazs.Abonyi.6705@student.uu.se. We are looking forward to your answer by the 10:th of May. **All answers will be handled with strict confidentiality.**

Thank you for taking part in our survey and helping us with our research!

Yours faithfully

Balazs Abonyi & Martin Johansson

1.	Is your company / parent company a German-founded company?	Yes			No	
Mark with an x						
2.	What kind of business contact does your company have with Sweden?	Direct Exporting (Swedish agent, trading company)	Indirect Exporting (German agent, trading company)	Importing from Sweden	Distribution unit in Sweden	Production unit in Sweden
Mark with an x (several possibilities)						
2a	Any other kind? (please specify)					
3.	For how long has your company been doing business in Sweden?					

4. How many employees does your company have? (the entire company/concern)						
5. What was your original, first kind of business contact/establishment on the Swedish market?						
	Indirect exporting (German agent, trading company)	Direct exporting (Swedish agent, trading company)	Importing from Sweden	Distribution unit in Sweden	Production unit in Sweden	
Mark with an x (several possibilities)						
5a Any other kind? (please specify)						
6. How was your company initially introduced to the business opportunity in Sweden? (mark with an x and explain if necessary)						
	• Initiated by the buyer					
	• Initiated by the seller					
	• Initiated by a broker/ third part					
	• Initiated as a result of a trade fair / chance encounter					
	• Else...					
7.	Do you think that your former social ties had an influence on your choice of the Swedish market and the way of entering it?	Yes (if yes, please answer question 8)		No (if no, please answer question 9)		
Mark with an x						
8. Please describe in a couple of sentences the way your company/parent company was influenced by social ties in the decision to enter the Swedish market. (For example: through former customers, introduced to a buyer by a mutual friend etc.)						

9.	Please describe the circumstances under which your company/parent company chose to establish itself on the Swedish market (For example: independent government agency, trading company, advertisement, own market research etc.)

Thank you again!

Appendix 2

How important do you believe the social contacts are for German firms establishing in the Swedish market?

Are they more or less important than earlier? What do you think that depends on?

Is the influence of such contacts depending on certain sectors or modes of entry?

How much does the German-Swedish Chamber of Commerce build its business on social, informal contacts? Does it have as assignment to promote an informal network?

How do you value the importance of social contacts compared to market research and governmental aid concerning foreign establishments?