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INTERNATIONALIZATION PROCESS OF FINNISH-BASED STARTUPS AND SMES IN EMERGING CHINA: MOTIVES AND ENTRY STRATEGIES

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The purpose of this research is to study the internationalization process of Finnish-based startups and SMEs in emerging Chinese market. More closely, this study intents to reveal certain characteristics that Finnish-based firms possess in the context of motives and entry mode choices on internationalization. Therefore, this research offers no further explanation on the success or failure of internationalization but offers knowledge about the fundamental foundation which firms use to internationalize.

Theoretical framework of this research is based on existing internationalization theories and key concepts regarding international expansion such as entry modes and foreign business culture. Empirical data collection of this research is conducted via qualitative methods in form of a case study within questionnaire and interviews. Primary data consists of 11 case firms without industry-specific limitations. Most of the case firms are newly born and can be addressed as born globals due to their internationalization from inception. Still, there are SMEs with solid domestic market position amongst the case firms. Academic journals, articles and books are observed to provide holistic substance understanding on the research topic.

Findings suggest that extant previous experience on international markets decreases the time-embedded resources on internationalization to China. Aspects concerning China seem to condense on personal and business networks which are valued over the contractual agreements. Finnish-based firms motives for market entry are concerned by the market size and business opportunities. Surprisingly, startups and small enterprises tend to enter the market with high-commitment entry modes and in contrast medium-sized firms enter with low-commitment modes.

Results of this study provide insight on internationalization as a phenomenon and can be used to evaluate the process of Finnish-based startups and SMEs. Because of the lack of limitations on industry-specific features, findings are useful to address internationalization in general, but sector-wise consideration is to be conducted. This research suggests further studies to concentrate on SMEs and startups as individual research targets. These differ highly on their backgrounds and perceived goals on foreign market entry and therefore should be separated from each other. Additionally, more research is needed to explain the importance on trust-based mutual network over the contractual agreements.

Keywords
Emerging markets, business expansion, foreign market entry, entry mode, Chinese market, internationalization strategy
1 INTRODUCTION

Domestic competition is inadequate for assessing the overall degree of prevailing competition nowadays. Competitive environment has expanded to a mixture of domestic and foreign competition i.e. international cross-border competition (Cui & Liu 2001). Corporate world is globally connected through multi-business networks and due to the age of internet it is hard to fully evade the international competition. Therefore, small and local firms are not protected from the competition and must take actions to intertwine themselves to globalized world. According to Dereli (2015) global competitive advantage can be achieved through persistent innovation management, which is fortified by Schumpeter’s (2017) observation where startups and SMEs play a central role due to their innovative behaviour.

An important aspect of internationalization process is the strategic decision on foreign market entry mode, which explains the key aspects of how the firm enters foreign markets with the resources and capabilities it possesses. The importance of initial entry and the possible change of entry mode has been debated among the researchers (Benito & Welch 1994, Chang & Rosenzweig 2001, Woodcock et al. 1994). Root (1994, pp. 22-24) describes entry mode choice as a critical strategic decision, which is not easily changed. Swoboda, Olejnik and Morschett (2011) on the other hand show later data to endorse the entry mode choice through evaluation of post-entry performance. The measured performance indicates the future direction in the context of possible changes in modes and Swoboda et al. (2011) pointed that the changes are almost inevitable. Therefore, entry mode choice is only the spark that kickstarts the internationalization process without defining the whole cycle of operations on international markets.

Internationalization offers growth and product expansion opportunities for large multinational enterprises (MNE), small- and medium sized enterprises (SME) and startups regardless of the size (Acs et al. 1997, Cheng & Kwan 2000, González-Rozada & Yeyati 2008). There is an extant research literature on internationalization process and entry modes of MNEs (Child & Rodrigues 2005, Etemad 2004, Johanson & Vahlne 1977, Korsakienė & Tvronavičienė 2012, Root 1994, Yaprak & Karademir 2010), but there is still a research gap on small- and medium sized enterprises
internationalization process, and moreover Finnish-based SMEs internationalization processes and motives. Small and medium-sizes enterprises form the majority of the currently operational firms. Still, these lack the economies of scale and have barriers of entering new foreign markets. Lack of experience and capital forces SMEs to innovate solutions and co-operate in order to create a foothold in competitive markets. (Acs & Audretsch 1990, Acs et al. 1997.)

Internationalization is not seen as a choice anymore and due to increasing global competition it is even seen as a necessity in terms of long-term survival. This is reasoned through the mutual possibility to expand business from country to another meaning that international competitors can as well internationalize and disturb the balance of domestic markets. Short-term operation includes risks and high volatility on especially on emerging markets, but passivity on the long-term may leave space for competitors to enter firms’ domestic market and therefore decrease their market share. Therefore, not participating the international markets is seen far more dangerous than internationalization. (Roberts et al. 2015.) The concept of diversification is commonly used within stock markets and investing, where different investments are allocated across the markets in order to gain risk diversification (Brealey et al. 1995). The same fundamentals apply also for internationalization as Geringer, Beamish and DaCosta (1989) found out in their research. The key was to internationalize even when economic crisis prevails as the risks of business is allocated through different markets and geographical distances through diversification (Geringer et al.1989).

Cross-border merger and acquisition activity has risen dramatically with in the past years. Shift from pure greenfield investments have turned to activity on acquisition sector. Foreign direct investment (FDI) is seen as the most important foreign market entry mode. (Di Giovanni 2005.) Yet, in the case of SMEs, lack of capital and experience decreases the possibilities for entering new markets with direct acquisitions. Thus, it is essential to understand that current start-ups and SMEs are the potential future MNEs. MNEs such as Apple or Microsoft started as a negligible company and with radical innovations they evolved to be amongst the biggest multinational enterprises of the day.
Similar studies have been made from Turkey (Yener et al. 2014), Norway (Korsakienė & Tvaronavičienė 2012), Baltic countries (Jansson & Sandberg 2008, Olevsky & Dunska 2014) and Czech republic (Kubičková et al. 2014). Thus, direct research from Finnish-based firms internationalizing to Chinese markets requires further research. There is only a little research on small Finnish-based companies that have internationalized in China, which makes it an interesting topic to scrutinize.

1.1 Research questions and purpose of the study

Internationalization process has been the subject of extant research (Matlay et al. 2006), nonetheless, there is limited knowledge available about the internationalization process of Finnish startups and SMEs on emerging markets. Therefore, purpose of this research is to study the reason for internationalization from Finland to Chinese emerging market. This research also tries to reveal explanations for the relations between the existing theories and collected empirical data. As a connection to previous studies, possible differences on the reasons and entry modes across European countries are addressed. The aim of this research is to examine the motives and entry modes for internationalization of Finnish-based small and medium sized firms especially in emerging Chinese market. According to this, main research question is formed as such:

*RQ: What are the motives that strive Finnish firms to China and which entry modes these firms use?*

As the target companies are startups and SMEs, issues concerning scarcity of resources and firms’ capabilities present major role on internationalization process. Theories such as networking theory and international new ventures explain this combination of available resources under the influence of prevailing personal capabilities from the perspective of business networks in internationalization. (Johanson et al. 1988, Oviatt & McDougall 1994.) International new ventures, known also as born globals, still addresses firm’s internationalization from inception (Oviatt & McDougall 1994). Hence, further theoretical background is explained through Uppsala models step-by-step process and institutional theory’s explanation on firms adaptation on internationalization (DiMaggio & Powell 1983, Johanson & Vahlne 1977). Each of
these theories highlight different perspectives on internationalization process and its perceived outcomes, which is why sub-question is formed:

_What are the explanatory capabilities and reasoning that existing theories provide for internationalization nowadays?_

At the empirical phase of this research I decided to conduct qualitative survey to fulfil the need for explanation on modern Finnish-based startups and SMEs internationalization behaviour. This forms an additional sub-question to reveal the differences in SMEs internationalization and startups internationalization processes.

_What are the differences between startups and SMEs internationalization process?_

I expect to find startups internationalization process from inception and SMEs in more traditional path-dependent way. Hence, Hilmersson and Johanson (2016) suggest evidence which notes that MNEs are more likely to internationalize than SMEs and progress faster as internationalization process starts. This suggest that MNEs internationalize on mature age and eventually on faster phase. SMEs on contrary strive willingly towards internationalization, but tend to do so on younger age and with smaller steps due to scarcity of resources (Chetty et al. 2014). Therefore, it is expected to find differences in internationalization time-distance and capabilities for firms possessing international entrepreneurial experience compared to those with zero experience on global markets.

1.2 **Structure of the study**

This research is divided into six chapters including this introduction, theoretical framework, features concerning China as an emerging market, research methodology, analysis of the internationalization process and conclusion. The first chapter of this research unwraps the internationalization phenomenon in general. This includes guidelines, objectives and further explanation of the topic as well as key concepts. Backgrounds introduce the current issues concerning SMEs international business ventures and previous research on the topic, whereas justify the means of this study.
Second chapter includes the theoretical framework, which construct the theoretical foundation for this research. This includes the reasons and motives which have emerged from previous research concerning the participation on internationalization process as well as entry modes.

Description of Chinese market economy is provided in chapter three to steer the reader to gain understanding on the prevailing characteristics of the concerned emerging market and its limitations. Research methodology is defined on the fourth chapter to validate the means and approach of this research. This includes methodology, data collection, data analysis and validity and reliability of this research.

In the fifth chapter empirical data is analysed. Primary data of this research consists of interviews and surveys from Finnish-based SMEs and startups conducted by the author. This is reflected and fortified by extant literature review concerning appropriate academic journals, articles and books. This chapter offers findings and discussion according to the empirical data findings.

Conclusions of this study are presented at the sixth chapter to briefly expresses the main findings of this research as well as its applicability for further use. This chapter also discusses the connection of the findings and theoretical framework. Limitations regarding the findings of this research and analysis are addressed after conclusion, followed by suggested further research topics that have risen during this research.

1.3 Definitions of the key concepts

This chapter provides further explanation on the key concepts of this study. These include the definitions of small- and medium sizes enterprises, startups, internationalization and emerging market economies.

1.3.1 SME

European commission (2003) defines micro-, small- and medium-sized enterprises (later on SMEs) according to the number of employees, annual turnover and balance
sheet total. European commission’s recommendations and definition have been collected to the following table 1.

Table 1. European commission’s definition on SMEs 2003/361.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees</th>
<th>Annual turnover</th>
<th>Balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤2 Million</td>
<td>≤2 Million</td>
</tr>
<tr>
<td>Small</td>
<td>10-49</td>
<td>≤10 Million</td>
<td>≤10 Million</td>
</tr>
<tr>
<td>Medium</td>
<td>50-249</td>
<td>≤50 Million</td>
<td>≤43 Million</td>
</tr>
</tbody>
</table>

SMEs define firms across different market sectors by their size. European commission defines SMEs with quantitative factors given at the table above. Nevertheless, Reuber and Fischer (1997) define SMEs also relying on the entrepreneurial characteristics that the managers possess. Entrepreneurial characteristics can be described as proactive innovativeness, opportunity seeking behaviour and tendency for risk-taking in order to succeed (Gürol & Atsan 2006, Lee & Peterson 2000).

According to the Statistics Finland (gathered in table 2), there were 283 805 firms operating in Finland in 2015, which does not include agriculture, forestry and fishing industry. 93.4 per cent of these companies’ employ less than 10 persons i.e. are categorized as SMEs. Between 2011-2015 SMEs created jobs for over 115 000 people, making remarkable effort for Finnish economy. SMEs do not act only as employers but mark approximately 40% of Finland’s gross national product (GNP) and the revenues of SMEs is equal to 219 billion euros.

Table 2. Finnish companies according to their size. Statistics Finland 2015.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of firms</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>265 041</td>
<td>93.4</td>
</tr>
<tr>
<td>Small</td>
<td>15 559</td>
<td>5.5</td>
</tr>
<tr>
<td>Medium</td>
<td>2 634</td>
<td>0.9</td>
</tr>
<tr>
<td>Large</td>
<td>571</td>
<td>0.2</td>
</tr>
</tbody>
</table>
1.3.2 Startup

Blank and Dorf (2012) define startups as such “A startup is a temporary organization in search of a scalable, repeatable, profitable business model.” Therefore, it is not another small business, it is rather an entrepreneurial vision which is based on faith and beliefs. Startup does not have anything to with the firm size, industry, venture funding or age of the company itself. (Blank 2013.) Startups are also referred as high-growth firms. In this matter, growth is measured by the three-year employment growth rate, which indicates startups importance on sustainable employment creation. Even though, high-growth firms are found from different industries and highly vary on their size, these are generally young and small. (Lopez-Garcia & Puente 2012.)

The key for being startup is the form of the business. It needs to be scalable or in other words in reach of masses of people so that can gain the perceived fast growth. The other factor addresses the profitability of the business model whereas there has to be a need for firms offering (product or rarely service). This attracts investors to provide venture capital to enable even faster growth. These factors separate newly established companies from startups as most firms are constrained by factors concerning scalability, repeatability or even the profitability of business model. (Blank & Dorf 2012.)

The connection between startups and technology enables the exploitation of formerly overlooked issues due to advances in technology. Advances in another area, can drive innovations forward on completely different areas, which is also one reason for the perceived aspect of high technology startups. Therefore, startups are connected to the way of creating new solutions for problems that where not possible to solve before technological advancement. (Blank 2013.) Startups try to create new innovations that challenge industries through trial and error. This is also known as the lean approach, where firms test their minimum viable products (MVP) at the market. This approach is based on four factors; building, testing, measuring and learning. Whereas firm innovates and builds an offering for potential customers, tests it at the market with MVP in order to gain feedback (knowledge) from the customers so that they can learn and develop their product accordingly. Firms therefore aim to perform tests with
minimal costs, without decreasing the amount of achieving market experience. (Owens & Fernandez 2014.)

Growth makes startups especially valuable, but simultaneously very risky. This is one principal of the investments; the greater the risk is, the greater also expected return on investment (ROI) is. Fast growth rate, and moreover the will to grow fast, describes also the willingness of venture capital on startups. Fast growth tends to be the reason for also acquisitions as those companies are valuable, but also dangerous for competition. The danger is that while growing, the startup can start to disturb the acquirer’s main business by expanding to their territory. Fast growing includes “growth pain”, risks and relying to outside aid such as investors or partners. Therefore risk-awareness seems to be a recipe for guaranteed failure. (Blank 2013.)

1.3.3 Internationalization

Johanson and Vahlne (1977) and Welch and Luostarinen (1988) both define internationalization through gradually increasing firm’s resource commitment on foreign markets. Another definition for internationalization as a process was given by Calof and Beamish (1995, pp.115-131), where the key was operational adaptation in foreign markets. By this meaning the importation of strategy, structure and resource in international markets. Internationalization and globalization are closely intertwined with each other, but nonetheless have different meanings. Globalization constructs on the diffusion of people, values, technology and knowledge across the world. Therefore, globalization influences the internationalization process. (Knight 2003.)

Internationalization theories are divided to different categories which all include different amount of commitment and control (Johanson & Wiedersheim-Paul 1975). Theories such as the Uppsala model (1977) explain gradual increase in involvement to the foreign market whereas networking theory (Johanson et al. 1988) and institutional theory (DiMaggio & Powell 1983) verify the importance of entrepreneurial networks and institutional multi-networks where organizations interact with each other. Oviatt and McDougall (1994) on the other hand presented more recent theory on internationalization called international new ventures. These theories try to explain the fundamental theoretical base of internationalization answering questions of how firms
internationalize and what affects the internationalization process, rather than answering why they internationalize (Schulz et al. 2009).

Therefore, internationalization describes firm’s path and choices for entering foreign markets. There are different ways to increase commitment in foreign markets, in which, each has its own degree of risk, control and required resources. Firms possess different patterns of behaviour for decision-making and reducing risks in internationalization which is depending on their willingness to bear risks and pursue opportunities. Therefore, firms adjust themselves for changing conditions, psychic distances and environment which differ from their domestic market. Internationalization behaviors are therefore the patterns that each corporation creates regarding on their will of commitment, gained experience, learned knowledge, willingness to take risks and the opportunities that they face on international markets.

1.3.4 Emerging market economy

Emerging market economies are defined as nation’s economies which lack market efficiency due to the lack of financial standards that developed economies i.e. Europe, United States possess. Emerging market still have financial infrastructure, but it isn’t as advanced as developed markets. Emerging markets are potential investment and foreign market entry targets due to the rapid economic growth and opportunities. Theoretically these markets offer the possibility of high return on investment (ROI) but on contrary, these markets include higher risks due to political, legislative and infrastructural instability. For some emerging markets, problems emerge also from volatility of the currency. (González-Rozada & Yeyati 2008.)

The characteristic of emerging market includes high growth potential on both economic growth and population eligible for consumption. European commission notes that currently 40% of global middle-class lives in China, Brazil, Russia and India. Nonetheless, they predict that by the end of 2030, 66% of these people live in Asia and 70% of Chinese population is included in middle class. (European Commission.) According to World Banks statistics two emerging markets, China and India, equal approximately 37.6% of labour force in the whole world whereas
simultaneously the total labour of European Union member countries presents only around 7.2% of the world's labour force (The World Bank 2019).

At the beginning, emerging markets were in centre of interest due to the supply advantages i.e. cheap and tremendous amount of labour force. Later on, foreign multinational companies recognized the potential on demand factors within emerging markets. These factors enabled the possibility on direct rise in earnings through direct sales in emerging markets and domestic sales with better margin. Characteristics of emerging markets have been described through the fragmentation and diversity of the market. This notion indicates that developed market economies theories may not imply in emerging market economies due to market inefficiency and macroeconomic metrics under the influence of microeconomic behaviours. Regional differences within the emerging market economies pose the difficulty of comparing different countries (or emerging markets) as these markets themselves include divergence in development stages. This creates irrelevancy for market comparison within the same country. (Roberts et al. 2015.)

Risk of not involving activities in emerging market economies is seen far more crucial than the risk of participating in them. This is rationalized by explaining the connection on emerging market resource generation and its influence on growth in domestic markets and the possibility of being inferior compared to early entry firms than may gain possible competitive advantages from emerging markets. Therefore, multinational enterprises are apparently forced to enter emerging markets due to growth objectives, defensive aspects and risk portfolio. Emerging markets offers added growth potential over domestic markets and ease the understanding of defensive competitive actions in domestic and global markets. (Roberts et al. 2015.) Emerging market economies are seen important for increasing growth through innovative new solutions (Chandy & Narasimhan 2011). Important aspect is to realize that the benefits from operating in emerging markets are not limited only to the emerging markets. Such as Jensen (2007, pp. 879-924) noted, innovation flow from emerging markets increased the variety on firms offering in developed markets.
2 THEORETICAL FRAMEWORK

Theoretical framework includes explanations on key concepts of this research as well as the most influential theories on internationalization process. Well-known theories of internationalization are Uppsala model, networking theory, international new ventures and institutional theory. All of these have their own peculiarities on explaining internationalization process. Nevertheless, the concepts of these theories partially overlap each other, whereas careful evaluation is needed to address correct theory on emerging issues.

Another key aspect on internationalization is the choice of entry mode which describe the way how the organization enters the foreign market. Entry modes include equity and non-equity modes, which all depend on the available resources, capabilities and competences of the firms. Initial entry is a strategic decision, which can later be changed as a post-entry mode according to the performance of the initial phase. Entry mode choices are influenced by the background of firm’s decision-makers indicating that entry modes are likely to change during the progress of internationalization.

This chapter also presents the theoretical reasons for firms’ internationalization decision as well as the factors that influence their decision-making process. These are the fundamental aspects that are seen to strive firms towards global markets and foreign business opportunities. Foreign market and the business culture it possesses are major concerns in internationalization process. These are explained in general and aspects concerning especially Chinese emerging market are put forth on chapter 3 to gain holistic understanding on the issues, barriers, limitation and potential opportunities of the market.

2.1 Internationalization and entry modes

Firm’s possess different possibilities for internationalization. They need to assess their strategic goals (opportunities emerging through internationalization) within the context of their risk reliance. Each of the modes of entry include different amount of risks, control and resource commitment, which create limitation for SMEs internationalization due to the scarcity of possessed resources.
Root (1994, p. 24) defines entry mode as an institutional arrangement which enables the transfer of firms resources from country to another. Entry mode is a part of firm’s entry strategy that sets guidelines for objectives and resources to achieve sustainable growth in the future. Entry strategies cannot be mimicked from market to another due to the political, economic and environmental peculiarities within each market. Therefore, each entry for new market need careful assessments before entering the market. (Root 1994, pp. 24-26.)

According to Root (1994) international market entry should include the following elements.

1. Choice of target market
2. Objectives within the chosen market
3. Entry mode choice
4. Market penetration plan

Within each of these steps monitoring of performance and re-evaluation of the decision of the entry mode are constantly needed. As Root (1994) implies, the changes across target markets or entry modes are closely connected to the set goals and marketing plan, whereas not reaching the perceived objectives indicates need of change in operations. Post-entry phase that follows the initial entry, is determined by the success of the entry. Thus, the need and function of post-entry phase has been debated as explained at the introduction chapter.

Hill’s (2011, pp. 469-475) internationalization decision-making process includes rather similar aspects than Root’s (1994) earlier model:

1. Choosing target market
2. Timing of the entry
3. Scale of the entry

According to this, markets need to possess attractive risk, cost and benefit ratio. Therefore, benefits should exceed the costs of entry and risks of operating within the target market. Timing of the entry can be divided to first movers and later-entrants.
First mover is the one that is taking the first steps on unknown foreign battlefield in its industry. These are described to get the worst beating in business or the greatest victory. These are the pioneers of their industry and have the opportunity to influence business before other join the quarrel, yet, these face high risks on entry. Later entrant are the followers that internationalize to markets that have already shown market potential through others success in the market. Because of their previous strategic decision (or neglection) of not to enter the market, later entrants face higher degree of competition within the market. Hence, these have had the opportunity to observe others and learn from their mistakes, which saves costs on entry due to avoidance of pitfalls. Scale of the entry is depending on the willingness of commitment to the market. Commitment implies the required resources and capabilities of the firm as well as committing to the prevailing risks. Firms can enter rapidly in large scale, but it needs resources and risk-tolerance. For SMEs, small scale entry exposes the company less, but kickstarts the learning-process. (Hill 2011, pp. 469-475.) Market entry, whether it is small or large scale, includes also the decision concerning how to internationalize i.e. choose the mode of entry. As Hill (2011, p.474) pointed, there is no particular way to internationalize and Internationalization process is highly depending on the characteristics of the firm, such as age, experience, resources (human resources and capital), target market and the different preferences that the firm possesses.

2.2 Foreign market entry modes

Entry modes describe the different possibilities for entering foreign markets. Mode of entry is described as importing firm’s assets (human skills, technology, management, resources and products) to foreign countries, which is enabled through institutional arrangements (Welch & Luostarinen 1988). Entry mode therefore classifies international activities of the company (Benito et al. 2009). Canabal and White (2008) define variety of entry modes, including both equity-based and non-equity modes of entry. Agarwal and Ramaswami (1992) discuss entry mode choice as a critical strategic decision of the company after the revised idea from Root (1994). Thus, the chosen mode is not solid, like Swododa et al. (2011) explain. According to their research, entry mode changes are most likely to occur in the future due to the volatility of the emerging economy markets. The choice between equity and non-equity mode is strategic long-term decision including the willingness to take and bear risks, resource
embeddedness and commitment to the market through economic perspective and resource-based vie and perceived outcomes of the chosen venture. Entry modes are divided to equity modes and non-equity modes of entry. Equity modes include modes that require substantial resource commitment, such as equity joint ventures and foreign direct investments. Non-equity modes are for example contractual modes such as exporting, licensing, franchising and non-equity strategic alliances, which do not bind as much human resources or capital. (Swoboda et al. 2011.)

Export modes are again divided in two; direct and indirect export. Direct exporting is a choice of committing to the market by selling directly to the target customer without any third parties in the export chain. Basically, this means higher profit margins and control, but also increased risks and embedded resources (human resources and capital). Indirect export means selling through third parties such as agents, distributors or partners. This decreases the effort of achieving customers from foreign market as partners with market experience deal with that. It also decreases the direct risk of consumer sales. Thus, profit margin takes a hit as the other member of the distribution channel take their part. The amount of control from the parent company decreases as well as the control over pricing. With direct exporting, customers “belong” to the parent company and with indirect these are the customers of the channel company. Popularity of export has its roots on the lack of resources, which makes it the first step of internationalization for many companies. (Dalli 1995.) With exporting, the company establishes its existence on the market and creates room for future expansions (Kogut & Chang 1996), whereas simultaneously receives market knowledge and experience (Root 1994, pp. 73-75). Hill (2011) describes exporting advantages though the manufacturing costs and possible scale of economy enabled by cheaper manufacturing. This can lead to substantial increase in sales and decrease in costs if the product is both manufactured and sold within the host country. Exporting is also an opportunity to gain foreign market experience. Thus, it needs to be remembered that while exporting from market to another, transportation costs and possible tariff barriers set by the exporting target country and differences between foreign and domestic regulations and laws decrease the advantage gained from low cost production. (Hill 2011, pp. 475-477.)
Franchising is basically buying a complete (known) business format. This allows the buyer to use the business format and channels of the company under its name. Well-known franchising companies are for example McDonalds, Subway and KFC. Franchisee therefore agrees to mimic the rules of business activities, set by the selling company and pays royalties from the revenues. By this, the selling company can avoid risks and costs of establishing business in foreign markets as well as expanding within those. (Hill 2011, p. 480.)

Licensing on the other hand includes the right over intangible property in return on loyalty fees. These agreements are made for a certain period for the use of patents of innovations. Licensing can be used to fight governmental regulations so that the company may receive loyalties even if its restricted to enter the market directly. With licensing, the company saves the costs of entering the market and does not carry the risk from it but pays the cost on lack of control. (Hill 2011, pp. 478-479.)

Joint venture is a business entity formed by two or more firms. In this mode, firms agree to join together to share revenues, costs, control and capabilities. Joint ventures can be project-based or long-term relationships. Therefore, these ventures benefit from the experience and market knowledge from the others and exploit opportunities together. Different types of joint ventures are minority, majority and equal ownership joint ventures, depending on the resource commitment, control and agreements of the contractual parties. Advances in partnering are domestic market experience and knowledge, divided risks and sometimes even the only option for market entry. Therefore, joint ventures decrease the cultural, political and business environment barriers of the market. (Hill 2011, pp. 481-482.)

Wholly owned subsidiary is a venture fully owned by the parent company. These are also known as foreign direct investment (FDI). These can be greenfield investment or direct acquisition. In greenfield investment, company establishes new operation in foreign market. In the case of acquisition, the firm buys another currently operational firm and uses it to promote its products. (Hill 2011, pp. 482-489.) Brownfield is a hybrid of the previously mentioned where firm purchases a ready facility for its purposes. This entry mode has been found effective on emerging markets due to lower entry costs than greenfield decreasing the time-embedded resources because of
formerly constructed facilities. (Meyer & Estrin 2001.) These modes are high-control modes, but for SMEs and startups, the issue is mostly lack of resources that these require. The cost of establishing or buying business in foreign markets is restricting the entry mode choice and creates a barrier for entry. (Brouthers & Nakos 2004.)

Figure 1: Entry mode choices (adapted from Hill 2011, pp. 475-493).

2.3 Internationalization of SMEs and startups

Joseph Schumpeter’s (2017) explain a theory on creative destruction, which examines the creation of innovation as a destroyer of stagnant and settled firms. This creative destruction is seen to be essential part of economic growth. Findings show that increased bureaucracy within MNEs, was eventually leading to decrease in innovation rate and therefore decrease in economic growth (Acs & Audretsch 1990). Acs and Audretsch (1988) earlier research enhances this view as they found that smaller firms tend to possess higher rate of innovation due to the lack of high internal bureaucracy.

SMEs and startups play an important role in the process of creative destruction. Small firms can mitigate challenges on internationalization by using MNEs as tools to diffuse their innovations. MNEs possess greater recourses to surpass the barriers of entry or protect their property rights. Innovative small firms are at the central role on global economic growth and play a major role in creative destruction process. Innovations
create temporary monopoly positions on the market, which will last as long as other surpass this innovation or duplicate it. This temporary monopoly enables further innovations to emerge due to the funds it generates and acts as a fundamental basis of the innovating process. (Acs et al. 1997.)

Ghobadian and Gallear (1996) noticed that the organizational structure of SMEs is forming through informal relations without high level of standardisation. Informality improves the flexibility and readiness to answer market changes (Levy & Powell 1998), which is the reason why Lee, Park G, Yoon and Park J (2010) believe that SMEs are more likely to succeed in volatile markets compared to large multinational enterprises (MNEs). Lack of bureaucracy and strict hierarchy allow the emergence of personal relationships among the management and employees (Ghobadian & Gallear 1996). Whereas Lee et al. (2010) explains the increased flexibility from the perspective of proximity within the organization as employees work close to the entrepreneur/manager of the firm.

Deliberate governmental barriers of entry arise from the combination of restrictions, taxes and regulations. These barriers are artificially created by governments to protect the domestic actors. Lenway, Morck and Yeung (1996) note that the protection of inefficient firms reduces the incentives of innovative firms. The recent” trade war” of 2018 acts also as an artificial barrier of entry for both SMEs and MNEs that are keen to enter the U.S. market. Acs et al. (1997) remind that even the well-intentioned practices such as safety- and environmental standards might conceal entry barriers that actually serve for political interests i.e. protect the domestic enterprises. This can lead to a conundrum as the concentration to the usefulness of the innovation fades in order to surmount the artificial barriers (Baumol 1996, Shleifer & Vishny 1993).

Barriers of entry are more likely to increase during international expansion. Acs, Morck et al. (1997) note that the financial barrier emerging from lack of capital is greater in foreign markets than domestic markets. The lack of proper financial system forces small firms to small scale actions, which limit the further emergency of innovations due to the limited profits. On the other hand, small firms have the opportunity to exploit the established operations of MNEs. MNEs possess greater resources and networks to begin operation almost immediately, which gives SMEs the
possibility to gain profits faster and wider than by themselves. Acs et al. (1997) points out the symbiotic relationship between SMEs and MNEs as a possibility on internationalization process. This implies that MNEs work as catalysts or distributors of innovation on the international markets. MNEs possess broad network and supply chains which it can use to bring new innovations to the global markets. Therefore, if SMEs can create partnerships with MNEs, they do not necessarily need to internationalize directly as their innovations will be internationalized indirect through MNEs. This decreases the recourse commitment of SMEs as they benefit from MNEs existing networks and experience whereas MNEs deal with the barriers of entry. SMEs can therefore concentrate on improving existing innovations or the creation of others. Thus, this decreases the possible ultimate return from foreign sales. (Acs et al. 1997.)

This notion implies that firms do not have the urge to internationalize by themselves in order to have their innovations be benefitted by the global economy, therefore, letting the large multinational act as an intermediator. The prevailing concern of transaction difficulties on using intermediator can be eased by governmental policies. Reliability of contracts should be guaranteed by punishments for contractual violations that rely on legislation. Another issue with internationalization through intermediates is the bargaining power of MNEs over SMEs. Expansion without legal protection on property rights exposes the innovation for duplications or even sets up a situation where new competitors emerge that otherwise would not be viable. Even though the commercialization is usually taking place in large companies, the innovations are more likely to emerge from small firms. Therefore, SMEs tend to act as initiators whereas large firms as portal of transmitting innovations to global markets. (Acs et al. 1997.) Successive internationalization and fast growth eventually lead to a situation where SMEs grow as large multinational enterprises.

Andersen (1993) states that increased commitment involves greater resource commitment which might result in larger leaps on internationalization process. This notion refers to the difference of SMEs and MNEs internationalization process whereas SMEs tend to operate within the scarcity of resources. Thus, other notion states that market experience from similar markets might provide the opportunity to generalize the entry process on other markets. Therefore, knowledge as a resource can be transferred from market to another, which gives no fundamental advantage when
assessing firm size as an internationalization factor. The issue of gradually increased
involvement on international markets emerged due to the firms’ lack of knowledge
(experiential knowledge) and the prevailing uncertainty. A direct relation between
market knowledge and market commitment is postulated: Knowledge can be
considered as a dimension of human resources. Thus, knowledge can be regarded as
intangible resource, which makes also knowledge a resource commitment towards
market. Therefore, knowledge and resource commitment are tautological aspects in
internationalization. (Andersen 1993.)

There is difference between MNEs and SMEs internationalization process. As Reid
(1981) revealed, MNEs entry behaviour is determined structurally and SMEs on the
other hand tend to be influence by individuals as in managerial decision-making
process. Cavusgil (1982) noticed that the SMEs have the tendency to possess dynamic
decision-making process, which enables them to adjust to changes faster. Despite the
previous notions, Sullivan and Bauerschmidt (1990) present that MNEs are expected
to internationalize faster than SMEs. This does not necessarily mean faster in time but
taking bigger steps on internationalization process due to resource allocation. Their
theory does not directly reveal the factors that ignite the internationalization process,
but what this accuses is that internationalization proceeds regardless the direction of
strategic decisions. They explain the progress of the process through the relation of
market knowledge and market commitment, whereas increase in knowledge leads to
increase in commitment. (Johanson & Vahlne 1977.)

The establishment chain within a specific country has also been suggested in the entry
mode literature (Root 1994). Empirical support for such an evolutionary path has been
found in several studies (Madsen & Servais 1997, Santangelo & Meyer 2017, Welch
& Luostarinen 1988). It has been argued that the choice of export mode will depend
on several factors, including the foreign market opportunity, the firm's resources, the
type of product and product life cycles (Andersen 1993). Concerning the choice of
new markets, a systematic approach based on country/market screening methods has
been suggested even for small- and medium-sized enterprises. However, there is ample
evidence that the majority of SMEs in the early stages of internationalization do not
approach the international market selection systematically. (Papadopoulos & Denis
1988.)
Systematic market selection on internationalization is seen to be highly dependent on the managerial experience and expectations. These expectations include prevailing risks and possible previously unknown emerging risks on the target market, benefits of entry, perception of barriers of entry and managerial competences on international markets and the market specified knowledge they possess. (Andersen 1993.) Thus, noted by Dichtl, Leibold, Köglmayr and Mueller (1984), the greater the managerial experience is, the more likely they are to engage in international operations. Therefore, managerial experience diffuses the time frame of engaging international markets. Furthermore, findings show that the size of the firm is an irrelevant factor for internationalization behaviour when managerial dynamism and quality are accounted for (Bilkey & Tesar 1977).

2.4 Reason for internationalization

Reasons for internationalization have been described from economic, relational and behavioural perspectives. Cuervo-Cazurra, Narula and Un (2015) describe four motives of internationalization: size of the target market, resource exploitation, upgrade and escape. These are all intertwined to the concept of host and home markets. Internationalization motivates firms to exploit the current resources in foreign markets or vice versa, exploiting foreign resources in domestic markets. Upgrade as a motive on the other hand indicates the possibilities of new resources which are not available within domestic market. These resources include raw material, labour, technical advantages, research and development and market specified knowledge. Internationalization also offers a way out, escape, which may be necessary in the situation where home market lacks potential, resources or poor economic conditions. Escape from domestic markets and expansion on foreign markets might be essential for firm survival. (Cuervo-Cazurra et al. 2015.)

Internationalization motives have further connection to the entry mode choices, which include different motives that guide firm’s entry mode choice after the decision of entering global markets. Entry mode choice is therefore fundamentally based on the strategic decisions of the firm have their roots on the goals and targets of the firm. As firms internationalize, they choose an initial entry mode which they rely on entering the market and achieving perceived goals. As previous studies on entry mode choices
(De Clercq et al. 2005, Johanson & Vahlne 1977, Johanson & Vahlne 2009, Petersen & Welch 2002, Santangelo & Meyer 2011) reveal, the initial entry mode choice is most likely to change. As firms progress beyond initial entry their learning progress accelerates and as they gain market specific knowledge, they are likely to change their entry mode. These strategic changes in operational strategy and mode are described as mode increase or mode decrease. After the initial entry is achieved and the company has entered foreign market areas, they evaluate the situation accordingly to learned and experienced aspects which may lead to further involvement and commitment or decrease of involvement. (Swoboda et al. 2011.)

Possible potential for greater profits is noted to be in the key role on internationalization. Thus, even non-profit organizations internationalize due to the increase in knowledge and cultural understanding. Access to foreign markets enhances the competitive advantages of the company even though internationalization itself might not be as profitable as it was assumed to be. (Altbach & Knight 2007.) Fear of survival acts as a powerful motive to internationalize. Firms survival does not depend purely on its domestic performance as foreign firms are free to enter these markets and disturb the market position of domestic firms. Therefore, internationalization challenges firms both on domestic and foreign markets. (Roberts et al. 2015.)

Market entry includes high uncertainty as firms cannot foresee their true performance before entering the market. Therefore, initial entry mode is chosen to enter the market and that mode is influence by the performance of the firm. Firms learn from the market after the initial entry and change their mode accordingly to the perceived performance. Post-entry phase is used to explain the change of initial entry mode. Post-entry mode might also end up as an exit for the foreign firm due to the lack of capabilities to compete within the foreign market. If the firm survives the post-entry phase and starts gradually increasing its’ competitiveness through active learning, the probability of survival increases i.e. the negative effect of liability of newness diminishes. Entry mode choice depends on several factors such as managerial capabilities and internal financial constraints. (Mata & Portugal 2004.)

Acquisitions are effective entry modes due to the fact that the acquired firms already possess business activities and knowledge on the markets. Thus, acquisitions are large
scale entry modes which require plentiful financial investments. Small scale entry modes are reasoned through performance. If the entry performance meets the perceived or surpasses the goals, firms can dispense more funds to increase growth. (Brito & Mello 1995.) Firm may enter the market with entry modes that are not ideal for their preferences but enable them to access the market. Therefore, firms have strategic alternatives for post-entry modes if they successfully establish business within the foreign market. (Caves & Porter 1977.) Caves and Porter (1977) also noted that the small-scale initial entry is effective measure to avoid entry barriers before growing the business as it already exists within the market.

Figure 2 presents the decision-making process on internationalization, which is influenced by behavioural aspects. Each internationalization begins from either push- or pull-factors from the market (Yamakawa et al. 2008). Thereafter evaluation of suitable entry modes begins. Previous experience on international markets is seen in key role of decreasing the time needed for international operations. After the initial entry firms continue the evaluation process and learns from the market entry. Yet another assessment is needed to continue with initial entry mode, change entry mode to adapt market conditions or even exit the market if needed. (Root 1994, Swoboda et al. 2011.)

Figure 2. International market entry process after Root (1994, pp. 22-44) and Swoboda et al. (2011).
Failures are inspected through the cost of failure and general attitude towards failing. In some cases, fear of failure rises as a key aspect of not innovating due to the high changes of failing. Environment which pressures not to fail is seen to decrease the emerge of innovations and suppress the willingness to innovate. (Tezuka 1997) March and Shapira (1987) also noticed a paradox in risk taking where society values risks only as long as the risk does not end up as a failure i.e. be realized. Yet, most of the firms are categorized as micro- or small enterprises, which are entrepreneurial lead. Entrepreneurial actions are connected to high risk-high return scenarios (Lubatkin & Chatterjee 1994). Therefore, entrepreneurial initiative can be seen as a failure if it is terminated due to not reaching the anticipated performance. An important notion relies within the spill over-effect and individual learning. Even in case of a failure, the venture increases knowledge and experience, which are seen to increase the emergency of innovations. (McGrath 1999.) Market- and experiential knowledge help to determine the change of mode accordingly to the achieved performance (Root 1994). Failures can be associated with the emergency of new businesses or even industries (Aldrich & Fiol 1994).

### 2.5 Influential factors on entry mode decision

Previous research (Agarwal & Ramaswami 1992) has identified three categories affecting on foreign market entry mode choice of the firm. These factors are explained through advantages in ownership, location and internationalization in terms of transaction integrations. Authors refer foreign market entry mode choice as a critical strategic decision concerning resource and managerial commitment. (Agarwal & Ramaswami 1992.) Root (1994) argues that initial entry mode is relatively difficult to change in post-entry phase due to the previously mentioned resource commitment. Each mode of entry involves resource commitment on varying level, implicating that poor choices have direct financial influence in terms of losing resources (such as time and capital). Nevertheless, more previous studies implicate the commonness of post-entry i.e. change of entry mode. (Swoboda et al. 2011.)

Scarcity of resources and low degree of multinational experience is seen as driven force to establish joint ventures for SMEs. Same factors also have the tendency of making SMEs to concentrate on one or few foreign markets with higher market
potential. (Agarwal & Ramaswami 1992.) Market potential in terms of growth and size have been noted as investment determinants in both recent and earlier researches (Cheng & Kwan 2000, Head & Mayer 2004, Wang 2018). Size and growth opportunities are closely linked to the market potential as these tend to offer opportunities for higher returns, even though prevailing political, cultural and market risks exist. SMEs benefit from joint ventures through cost and risk distribution, external assets (Harrigan 1988) and reduction of long-term uncertainty (Beamish & Banks 1987). According to these hypothesis, Agarwal and Ramaswami (1992) draw their conclusion on high market potentials attraction for small firms that possess low degree of foreign market experience. Thus, Fagre and Wells (1982) argued that these factors are not necessities in terms of bargaining power. Hence, Ting (1988) addressed the importance according to the uniqueness of the offered technology and its desirability. This points to the issue of scarcity of innovative and desirable technology in markets with plentiful of capital resources as an advantage regardless of the size of the company.

A firm's asset power is reflected by its size and multinational experience and its ability to develop differentiated products. Therefore, when the firm possesses skills of higher levels of product differentiation, higher control modes may be more efficient. The risk of giving up on control is the possible exploitation from other parties, which will indicate loss of long-term revenue. The risk of exploitation is seen to be fortified by poorly developed and volatile interorganizational infrastructures. (Agarwal & Ramaswami 1992.)

Firm size was seen important factor for cost absorption and therefore influencing through asset power for the internationalization process and entry mode choice (Kumar 1984). Empirical evidence indicates that the impact of firm size on foreign direct investment is positive, whereas the larger the company is, it is more likely to choose FDI modes for market entry (Brouthers 2002, Shaver 1998, Tihanyi et al. 2005). Therefore, Agarwal and Ramaswami (1992) expected positive correlation in firm’s size and market entry. Small multinationals are therefore not as optimal position for minority equity-joint ventures and foreign direct investment due to the risk of partner exploitation (Doz 1987). Another aspect influencing entry choices is more or less as truism, as the lack of foreign market experience increases the change for emerging
problems. Experience is stated to divide the mode to non-investment and investment modes, as higher level of experience is expected to enter through investment modes and vice versa, low degree of experience indicates non-investment entry modes. Low control modes are considered superior for many transactions since they allow a firm to benefit from the scale economies of the marketplace, while avoiding the bureaucratic difficulties that emerge from integration process. (Agarwal & Ramaswami 1992.)

Regardless of the market potential (low or high), market entries still tie resources and while scarcity of resources emerge, firms must make strategic decision to choose their entry target market and mode. Therefore, low market potential and high investment risk indicates to situation where entry to the market is not seen prolific. (Agarwal & Ramaswami 1992.) This is explained by the pure economic fundamentals of risk/earnings-ratio (Fama & French 1995). Equity joint ventures are not only preferred by big multinationals, but also SMEs in markets with high on potential and expected returns. Governments of emerging market economies have started to develop policies that make it attractive for foreign firms to invest in their markets and reduce the risk perceptions through regulations that permit repatriation of profits, majority ownership and control, patent protection for technology/products and enforcement of contracts. (Agarwal & Ramaswami 1992.)

2.6 Internationalization theories

This chapter explains the internationalization theories used within this research and provides the main features from each theory. Each of the provided theory explains the main characteristics, such as the speed of internationalization, firms’ capabilities and resources and way of accessing market-specific knowledge regarding foreign market entries.

2.6.1 Uppsala model

Uppsala model explains internationalization process as gradually increasing involvement on foreign market in terms of resource commitment. Therefore, it is a theory of internationalizing that emphasizes perceived results and proceeds in
systematic step-by-step process. Johanson and Vahle (1977) revealed similar patterns of actions for internationalization within the same industry as firms proceeded through risk-averse paths towards internationalization. Uppsala model emphasizes learning in the central role on internationalization. Firms learn from each market entry whereas gain experience and knowledge, which again decreases embedded risks and increases resource commitment. Hence, each market entry increases experience, which again decreases the time spend for establishing international operations on similar markets. (Johanson & Vahlne 1977.)

Decision-making and risks are intrinsic parts of internationalization process, where the firm reflects its own pattern of behaviour on the willingness of taking risks under the influence of expected goals of the processes. Decision are based on prior experience and knowledge to pursue new opportunities on foreign markets. Therefore, internationalization behaviours are concerned by the patterns of behaviour, which is influenced by firms will of commitment, gained experience, learned knowledge, risk-taking willingness and the possible emerging opportunities. To succeed, internationalization requires resource commitment and possession of general- and market-specified knowledge. Experience, commitment and knowledge affect all together to the decisions that are made in order to meet the perceived goals on the foreign markets, on other words, these influence the internationalization behaviour of the firm. (Johanson & Vahlne 1977.)

The original Uppsala model 1977 has been revisited numerous times (Johanson & Vahlne 2003, Johanson & Vahlne 2006, Johanson & Vahlne 2009, Vahlne et al. 2011, Vahlne & Johanson 2013, Vahlne & Johanson 2017) and series of complementary researches (Coviello et al. 2017, Forsgren 2016, Welch et al. 2016) have been made ever since the birth of this theory. Recently, Johanson and Vahlne (2017) presented yet another evolution to this theory including the aspect of MNEs transformation to modern world multinational business enterprises (MBE). This model presents that MBE internationalization process is affected by business networks which are under the influence of entrepreneurial activity. Therefore, they modernized the theoretical basis the U-model to counter modern business environment. Coviello, Kano and Liesch (2017) included also individual behaviour and digitalization as factors for progressed internationalization. Nowadays Uppsala model has obtained features from
networking theory and entrepreneurship theory in order to more closely explain internationalization of the transformed multinationals (Forsgren 2016).

2.6.2 Networking theory

Networking theory explains internationalization process through networks of relationships between market actors. Networks consist of both personal and business relationships which enable access to market information and knowledge that would otherwise be unavailable or costly for single actor. As networks are principally based on mutual trust and commitment, there is existing possibility of partner exploitation. Networking partners share knowledge and capabilities in order to enhance their competitiveness and improve their market survival. Interaction between networking partners enable access to external resources and knowledge as well as may provide ease for market entry barriers. As an exchange, these relationships need to be maintained and developed constantly to gain trustworthy long-term relations. Nonetheless, contractual networks decrease the possibility of exploitation, but generally require more resources to establish. Contractual networks are referred as partnerships such as cooperative joint venture. (Johanson et al. 1988.)

Firms possess micro- and macro positions within networks which explain the possibilities that the firm presents for its networking partners. On contrary, these also describe the constraints it possesses. This position is created and continuously developed in relation to other partners. Position on network can be improved through additional commitment on existing networks, creation and participation on new value adding networks or improving partner coordination within the network. Direct and indirect commitments to the network increase the network related assets which offer potential positive outcomes for business relationships, therefore benefiting the whole network. Direct network partners form the prior network and indirect partners form the sub-networks that fortify the entity of the prior network. Sub-network consists on the indirect partners of the prior networking partners or i.e. individual firms’ personal partners. Firms internationalize when the relationships of the network increase and push them to extent. (Johanson et al. 1988.)
Foreign market entry includes international integration by using the networks business relationships. Different actors within the network possess variety of knowledge and experience which is used to support firms own market entries. Networks internal assets determines the strength of the overall network as these are the aspects that either enable international expansion and accelerate growth or constrain it. (Johanson et al. 1988.)

Small and medium sized entrepreneurial high-technology firms seem to internationalize in rather short timeframe due to the established business networks across multiple markets. Networks enable SMEs to participate in international markets through network partners and mitigate the entry barriers. This participation includes knowledge transfer and accelerates the speed of internationalization on new market entries. Primary reasons for networking were seen to be the entry acceleration aspects (time, risks and cost), increased competitive advantage and established distribution channels that partners possess. (Coviello & Munro 1995.)

Mohamed and Zain (2006) noted that especially specific knowledge bearing SMEs from developed countries that are keen to enter emerging markets could benefit from relationships with local partners. This decreases the negative effect of foreignness and increases creditability on the specific market. Therefore, the high risk of piracy and governmental bureaucracy that could be challenging to overcome without local partner can be mitigated with networking relationships. Thus, networks provide extensive benefits, they still carry risks within. Condensed networks have the potential to influence new entrant’s entry mode choices which could not be the most beneficial for the firms from its own basis. Therefore, it is essential to use time and resources for carefully assessing partners to an extensive network of relationships. (Zain & Ng 2006.)

2.6.3 International new ventures

According to international new ventures theory (INV) firms are born for international market i.e. internationalize from inception or shortly after it. Hence, as these firms are fundamentally born internationalized, these are called born globals. Characteristics of a born global are young, small and entrepreneurial lead innovative firms, which participate international markets from foundation. Instant internationalization is
therefore describing the internationalization process according to international new ventures theory. Born globals are fundamentally international, which reflects also to their multinational resource embeddedness and foreign market commitment. New foreign market entries are based on the entrepreneurial behavior and entrepreneurs experience and skill set. Thus, internationalization is likely to be constrained by scarcity of the resources, which occur due to young age and small size of the firm. Despite the issue that international new ventures are young by the firms age, does not necessarily increase the challenges that emerge from lack of international business experience.

International markets have changed due to the reduction of cost in international communication, financing options, mobility of employees and improvement on transportation infrastructure which decreases the needed resources on participation on multinational markets. Vast access to information and knowledge is at the reach of smaller firms improves the efficiency of international markets and simultaneously decreasing the advantages of the multinational enterprises. International new ventures theory explains this change in international markets and working methods. Nonetheless, the speed of internationalization is rationed through the possession of firm specific unique assets which add firms’ value to stakeholders and business networks. Patents and copyrights are classified as unique resources, which cannot be directly duplicated. The control of such unique resources is crucial for strategical partnerships within networks and improve the managing firms position at the network. (Oviatt & McDougall 1994.)

Uppsala model suggests that firms internationalize gradually to foreign markets and the process itself is path dependent. Each step increases the knowledge, which decreases their perceived risks on internationalization. In contrast, INVs leap over these steps on internationalization and enter the markets with higher entry modes from the beginning. This vision is ratified by the learning process and ability to absorb knowledge. Because INVs enter foreign markets from inception, these are seen to selectively absorb the existing knowledge and use it for their cause. (Zahra 2005.) INVs lack the internal barriers that block or disturb knowledge transfer within the firm due to the aspect of founder-owners that control the operations. This gives INVs the opportunity to transfer knowledge and exploit it quickly on other markets. (Autio et
Thus, founder-owners’ personal beliefs and interests have strong influence on knowledge transfer and might also raise barriers for organizational learning (Zahra 2000). Small innovative firms play a prominent role on creative destruction which is seen to be an essential part of economic growth as well as global economy (Acs et al. 1997). These small firms strive towards being multinational from inception but suffer from newness and foreignness. These two liabilities question the survival of INV. (Zahra 2005.) Due to the lower rate of survival, compared to knowledge acquiring-based internationalization models, INVs are kept risky. This risk includes the foreignness and newness that require resources to be overcome in order to gain market share. (Mudambi & Zahra 2007.) Thus, Mata and Portugal (2002) argue that controlling industry and firm characteristics determine the survival of the firm regardless of the origin (foreign or domestic) or age of the firm.

2.6.4 Institutional theory

Institutional theory explains the influence of institutions, legislation and foreign business practices on internationalization process (DiMaggio & Powell 1983). Institutions are divided to formal and informal institutions, where formals present the visible political and administrative frameworks including prevailing legislation (Meyer et al. 2011). Therefore, foreign entrants have to adapt to the prevailing market framework and according to the theory of DiMaggio and Powell (1983) choose similar markets due to resource reasons on which would occur on internationalization to majorly different markets. Informal institutions such as social norms influence entry decisions and together with formal institutions form the code of conduct between market actors. Earlier research revealed also differences in prevailing institutions across regions within the same country whereas business favorable environment where notice to accelerate success and growth. Due to the challenges of maintaining several different organizational governances and constraining forces across the markets, firms tend to internationalize on foreign market with similar institutional framework where the firm has no need to adapt, instead it can import its own structure. (Meyer et al. 2011.)
Firms adapt to the bureaucracy of the target market and strive towards homogenization on certain levels. Organizational performance is changing as formal and informal institutions change. Therefore, firms rationalize and mimic the accepted models and behavior on internationalization process simultaneously coping with influential environmental forces on the entry market. Political power and legitimacy are issues concerning firm’s survival at the market even before addressing issues concerning potential competition. Strong institutional forces on the market push entrants towards homogeneity i.e. firm tend to remind one another. Regardless of the individual practices and goals of the organization, it is seen that the forces of the environment are too powerful to resist and therefore guide the operations in the long run. Hence, internationalization emerges under the influence of formal institutional actors while organizations react to the environment of informal norms. (DiMaggio & Powell 1983.)

Institutional theory explains internationalization as an isomorphic process which combines coercive, normative and mimetic aspects. Coercive isomorphism forms within the pressure of formal and in-formal expectations of the society. Prevailing coercive pressure creates the framework for organizational adaptation regarding legislation and regulation. These are forcing aspects as firms need to respond on these if they urge to establish any business activities on the market. Therefore, market actors reflect the legitimacy of the society. Mimetic process explains how firms adapt to market environment by mimicking each other and sustain the prevailing uncertainty. This process can be direct, indirect, conscious or unconscious and it can emerge through employees learned experience. Hence, it explains the lack of variation across the organizational forms on markets with high bureaucracy and regulation. Normative pressure on the other explains the assumed roles on professionalization, where each profession is entitled to possess certain accepted characteristics. This can lead to homogeneity in problem-solving, procedures and decision-making processes when exposed to mimetic and coercive. (DiMaggio & Powell 1983.)

2.7 Foreign market and business culture

Hosfstedte (1993, pp. 81-94) noted the existence of management in each country, but also the vast diversity of its meaning and endorsement. Therefore, management has different features regarding on the market’s cultural differences. Steensma, Marino
and Weaver (2000) pointed the maturation of entrepreneurs influenced by the societal and cultural context as a reason for our way of conducting business. Due to the cultural heritage, people rationalize decisions based on their beliefs and as these differently rationalized decisions collide, problems emerge. Problems are again addressed under the influence of vast variation of cultural norms. (DiMaggio & Powell 1983.)

Internationalization has seen to create a dilemma on world economy. It has enabled the emergency of opportunities and possibilities beyond domestic or even continental markets; thus, the new set of problems have risen through the diversity of cultural collision across markets. (Pan & Zhang 2004.) Host market, business and social cultures affects to the cross-national firms that are willing to internationalize and as Burt, Dawson and Sparks (2003), Sirmon and Lane (2004) and Brown, Rugman and Verbeke (1989) observed, failures emerge due to the neglect of cultural differences. Therefore, it is essential to understand the importance of entry strategy and mode, which needs to be adapted to the target market and its peculiarities. Even when we discuss business as a globalized concept, managerial issues rise from domestic differences. Domestic heritage is therefore seen to affect the identity of the enterprise. (Carney 2005.)

The cultural difference between home market and the target market for internationalization is called cultural distance. Theories from Bilkey and Tessar (1977) and Johanson and Vahlne (1977) imply that internationalization progresses through similar cultural and economic markets. Thus, Oviatt and McDougal (1997) and Sullivan and Bauerschmidt (1990) suggest that internationalization is not determined by cultural distance, but rather the economic distance of the two markets. The stronger the cultural distance is, the more firms need to modify their approach to the market. This includes aspects on negotiation process, marketing or product differentiation. Thus, due to the cost of modification, firms tend to enter on similar markets first and only later to markets with higher cultural distances. (Mitra & Golder 2002.)

Thus, Mitra and Golder (2002) accuse that cultural distance is inferior aspect to economic characteristics on the target market. Closeness of economic characteristics reflects the similarities in consumers demand and institutional order which offers
potential for market exploitation. Therefore, firms may benefit from the acquired knowledge on domestic market and can duplicate the known methods on internationalization process. Knowledge generated from earlier entries is seen as a trigger for faster market expansion on other similar markets. The negative effects of cultural or economic distances can be diminished using local labour which is familiar with the operational market but might not possess any knowledge on the firms’ market of origin. Mitra and Golder (2002) suggests that the closer the two market are for another on cultural and economic perspectives, the more likely the firm is to enter the market successively. They base their finding on the notion that knowledge transfer is easier across to the new market when the target market possesses similar conditions. Home market culture is not seen as important as foreign market culture on internationalization process. Therefore, regarding foreign market entry decisions, the acquired cultural knowledge matters more than the culture that the firm possesses internally. This explains the internationalization process on similar markets. (Mitra & Golder 2002.)

Culture and economic characteristics are seen to be the driving forces of individual work values as these represent the current beliefs of the particular environment. Therefore, individual aspects influence the values of the firm itself and forces the multinational firm to adjust to the market rather than trying to adjust market to the firms’ culture and values it cherishes. (Ralston et al. 1997.)

2.8 Summary of theoretical framework

This chapter summarizes the theoretical framework discussed earlier. Four different internationalization theories have been discussed in terms of basic characteristics of entrepreneurial behaviour regarding internationalization process. This includes the international behaviour, entry mode choices, speed of internationalization and the firm’s approach on foreign emerging markets.

Each theory underlines market knowledge as an important aspect on internationalization process, nevertheless, their explanatory features differ on the origin of market knowledge. Uppsala model represents a knowledge acquiring-based behaviour, where knowledge is gained through current and past business activities.
Therefore, as firms commit resources to a certain market expansion, they gain access to market knowledge by learning from current business activities. Networking theory on the other hand enhances the importance of business networks as market knowledge distributors. Networks consist of different business actors within and across markets, which share information according to their networking status. Born globals internationalize from inception through entrepreneurial capabilities. Therefore, theory of international new ventures suggests that market knowledge is gained selectively from existing sources and market entry via high commitment modes in order to accelerate the learning and knowledge absorption process. Institutional theory suggests that firms internationalize as institutional actors from the market give initiatives to do so. Firms mimic the accepted behavioural models and adapt to the existing environment. Therefore, market knowledge is absorbed from multinetwork of market actors and the operational business environment, which is under political and institutional legitimacy. Market knowledge is rather an adaptive measure to infiltrate the market.

Figure 4 is constructed to summarize the path of internationalization process regardless of the theory. However, theories discussed earlier explain different influencing variables on each area. These theories explain internationalization behaviour through certain peculiarities but follow a certain path during the process. Nonetheless, the theories are interrelated with each other. Decision-makers experience influences the speed and entry modes of internationalization, whereas two extremities Uppsala model and theory of INV vary from step-by-step gradually increasing involvement to internationalizing form inception. Even though theories explain market knowledge from certain point of view, it is not tied to a single source. Moreover, it is gained from multiple sources such as current business activities, networks, entrepreneurial behaviour and different market actors at the same time. Therefore, firms can gain access to market knowledge in a manner that could be rationalized through multiple theories and these interrelate each other.
Firms determine their objectives and reflect those to their risk-taking willingness and behaviour. This is influence by the prior experience and knowledge of the decision-makers as well as the resources that the firm possesses. Firms’ determine their foreign market committed according to their perceived goals and available resources in orders to make a strategic decision concerning their mode of entry. Entry mode choices are divided to non-equity modes and equity modes as explained in figure 1. Lastly follows the actual initial market entry i.e. internationalization to foreign market, which is later reassessed and changed to post-entry mode if necessary.
3 CHINA AS AN EMERGING MARKET

China is the largest emerging economy with tremendous manufacturing, purchasing and innovation potential (Zhou & Belk 2004). China plays an increasing remarkable role for worlds economy, making it an appealing market for new entrants. Yet the barriers arise from cultural differences, such as differences in communication, objectives and operations. China represents the largest market in Asian countries. (Pan & Zhang 2004.) An evaluation through Hofstede’s (2004) cultural dimensions shows that high power distances, collectivism and long-term orientation are dominant factors in Chinese markets and the way of doing business.

Chinese nourish relationships rather than contracts as a contractual safeguard (Pan & Zhang 2004), this is alarmingly leaving the idea of exploitation for firms from countries that rely heavily on contractual law as a base for partnerships. This was also noted to be a characteristic for individualistic societies. (Steensma et al. 2000) Time lag in Chinese business emerges due to the lack of personal relationships and trust, whereas it needs to be noted and included within the firm’s entry strategy. Allocation of resources (time) for relationship-building and showing commitment in the long-term is seen more important than pursuing superior performance through secured contractual relations. Co-operations are based on mutual trust and decisions are depending on the group harmony to reduce risk. (Pan & Zhang 2004.)

Due to the cultural differences, problems-solving includes more indirect aspects in China in order to avoid personal conflicts and disturbance in the harmony of relationships. Chinese managers try to negotiate issues in private, without losing their or other parties face. Therefore, these indirect forms of conflict management are in favour China, where collectivism and avoidance of uncertainty prevails. Firms with western origin tend to address issues directly that may cause obnoxious situations among the Chinese partners. (Pan & Zhang 2004.)

Chinese managers were seen as risk-averse within their decisions, even though China as an emerging market and the opportunities are the drivers for westerns to enter the market with high-risk high-earnings ratio. Masculine culture drives towards risks that have high expected value i.e. reaching for the business opportunities. Hence, research
noticed change in Chinese-based firm’s acquisition strategies to riskier direction. (Tung 2005.) Hence the results from Hosflede’s (1993) research show that Chinese managers tend to be risk-averse. Therefore, it might be the reason for increased presence of western companies in China, that Chinese have learned from their culture and act accordingly in cross-border mergers and acquisitions. The presence of small firms creates dynamics to the market (Acs et al. 1997) and can be linked also to China’s growth.

China differs from most of the western countries also on level participatory in decision-making processes. Graf, Hemmasi, Lust and Liang (1990) accused that Chinese state enterprises even encouraged employees not to participate in decision-making process and accept the decisions as such given by their employer. China as an emerging market is developed from coastal urban area, these coastal areas possess more advanced finance, logistics and open structure than the rural areas. This creates the theoretical need for different entry strategies as Cui and Liu (2000) noticed.

The economic reform and openness towards multinational organization has attracted foreign firms to enter the market. China offers the largest market in the world measured purely by population. Even though Chinese middle class offers tremendous possibilities for market exploitation, multinationals have difficulties of assessing the market demand. Foreign operators have generalized Chinese middle class to act similarly than they do on other markets. (Cui & Liu 2001.) These consumers are seen to be attracted by high-quality goods which offer improvements in life quality as well as individual status (Steenkamp et al. 2003). Zhuang, Wang, Zhou L. & Zhou N. (2008) support this view as they note that Chinese prefer foreign brands due to the symbolic status. The symbolic status that foreign luxury goods offer has even seen to surpass the utilitarian value (Zhou & Hui 2003). Therefore, market potential and increase in local consumers income attracts foreign firms to enter the market. Regardless of the enormous market potential, entrants have failed due to the neglect of prevailing and continuously emerging competition. Thus, it needs to be noted that market research from China rarely include sufficient information about the whole market. Foreign products tend to be available only the coastal areas and remarkable cities and therefore do not represent the overall status of the market. Purchasing power
varies significantly across the Chinese market which has a direct impact on the demand of foreign products. (Cui & Liu 2001.)

Consumers in various regions are also known to differ in income, values, lifestyles, and extent of contact with the outside world. These differences in turn affect people's perception of foreign goods and their purchase readiness, and present tremendous hidden barriers between the markets, making it difficult for MNCs to exercise a national marketing and distribution strategy. As MNCs continue to increase their stake in the country, understanding of regional differences in consumer purchasing power and lifestyles are critical for MNCs to assess local market demand accurately and to enact effective marketing strategies. (Cui & Liu 2000.)

3.1 Chinese economy

After the economic implementation of open-door policy in 1978, Chinese economy took a giant leap towards rapid growth as a market economy. SMEs sheer number was rising fast as in twenty years 10 million SMEs were registered. The change towards market-based economy created emerging opportunities for both domestic and foreign companies. (Anderson et al. 2003.) Tan (1996) and Krug (2000) noted that the economic reforms created an entrepreneurial characteristic on the Chinese market, which is radically differentiating the former way of business. Post-reform market raised the SMEs as major contributors due to their ability to adopt to the volatility of the market changes (Wing & Yiu 1996).

Awareness on the emerging middle-class in China has raised its prominent role in terms of market potential. This target group possesses purchasing power and willingness to buy luxury branded goods. This enables the potential of market exploitation without differentiating production across domestic and foreign market. The urbanization will increase the income of the consumers and create massive market clusters for firms to exploit. Estimates suggest that by 2025 Chinese middle-class will account for 520 million people, making it a massive emerging market opportunity for segmented mass-consumer offerings. (Farrell et al. 2006.) Therefore, Chinese future rising middle-class offers potential for today’s multinational ventures an opportunity worthy of reaching.
Economic growth of the emerging Chinese market has far exceeded the growth on developed markets. According to the World Bank statistics shown below, worlds annual GDP growth was around 3.15% in 2017. Whereas simultaneously Chinas annual GDP growth was 6.9%. Finnish annual GDP growth on the other hand is continuously lagging behind worlds average growth rates, but the direction of growth has been improved since the subprime mortgage crisis on 2008-2009.

**Figure 3. GDP growth (annual %) according to statistics from World Bank (2019).**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.276</td>
<td>4.182</td>
<td>1.802</td>
<td>-1.74</td>
<td>4.358</td>
<td>3.152</td>
<td>2.521</td>
<td>2.653</td>
<td>2.842</td>
<td>2.86</td>
<td>2.588</td>
<td>3.154</td>
</tr>
<tr>
<td>Finland</td>
<td>4.055</td>
<td>5.185</td>
<td>0.721</td>
<td>-8.63</td>
<td>2.992</td>
<td>2.571</td>
<td>-1.43</td>
<td>-0.76</td>
<td>-0.63</td>
<td>0.135</td>
<td>2.135</td>
<td>2.653</td>
</tr>
</tbody>
</table>

China has received an increasing role in internationalization research as a host country for internationalizing firms and it stems from the vast amount inward FDIs (Child & Rodrigues 2005). China is the largest emerging market as well as the central production country in the world. According to the report of United Nations conference on trade and development (UNCTAD 2017) China is ranked as the second most outward investing countries as well as the most promising home economy in the world. China is ranked high in both inward and outward FDIs. Therefore, the balance of developed countries as investors to developing market economies is shaking.

China offers huge market potential and ever-increasing consumer purchasing power is tempting multinational enterprises to enter the market. MNEs have gained increasing revenues and expanded vastly across the market. Thus, Chinese market possesses another, much darker side. This includes the challenges and problems of the ununified market and the diversity of consumer demand it possesses. Even though China is only a one country, it is misleading to assume it as a single business market. Chinese market and economy consist of various cultural and geographical areas. It is not rare that
BEM-countries possess a number of sub-markets within the geographical market area. Thus, understanding these sub-markets can ease risk management and market exploitation. The size and growth rate are noted to be amongst the reasons for entering the Chinese market. (Prahalad & Lieberthal 1998.)

Increase in purchasing power and the demand for foreign goods have increased the profits for foreign firms. Still, extensive competition and difference between different sub-markets create challenges for foreign firms. (Davies 1994.) Each sub-market urges for different approach as the sheer size and potential of the market does not guarantee successful operations i.e. profitability. Even though there is significant increase in Chinese middle class and purchasing power, rural areas still suffer from poverty. Therefore, the strategy designed for wealthy coastal areas does not imply to the interior provinces directly. (Cui & Liu 2000.) Yet, another challenge emerges within the Chinese market. Differences within consumer demand, lifestyle, sophistication of finance sector and distribution channels and the cultural patterns of each regional market disturb the possibility to benefit from unified strategies. (Swanson 1998.)

Chinese economic reform has opened possibilities for foreign investors to participate the market. Chinese government has reduced tariffs for foreign products and improved protection for intellectual rights to ease the prevailing entry barriers for foreigners. Still, it is essential for foreign firms to understand the diversity of the Chinese market. China as a business market consists of mixture of various business areas and customer segments that are influenced by regional cultures, industries and economic development. Common language and assumable homogenous market are not to be taken for granted. (Cui & Liu 2000.) Customer segment should be chosen accordingly to their specified need (rising middle class, super consumers or rural areas) (Prahalad & Lieberthal 1998). Thus, Chinese super consumers possess tremendous purchasing power and are willing to spend, but this segment presents only a fraction of the market potential (Gavin 1994).

Therefore, the Chinese market as a whole includes massive economic and lifestyle-dependent disparity. Coastal area is more advanced in economic development and consumers are more amenable for foreign products simply because these customers have been exposed to foreign firms influence for longer period. These markets are
described as growth markets. Due to the economic development and wealthy consumers as well as the lifestyle which emphasizes consumption, this market attracts foreign firms. Regardless of the prosperity of this area, about 93 percent of Chinese population live on other regions. If foreign multinational firms urge to conquer Chinese market, it is essential to understand the regional differences and their influence on firm’s strategy. Understanding and accepting the regional differences improve the perception of firm’s presence on the market and therefore enhances its’ survival. (Cui & Liu 2000.)

3.2 Main barriers and limitations concerning Chinese market

Gassmann (2004) points out several barriers of managing operations in China. These barriers are linked to human resource management (HRM), individual mindset, Chinese legal system and bureaucracy. HRM suffers from the lack of common language and experience in Chinese market environment. Market environment creates a cultural gap between the interaction of western and Chinese firms. Difference between high- and low-context cultures may lead misunderstanding and confusion which reflects as inefficiency and poor leadership. (Hofstede et al. 2004.) The context of the culture describes the way of expression such as nonverbal and verbal signals. Gassmann (2004) highlights that Chinese employees are not to be generalized due to the differences in their origins. They suggest that Chinese forms from different subgroups such as overseas-born ethnic Chinese, returnees from educational and working experience from abroad and Chinese from different parts of China. These share the same origin, thus possess different understanding on foreign cultures and management. Therefore, another issue emerges from managing intercultural teams as these consist of foreign members and both local and global Chinese members. Cultural aspects extend to the individual capabilities in initiatives as well. (Gassmann & Han 2004.)

Foreign companies act as nourishment for individual personal career. This improves their ability to advance in better positions in the company as well as in competitive companies. From the perspective of SMEs and startups this loyalty towards employing firm is an issue. It is stated that compensation has a major influence on the loyalty, but due to the scarcity of resources experience especially by SMEs and start-ups it is
troublesome to meet these demands. These loyalty issues concern foreign firms particularly from the point of losing crucial knowledge and therefore exposing them for competitors. (Gassmann & Han 2004.)

Chinese market prevails under the strong governmental influence. Uncertainty is emerging through the lack of transparency of policymaking as well as political and legal issues. Possible preferential conditions offered by the government are masked behind a prolong and complex process. The lack of legal support on intellectual property rights in China exposes entering firms for possible piracy which is a major concern for foreign firms in China. This is seen to decrease the innovation rates and technological advances. Despite the issues on intellectual property rights, Chinese government is keen to solve this issue. Regardless of the governmental actions to protect intellectual property rights, immense majority of business computer software is pirated in China. This issue, as well as issues concerning patent application, emerge due to the scarce acceptance towards international property rights legislation. (Gassmann & Han 2004.)

Chinese market possesses a variety of barriers that are highly depending on the different regions. Authors (Cui & Liu 2000) suggests that especially SMEs with limited resources should focus on one region at a time in order to implement their strategy effectively. Due to differences in consumer awareness and lifestyle in China, it is noted to be very time consuming to conquer both coastal and inland areas of China. Inner parts of China possess another major obstacle for firms due to the logistic infrastructure. Long distances and poor access create challenges for product deliveries; thus, this evolves constantly. Foreigners are more likely to perceive barriers beyond more westernized coastal areas due to local protectionism. Therefore, different regions urge for different strategies similarly when entering completely different nation. (Cui & Liu 2000.) Multinational have faced difficulties on integrating their strategies to reach customers in emerging markets. Issue of not reaching targeted customer group offers only a limited penetration to the market. (Zhuang et al. 2008.)
4 RESEARCH METHODOLOGY

Purpose of this chapter is to discuss the methodology and approach used in this research. Due to the explanatory features of this research, qualitative methods were chosen to provide in-depth insight for internationalization process towards Chinese emerging market. Explanatory methods are used to clarify ambiguous phenomenon such as internationalization through causal relations (Zikmund et al. 2013). Dubois and Gadde (2002) argue that fundamental purpose for research is to confront empirical world through theoretical assessment. Therefore, this research concentrates on connecting the acquired empirical findings to the preselected internationalization theories in order to answer research questions properly.

Different methodological approaches are quantitative and qualitative which concerns the data collection and analysis phase of the study. Still, gathered data is processed either on inductive of deductive approach. (Hyde 2000.) Inductive approach describes the logical reasoning based on the observations and deductive measures are useful when hypothesis are made according to the existing theories (Zikmund et al. 2013). This research tries to find features concerning firms’ behaviours and motives on internationalization process, whereas trying to induce conclusion reflecting to the existing theories. Qualitative research methods consist of systematic data collection process, such as in this research questionnaire and interviews. This method is suitable for gathering data from difficult phenomenon which include influencing factors such as persons experience, behaviours or emotions (Zikmund et al. 2013). Surveys object is to find frequent features about motives and underlying drivers of internationalization process.

Case study is one possibility of conducting qualitative research through surveys literature reviews and as a management research approach is increasing its favour (Piekkari et al. 2009). This method is suitable for answering questions such as how and why and focuses on contemporary phenomenon. Nonetheless, case studies are kept rather challenging research methods. (Yin 2009.) As Woodside and Wilson (2003) explain, case study is appropriate approach for explanatory reasoning. Due to the complexity of internationalization as a phenomenon, case study serves the purpose of explanatory and narrative description on real-life events influenced by relationships
and actions. (Gephart 2004). Qualitative methods enable deeper understanding to emerge through real life settings (Gummesson 2000). Therefore, this enables to uncover up-to-date patterns concerning internationalization from Finland to China in exploratory matters and even to discover potential deficiencies from the theories of this study.

4.1 Data collection

According to Ghauri and Gronhaug (2005) qualitative research consists of data, analytical procedures and report. This thesis concentrates on the internationalization process of Finnish-based startups and SMEs towards Chinese emerging market and it is implemented via qualitative questionnaire. Survey was created according to the rising key aspects from literature review. Questionnaire is supported by individual in-depth interviews and these together from the empirical data of this research. Analytical procedures include connection to theoretical framework in order to reach findings and conclusion. Empirical phase is implemented via online-based questionnaire to observe the entrepreneurial motives and strategies of market entry. This is implemented in order to gain profound understanding on internationalization behaviours of Finnish companies and compare it within the theoretical framework given at the earlier phases of this research. Internationalization and more over the speed of internationalization creates difficulties on conducting purely quantitative research and therefore qualitative methods were chosen for this research. Qualitative measures enable to assess both existing theories, knowledge and gained information through surveys. Surveys were constructed in order to gain profound information on theory basis but giving the respondent possibilities to provide modern features on the subject as well.

The questionnaire is presented in English and respondents are granted the opportunity to answer in English as well as in Finnish. Target respondent for the survey were CEO, entrepreneurs, managers and founders. Selection of target respondents were made according to the assumption that these individuals assumable have adequate knowledge on the firm’s internationalization process. The criteria of the suitable firms are described in the first chapter of this research. Case firms used in this research were not selected due to the inevitable suspected low response rates. Therefore, no categorized selection process is implemented at this study. Hence, it was essential part
of research validity that firms qualify accordingly to European Commissions definition of small and medium sized firm and startups imitate the definition of startups by Blank and Dorf (2012). Eligible firms were searched through search engine inquiries, telephone inquiries from prevailing actors such as Business Finland and Avanto Ventures and authors personal connections. The assistance of these actors concerned about finding eligible firms to answer the formed questionnaire and had no part of collecting the data.

Primary survey data is collected by the author from the responded SMEs and startups to serve for the specific research use. Survey was implemented via Google Forms survey platform which automatically construes the achieved data to statistics. Questionnaire sampling consisted of 167 Finnish-based SMEs and startups. Survey was sent through email for the suitable respondent and later on contacted by phone. Nevertheless, response rates were merely a fraction of the potential on markets. Most of the firms did not respond for the survey and 13 firms informed to decline the survey due to the lack of willingness to participate. Response rate of this study was 6.59%.

Additional interviews were performed to gain profound information on the topic and clarify certain answers that respondents provided. Questionnaire consists of four different themes to answer research questions: general information, internationalization process, internationalization process in China and post entry phase. General information assures that the firm is eligible for the purpose of this research i.e. fulfills the definition of SME or startup. Theme two offers the background set up for firm and entrepreneur, whereas giving the information about the basis which the firm utilizes to internationalize. Third category, internationalization process in China, offers experimental and behavioural knowledge from the participants on the internationalization characteristics on Chinese emerging market as well as gain profound data on the motives, expectations and firm characteristics on Chinese market. Last theme, post entry phase, describes the issues urging for chance of entry mode and shortcoming of the used process and methods to internationalize. Themes 2, 3 and 4 reflect the issues and expectations raised in the literature review. Theme number 1 is used to ensure the validity of the participant firm.
Summary of interviews is presented in Table 4. Seven of the respondent firms were willing to participate in additional interview. Interviews were based on the previously conducted questionnaire (Appendix 1) in order to clarify that respondent understood the questions properly and gain additional specification on the provided answers. As a respect towards respondents’ anonymity names of the respondents and firms are not discussed. All of the interviews took place in April 2019.

Table 4. Summary of interviews.

<table>
<thead>
<tr>
<th>Company</th>
<th>Title of the respondent</th>
<th>Date of the interview</th>
<th>Type of the interview</th>
<th>Length of the interview (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Chief executive officer</td>
<td>8th of April</td>
<td>Face to face</td>
<td>46</td>
</tr>
<tr>
<td>B</td>
<td>Chief executive officer</td>
<td>8th of April</td>
<td>Phone</td>
<td>29</td>
</tr>
<tr>
<td>C</td>
<td>General Manager</td>
<td>8th of April</td>
<td>Phone</td>
<td>26</td>
</tr>
<tr>
<td>D</td>
<td>Founder and Chief executive officer</td>
<td>10th of April</td>
<td>Phone</td>
<td>22</td>
</tr>
<tr>
<td>E</td>
<td>Chief executive officer</td>
<td>12th of April</td>
<td>Skype</td>
<td>34</td>
</tr>
<tr>
<td>F</td>
<td>Chief operational officer</td>
<td>17th of April</td>
<td>Face to face</td>
<td>42</td>
</tr>
<tr>
<td>G</td>
<td>Founder and Chairman of the board</td>
<td>29th of April</td>
<td>Phone</td>
<td>19</td>
</tr>
</tbody>
</table>

This research therefore consists of only gathered data from the firms that were voluntarily willing to participate whereas no incentives where given for the respondent. Even though, there are multiple case companies, no cross-case methods are used in this research. Comparison between firm’s internationalization process is not at the core of this study, rather the internationalization as a phenomenon is at the core. This research is not aiming for theoretical generalizability, but moreover, gaining profound understanding of the current situation on internationalization and its connection to formerly conducted theories.

Extant literature review is conducted as a part of this research to fortify the overall situation on the research field. This includes academic journals, articles, books and other publications from various researchers, which enables different perspectives and opinions to emerge. Literature review is therefore a supporting measure for this study to enhance the holistic substance understanding of the researcher. Key concepts of this
study, such as internationalization process, entry mode choices are explained and addressed through existing literature, which is conducted under applied source criticism.

### 4.2 Data analysis

Theory category on table 3 consist of the theoretical framework used in this research and the questionnaire answers are reflected to the existing theories of internationalization accordingly. Characteristics column describes the features concerning each internationalization theory of this study. Questionnaire answers are later on reflected to the characteristics of the specific theory given below.

<table>
<thead>
<tr>
<th>Number</th>
<th>Theory</th>
<th>Characteristics</th>
<th>Authors</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uppsala model</td>
<td>Step-by-step, risk averse, cautious and previously planned process</td>
<td>Johanson &amp; Vahlne</td>
<td>1977</td>
</tr>
<tr>
<td>2</td>
<td>Networking theory</td>
<td>Internationalization through relationships and business networks</td>
<td>Johanson &amp; Mattsson</td>
<td>1988</td>
</tr>
<tr>
<td>3</td>
<td>International new ventures</td>
<td>Internationalization through entrepreneurial activities, rapid internationalization, born globals</td>
<td>Oviatt &amp; McDougall</td>
<td>1994</td>
</tr>
<tr>
<td>4</td>
<td>Institutional theory</td>
<td>Internationalize on markets with similar prevailing environmental forces, governmental bureaucracy adaptative internationalization</td>
<td>DiMaggio &amp; Powell</td>
<td>1983</td>
</tr>
</tbody>
</table>

This study uses semi-structured questionnaire which includes both structured and open questions. Open questions are used to evaluate the reasons, methods and firms’ backgrounds for internationalization, but also enable the emergency of new perspectives from the respondents. Structured multiple choice and rating scale questions are constructed in order to find the main reasons for internationalization and to reveal the decision-makers believes on factors that ease the process. Reason for the structured part of questionnaire is the ability to compare the provided answers. Semi-structured questions on the other hand provide possibility for the emergence of individual aspects. By comparing the gained results, conclusions are made on the current status on the issue.
4.3 Validity and reliability

Case studies suffer from poor validity if researcher is not able to construct adequate operational measures for the purpose of the research (Yin 2009). Validity expresses that the research measures what it is supposed to measure. Therefore, questions were constructed to answer the research questions and targeted respondents were selected according to their status on the firms. Questionnaire was consistent on each case and respondent to ensure that participants understood the questions correctly. Questionnaire was created purely based on extensive literature review and authors findings. First version of the questionnaire was presented to the supervisor and 5 peer thesis-workers. After the discussion with the before mentioned group, questionnaire was modified for more comprehensible form in order to avoid response bias for not understanding the questions and to increase the reliability of the research. According to the supervisor and peer feedback, also the length of the questionnaire was decreased to gain higher response rates. After the first modification, questionnaire was sent to another 10 peer reviewers. Test group answered the questionnaire approximately in 10-12 minutes. As no misunderstandings emerged from the second questionnaire frame and questions it was seen to be sufficient for the purpose of this research. Anonymity is given to all the participants so that validity can be increased through the trust emerging from anonymity.

Questionnaire and interview validity are measures by structural-, internal- and external validity. Major concerns on these methods are the issues of understanding the questions correctly (respondent bias) and expressing the concepts and theoretical connection properly (researcher’s bias). (Yin 2009.) Quality of a case study is enhanced through four aspect associated to the design of the case study. Construct validity concerns appropriate measures for the purpose of the current research. This is identified at that data collection phase of this research. Questionnaire questions were raised by the author through extensive literature review and reviewed by external party to ensure that no response bias would emerge. Questions were modified according to the feedback in more relevant and clear form. Internal validity explains the causal relations of the research, whereas certain conditions or actions lead to following conditions in particular circumstances. In this research questionnaire was formed in mind of causal relations. External validity implicates the possibilities of generalizable
findings. External validity is improved through extensive quantity of survey answers. (Sekaran & Bougie 2016.) This research uses both statistical generalization (survey) as well as analytic generalization, which is used to connect data finding to the internationalization theories mentioned in this research. Survey was replicated unchanged with 11 respondents in order to assess the validity of the collected data and its connection to theory. Response rates of this study remained fairly low for what was intended, thus, still seen sufficient for the purpose of this research.

Reliability demonstrates the possibilities to repeat the procedures such as survey with the same results in respect of data collection phase of the research. High reliability ensures that the used measure remain consistent over time. (Sekaran & Bougie 2016.) Through this design, it is possible to conclude empirical data findings and research questions to conclusion. Reliability's objective is to ensure that biases and aberrations would be minimized. This signifies that if the same research is conducted later using the same procedures, limitations and case units in the same circumstances, the results and findings would remain integrity. Reliability is fortified by the source criticism and only trustworthy sources were used. Reliability in this research is enhanced through transparent procedures, concepts, literature and questionnaire used in this research. (Heikkinen 2006.) Questionnaire frame can be found at the end of this research (Appendix 1). Internationalization of these firms has already emerged, and the collected data has historical nature, therefore, participants should present the same answers concerning their internationalization process in future studies, which enhances the reliability of this study.
5 ANALYSIS OF INTERNATIONALIZATION PROCESS

This chapter discusses the empirical data findings and analysis of this research. Gathered data is collected in table 5 in order to assess the fundamental basis of firm’s backgrounds regarding its eligibility for the purpose of this research, entry mode choices and international experience of the decision-makers. This is necessary as the objective is to evaluate the theoretical reasons and motives for international expansion to China. This is later on compared to the theoretical framework to identify connections of the answers to the existing internationalization theories. The empirical data of this study consist of 11 respondent firms and questions were answered by CEO, founder, entrepreneur or manager of the firm. These persons were chosen according to their status at the firm, whereas assumed to possess adequate information on firms’ internationalization process. Datasheet consist of the data collected through the used questionnaire.

Table 5. Questionnaire datasheet.

<table>
<thead>
<tr>
<th>Founded</th>
<th>First international venture</th>
<th>First target market</th>
<th>Entry mode to China</th>
<th>Theory</th>
<th>Turnover</th>
<th>Employees</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1982</td>
<td>Denmark</td>
<td>Exporting</td>
<td>3</td>
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<td>1994</td>
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</table>
5.1 Entry modes

Most used entry mode choice was minority joint venture and different joint ventures (majority, minority and equal ownership joint venture) combined form the majority of the firm’s entry modes. Therefore, firms enter with high-commitment entry mode, committing substantial resources on the international expansion (Filatotchev et al. 2007). Williamson (2002) argue that high-equity entry modes might expose foreign firms to substantial partner risks especially in emerging markets. Another aspect in high-commitment entry modes is the risk of committing scarce resources on a single venture (Williamson 2002). Internationalization speed of the case firms in this study is fast and with high-commitment entry mode this indicates that these firms are committed to achieve market share in China. This suggestion is fortified by the data findings as the firms which internationalized directly to China as their first international venture noted that it was essential for firm’s survival. Filatotchev, Strange, Piesse and Lien (2007) suggest that informal business networks influence entry mode choices of foreign firms. Informal networks are used to address emerging risks regarding to asymmetric information and culture as well as distributors of local market knowledge (Hoskisson et al. 2002). Firms equity commitment on international expansion depends on the firm’s decision-makers risk preferences (Filatotchev et al. 2007). This indicates that Finnish-based startups are not risk-averse by their nature and are prepared to carry the risks of their venture. This behaviour suggests the opposite of Uppsala model and gradually increasing involvement on the market.

Exporting and wholly owned subsidiary (WOS) represent 27.3% in total. None of the respondent firms used franchising, licensing or foreign direct investment (FDI) as an entry mode to Chinese market. FDI in case of startups and SMEs is often ruled out due to the scarcity of available resources, even though these are seen to decrease transaction-related risks (Lu & Beamish 2006). Lack of willingness to licence can be partially reasoned by the absence of intellectual property (IP) laws and legislation. Even though China has radically improved its IP law, there still seems to remain suspicious about its functionality and righteousness. Improvement in IP law is still seen to accelerate FDI and licencing activity in both developing and developed markets, but China however needs to provide more sustainable environment for foreign businesses regarding this matter. (Bosworth & Yang 2000.)
5.2 Reasons for internationalizing

Main reasons for international expansion on Chinese emerging market suggested by this study are the market size and the business opportunities that the target market is promisingly bearing. 81.8% of the firms see market opportunity as a reason for internationalization. 27.3% internationalized firstly on similar markets with similar psychic distance such as Nordic countries. Nonetheless, it is surprising that the small born globals (international new ventures) internationalized directly to Chinese market, these represent 36.4% of the respondents. Hence, this is partially explained through the possessed entrepreneurial experience on international markets. Such as, only 9.1% of the CEOs, founders and entrepreneurs possessed no experience on international markets at all. Most frequent possessed experience was over five years of experience on international markets, indicating that the firm’s policymakers are highly experienced. As earlier studies (Andersen 1993, Bilkey & Tesar 1977, Dichtl et al. 1984) noted, experience decreases the internal barriers of entering international markets as well as decrease the time frame of progressing international expansion.

Figure 5 suggests six main reasons to internationalize according to the respondent Finnish-based SMEs and startups. Market size and partnerships are dominant reasons to internationalize to China. Nonetheless, these reasons that firms express as their main reasons to internationalize are highly embedded with each other. Sheer market size measured by population indicates the overall potential of the market. However, market opportunity can be divided to the number of potential customers and market gap. Therefore, this suggests that there is a path-dependency between the reasons to internationalize. Firms choose the market according to the size and strive towards the opportunities via established relationships and networks. Firms enter the market mainly by minority joint ventures i.e. through partnership activities within a business-driven environment. Least value was given to the existing demand, but the prevailing business environment and market growth speed are seen to create demand through conspicuousness. Nonetheless, internationalization in general, regardless of the target market, is motivated by foreign market demand and business expansion or saturation of domestic market demand. These reasons were given by the respondent firms to internationalize in the first place. Firms which had already rather solid market position on domestic market internationalized to close countries with similar psychic distances
and low entry barrier markets. These firms represent the biggest firms within the respondents with annual turnover of 10-50 million euros and employed 50-249 employees. Another aspect of these firms is that they differ from other firms of this study by their entry mode choice. Internationalization process of these firms is best explained by Uppsala model. They gradually increase involvement on international markets and enter firstly to close markets with similar business environment. These firms note that market penetration was a risk-averse process of testing the existing demand on the market through exporting or subsidiary.

**Figure 5. Reasons to internationalize to Chinese market.**

One aspect that this research did not pay regard to was guanxi. Guanxi demonstrates the social capital such as networks and relations and it is seen rather influential on other researches (Park & Luo 2001, Xin & Pearce 1996, Yaprak & Karademir 2010, Zhou et al. 2007). This differs from commonly understood business network where firms act together or for partially for each other. Guanxi presents the interpersonal and -organizational relationship network where personal relations and favours are exchanged. This non-commercial exchange of favours is seen to enable business relations in China and endorse future commercial operations. (Park & Luo 2001.) Similarly, empirical findings of this study present guanxi as a necessity for market expansion in China. This concerns tackling barriers and restriction on the market and
gaining information from the correct actors. Local partnership opportunities are kept essential for success in the Chinese market. These are seen in key roles for expanding business both inside Chinese market as well as gateway to other Asian countries. Business environment is seen fertile and supporting in means of business development. Nevertheless, these firms admit that the market is indeed very demanding in terms of succeeding or even surviving. Firms therefore value business networks through partnerships as a way to ease the prevailing risks as well as expand their business. 36.4% of the respondents keep personal relations i.e. guanxi necessary and essential for success in China. Close personal partnerships help cultural comprehension, and these non-commercial relations are seen to surpass formal agreements and networks. Therefore, guanxi represents a strong bond between actors and the possibility of abusive behaviour is seen negligible as long as guanxi is nurtured and valued.

5.3 Significance of the variables on internationalization

Data findings leave little room for questioning the importance of internationalization in general. 81.8% of the firms noted that internationalization in the first place was essential for the firm’s survival. However, 63.6% of the respondents say that internationalization in particular to Chinese market was essential for firm’s survival. Still, respondents have univocal consensus on the necessity of participating international markets in modern world. Regarding Chinese market, 81.8% of these firms note that the sheer market size is the reason why they keep Chinese market participation in such a high value. Therefore, assumed necessity of participating Chinese emerging market lays in its future value. Similarly, as Roberts, Kayande and Srivastava (2015) noticed, it is even more dangerous for business not to participate international markets. In contrast to Chinese market, findings express the entrepreneurial attitudes towards the existing and future market potential. Therefore, enhancing this notion that market absence is dangerous.

Firms highlight the importance of market specific knowledge on internationalization. Whereas, market entry urges for local market experience and knowledge on domestic customer behaviour. Uppsala model notes that the experience and gained knowledge decrease the time needed for decision-making process (Johanson & Vahlne 2009), hence networking theory explain that internationalization emerges through the
networks overall experience (Johanson et al. 1988). Therefore, networking theory seems to explain internationalization to China on this case. None of the respondents argue that this is essential factor, but nine out of eleven respondents highlight that this would save resources (time and capital), accelerate growth speed and decrease market-oriented risks.

Smaller firms of this study are seen to adopt the lean approach on market entry. They underline the importance of developing direct strategy but remind that firms need to prepare to redirect their strategy according to the emerging issues and possibilities. Even though all but one firm possessed direct vision on the outcomes of internationalization, most of the firms had to take measures to change their predefined direction (strategy). This post entry phase was partially redirected by local partners and existing business environment according to the respondents. Chinese market includes both visible and invisible risk and these prevail regardless of the firm’s presence on the market. Therefore, firms need to adapt to the market rather than try to change the market. This study reveals that firms slowly accept the fact that they need to enter the market and test their product/service offering as soon as possible and either succeed or fail as soon as possible in order to improve through gained feedback.

Degree of resource commitment of the case companies is surprisingly high. On average firms are committed to invest one million euros per year for establishing business and networks in China. If this resource commitment is reflected to the size and annual turnover of the case companies, results suggest that firms indeed commit to either succeed on the market or end up bankruptcy. Nonetheless, this assumption is suitable only for the smallest firms in this study with annual turnover of under 2 million euros. Larger companies with annual turnover of below 50 million euros vary on their willingness of resource commitment. One of these firms commits 192% in contrast to annual turnover to internationalization on Chinese market, indicating a high market commitment through external venture capital. Thus, commitment of the other two ranges from 2.4% to 14.3%, which cannot be justified as a full commitment on the market if compared to the rest of the firms in this study. 36.4% of the respondent firms claim to have unlimited budget provided by their partner network. Therefore, the entrepreneurial risk is decentralized towards partners that carry portion of the risk. Another important aspect of resource commitment is the perceived results on
international venture. Case firms have remarkable expectations for their return on investment (ROI). Their return on investment varies from 100% to 900%. Average percentage point on ROI is 268%. Hence, this factor is arguable as firms evaluate their expected return according to the market potential and are partially unaware of the type of invested capital (equity or liability). Many of the responses note that they are not going after the existing demand, but moreover are after the potential opportunity of the market. Therefore, expected return on investment is merely a calculatory measure. Five of the case companies are excluded from this as they informed to have unlimited budget and strive towards 1 billion in sales i.e. pushing towards becoming a Unicorn.

Used questionnaire was constructed to find the variables that firms value on internationalization process and to address connections to the existing theories on internationalization. These variables describe the factors that case firms addressed to be helpful on their internationalization process. Results are presented in the form of arithmetic mean according to the questionnaire answers of 11 Finnish-based firms. Figure 6 presents the variables and their significance on internationalization.

Figure 6: Significance of variables.

According to the questionnaire survey firms prefer market opportunity, entrepreneurial behaviour and activity, growth opportunities, networks and relations and foreign
market demand over other features as variables that help their internationalization process to Chinese emerging market. In contrast to existing theories, aspects from institutional theory and Uppsala model are barely discussed. Hence, theory of international new ventures and networking theory are noticeable visible on the firm’s answers.

To conclude the variables that firms notify as striving factors on their internationalization on Chinese market, firms acknowledge each of the above-mentioned variables, but certain features rise above others. Data findings suggests that none of the used theories is sufficient to explain internationalization by oneself. Internationalization process is a mixture of entrepreneurial activities which depends on the business network, target market and experiential background of the decision-makers. Hence, two of the theories, networking theory and theory of international new ventures, are most suitable for explaining the theoretical reasons and customs that firms execute during internationalization from Finland to China.

5.4 Implications for existing theories and research

Based on the findings of this study each of the reflected theories are suitable for explaining certain internationalization processes and characteristics of the case firms. Thus, comparing the year of foundation and year of internationalization, findings reveal that those firms which have entered China as a first target market for international expansion have internationalized relatively fast. This finding proposes that these firms can be addressed as born globals, nonetheless, each of these firms describe their internationalization process according to the networking theory rather than the theory of international new ventures. These firms internationalize from inception within the same year or at most the next year, but they stress the importance of relationships and networks, based both on mutual trust and collaboration through partial ownership i.e. minority joint venture that these use as an entry mode. Contrary to the theoretical assumptions, 54.5% of the firms illustrate their internationalization process through relationships and business networks. This would retell the ideas of networking theory. Thus, the same percentage has internationalized within 2 years from founding and therefore would allude to the theory of international new ventures.
Uppsala model emphasizes market knowledge, similar market and business culture. This theory emphasizes the actual gained results and progresses in systematic step-by-step manners. (Johanson & Vahlne 1977) According to this research, these variables are seen inferior on international expansion. As a matter of fact, similar business culture and market is the least important variable for the startups and SMEs, which support the theoretical connection to institutional theories absence on firms’ answers. Nonetheless, firms see these variables as important characteristics of the foreign market that shape their actions after the internationalization rather than act as barriers of entry or something that they need to acquire before entering the market. Firms stress the importance of networks and partner activities as an opportunity to gain access to market specific knowledge. Most of the firms expect high return on emerging market and therefore are not risk-averse. Still, Uppsala model might be useful to explain the gradual improvement on international experience describing the enhancement on international experience due to previous international ventures. By this meaning that it’s possible that earlier ventures have followed the characteristics of Uppsala model by gradually increasing knowledge and experience which enabled eventually firm’s internationalization towards China.

The significant emphasis of networks and partnerships sets the focus to networking theory. This theory highlights the importance of building and accessing vast business networks that fortify the shortage of firm’s own capabilities by patching the necessities (Coviello & Munro 1995, Johanson et al. 1988). Each of the respondent firms emphasize on networks and relations at high level, even though figure 6 reveals that this variable is the fourth most important. Still, firms see these networks as a way of reaching the prevailing market opportunity that they keep as most important variable on internationalization. Strong business networks enable firms to bypass the gradual involvement steps that Uppsala model suggests (Coviello & Munro 1995). Moreover, as Coviello and Munro (1995) noted, networks accelerate market entry and expansion which again increases firm’s survival on the market due advantages gained from networks. Yet, many of the respondent’s advice future ventures to pay close attention to the selected partners to avoid partnership bias and abuse. Similarly, Zain and Ng (2006) address the importance of directing sufficient resources on partner selection process to avoid partner related risks.
Theory of international new ventures suggest that internationalization takes place from inception (Oviatt & McDougall 1994). Therefore, firms are born globals and emphasize entrepreneurial risk-seeking behaviour. Variables connected to this theory are entrepreneurial activities, experience on international markets, growth opportunities, technological superiority and market opportunity. Still, networks and relations are indeed at central position, due to the scarce resources and low survival rate of born globals (Mudambi & Zahra 2007). Results confirm that the theoretical aspects of international new ventures are essential. Market opportunity and growth potential on Chinese market is noted to be extremely high (Baum-Snow et al. 2016, Chen & Feng 2000, Deng & Yang 2015). This suggest that born globals pursue these opportunities on emerging markets and are the key driving forces of their internationalization. Still, this study does not reveal the importance of technological superiority (or advancement) and firms seem to keep this in rather low value on their internationalization process. Age of the firm is still firmly connected to this theory; thus, its significance is arguable on internationalization.

Institutional theory shines by its absence according to the findings. Institutional theory suggests that firms internationalize to similar markets which possess similar environmental forces. Therefore, firms do not have to adapt to the market, but simply use their previously constructed business model. (DiMaggio & Powell 1983.) What this research suggests according to the data findings, is that firms are highly influenced by governmental bureaucracy, thus they adapt to the market and change their manner of approach to blend in through partnership activities in order to mitigate the political risks of conducting business in China. Hence, firms adapt the to the accepted models of behaviour through the business networks and internationalize driven by the relationships rather than institutional legitimacy.

Previous research form Czech firms noted, that firms were motivated mainly by existing demand on foreign market and as a contrast lack of domestic demand and competitive pressure. This suggest that international expansion was indeed essential for the Czech firms it terms of survival. Their findings reveal that small firms have reactive motives to enter the markets. (Kubičková et al. 2014.) Contrary to Czech firms, Finnish firms are not driven by reactive motives, but rather proactive motives to increase their sales through market opportunity. Proactive motives are defined as
aggressive reasons to internationalize similarly to push-factors (Etemad 2004). Size and age of the firms indicated only a fraction of the motives to internationalize on both of the studies. Still, the results are not fully comparable as Kubíčková et al. (2014) used industry limitations and this study has no limitation on the industry. Study of a Turkish firm seems to adapt the Uppsala model and gradually increasing involvement on international markets. Internationalization process progressed through networks, such as most of the firms in this study, but followed risk averse step-by-step model and only reactively seeking for new opportunities. (Yener et al. 2014.) Amongst Baltic countries, especially in Latvia, researchers noticed passivity concerning international expansion and it is reasoned with rudimentary entrepreneurial will to internationalize. Therefore, firms internationalize due to compulsory issues regarding their survival such as absence of domestic demand. (Olevsky & Dunska 2014.) Similarly to Czech firms, also Baltic countries were noted to act reactively towards international expansion.
6 SUMMARY AND CONCLUSION

The main purpose of this research was to increase awareness of Finnish-based SMEs and startups internationalization process to Chinese emerging market. Another aspect of this study was to reveal the current motives and entry modes for SMEs and startups and reflect the finding on previous studies. To remind, the research question is as following: “What are the motives that strive Finnish firms to China and which entry modes these firms use?” Findings suggests several answers to the research question. Firstly, this research presents market opportunity, market size and growth speed as main motives to internationalize to Chinese emerging market. Main variables that progress international expansion are vast business networks, carefully selected partners and entrepreneurial behaviour. Firms suggest that domestic market position is rather irrelevant for entering China if venture is supported by foreign government or business partners. Nonetheless, strong market position enables risk-taking on foreign markets without risking firm’s survival on domestic market. Crucial aspect is to understand the background of the firm. Those firms which have solid operations on domestic markets have internationalized firstly to similar markets regarding business culture and psychic distance. These firms are not as risk tolerant by their nature and nurture market entry to China as a prominent target market, but not as a necessity for their survival. Small born globals on the other hand see China as their opportunity to survive and succeed in their business venture. Therefore, these are entering the market with high-commitment entry modes and invest for single market entry only.

This research offers an extant layout of current motives and entry modes of Finnish-based SMEs and startups internationalization process to Chinese emerging market. Results present partial similarity to previous studies in contrast to certain motives and entry modes. Remarkable notion lays on the feature of the internationalization driver. Findings suggest that Finnish-based firms are proactively seeking for market opportunities from abroad, but Czech studies (Kubičková et al. 2014), Baltic studies (Olevsky & Dunska 2014) and Turkish studies (Yener et al. 2014) present results or reactive approach on internationalization. One suggestion for this is the finding that startups of this study indicate that Finnish market is fundamentally too small for their offering, whereas foreign expansion is the only option for them. This research agrees to previous studies on the importance of size- and age-related issues on
internationalization, which were seen irrelevant for firm’s internationalization decision. Hence, available resources for bigger firms enhance success of internationalization (Acs et al. 1997, Andersen 1993, Chetty et al. 2014).

As tentatively assumed at the beginning of this research, SMEs and startups have major differences within their internationalization processes. SMEs of this study used low-commitment entry modes for Chinese market entry and in contrast startups used high-commitment entry modes. The case firms that fall in startup category internationalize with high-commitment entry modes directly to China as their first international venture. This highlights the influence of substantial networks which enables risk and cost diversification. Still, larger firms i.e. SMEs tend to rely more on low-commitment entry modes in the beginning of expansion and use more time embedded resources to prepare the market entry. Startups possessed highly experienced decision-makers, which enabled them to strive directly towards Chinese market without gradually progressing their venture. SMEs on the other hand adapted more path dependent way of foreign market entry and started their international expansion from similar markets in terms of business environment and psychic distances before establishing operation in China. Additional aspect concerning the differences of these firms is that startups noted internationalization to be essential for firm’s survival. SMEs on the other hand approach China as a prominent business opportunity.

As Axinn and Mahhhyssens (2002) noticed in their research, there is no precisely correct way for internationalization and a single theory is seen insufficient for the overall assessment. This research relates to this notion and argues that single theory is still insufficient to explain internationalization thoroughly. Nonetheless, theories still play a prominent role on explaining the internationalization process of the case firms. hence each of the theories include aspects that ease the understanding on this complex phenomenon. Even in this research, when the sampling was rather small, the differences are visible. Internationalization process of the correspondent firms includes features from different theories and the firms’ own explanation on internationalization process differs yet again from the theoretical features.

Uppsala model still explains market knowledge as one driver for internationalization, even though firms describe to achieve this knowledge through business networks, such
as in networking theory. Strong institutional actors prevail on Chinese market and according to the finding’s firms acknowledge these and try to cope with them and gain their favour. Theory of international new ventures is suitable for describing the internationalization behaviour of small born globals of this study as these internationalize aggressively on proactive methods to a market formidable sized compared to Finland. Therefore, we need to apply different theories to assess and explain the internationalization process of Finnish-based startups and SMEs.

Networking theory and theory of international new ventures form a mixture of theoretical background for the internationalization process of these firms. Uppsala model only applies partially for the bigger SMEs of this study, but for startups gradually increasing involvement seems to the too slow for their perceived outcomes and business model. Still, Uppsala model might possess insight for the process where firms have gained their international experience. These firms emphasize fast action and decisions. Main driver for international expansion and speed of it is network and partner activities, which these firms use to accelerate expansion speed through local experience and knowledge to avoid prevailing loopholes on the market. Each of the case firms emphasize strong and trustworthy relationships i.e. Guanxi.

Case firms internationalize very quickly, and it is partially reasoned due to their small size and entrepreneurial ambition. These firms have mainly experience decision-makers which decreases the time frame on internationalization process. Those ones that internationalized primarily to China see this as a main market in terms of growth for their business, thus they notify that China is difficult market to success. Finland as a market is small from its basis, which inevitably leads to the necessity to internationalize in order to reach the ambitious growth goals. Still, China is only one option to internationalize as we have seen from the internationalization path of the case firms, hence it offers an immense opportunity for business activities.

6.1 Implications for practitioners and policy makers

This research offers important implications for both practitioners and policy makers. For practitioners this research offers useful characteristics concerning market entries on Chinese market. Personal and business relations were seen essential for succeeding
at the market due to the acceptance as a market actor and valuable host market knowledge. Interpersonal relations in terms of guanxi has major role in China. Therefore, understanding the cultural differences concerning decision-making, hierarchy and collectivism may ease the access on market specific knowledge and secure the co-operations. Therefore, findings suggest firms to build up close personal relations under the influence of cultural difference and constructing trustworthy business networks before aspiring market entry to China.

Findings of this research give useful insight for both domestic and host market policy makers regarding the reasons for entering Chinese market. Host market policy makers need to understand the prevailing deficiencies in infrastructure and improve these in terms of easier accessibility for foreign entrants to reach customers also in rural areas. Co-operations between national governments could improve networking by suggesting suitable business partners to join their business operations at least partially. Practitioners have clearly understood the possible growth opportunities that internationalization has to offers, therefore policy makers should notify the importance of internationalization also as a possibility to increase employment rates, growth and business efficiency within domestic market.

6.2 Limitations

This research contains only the internationalization process of respondent SMEs and startups which represent only a fraction of total amount of appropriate firms. Still, theories used within this study are primarily conducted from the internationalization process of MNEs and can only be reflected on the internationalization process of SMEs. Therefore, the theoretical framework acts as a guideline for assessing internationalization process of the case firms.

The limitation of the selected SMEs and startups is concerned about two central factors. First, these firms have been founded within Finland. Hence, there is no limitation on the origin of the entrepreneurs. Second, the target market of internationalization is Chinese emerging market. Study examines the internationalization process from Finland to China and the starting point of internationalization. By starting point, the interest is in the resources, experience of
managers/entrepreneurs and the current market position on domestic markets. Therefore, the expected and planned internationalization process is at the focus of this study, not the success or failure on internationalization itself.

As the limitations concern the target market of internationalization, this study does not offer any explanation on possible variations across different target markets or differences on industry-specific characteristics. Hence, different industries, target markets and country of origin most likely have influence on the internationalization motives and the process itself. Different industries might possess different characteristics and therefore this research offers insufficient information on further studies in contract to the previously mentioned matters.

It is relevant to understand that the gathered research data consists of 11 respondent firms and findings are evaluated according to the gathered data sample. Country of origin is limited to Finland and other countries of origin are not taken in notice. Even though the target firms where chosen to be Finnish-based, due to the low response rates it is inadequate to generalize the results of this study to match the overall situation on Finland. Still, the results are useable when evaluating differences between country of origin. Target market for internationalization on this research is limited to Chinese emerging market and therefore does not necessarily apply to other emerging markets. Construction of the used questionnaire aimed to form univocal and comprehensible questions to answer so that respondent biases could be minimized. Nonetheless, due to the low response rate, this research is insufficient to generalize internationalization features of Finnish-based SMEs and startups. Nevertheless, it gives reliable information on the direction and features concerning internationalization process to Chinese market of the respondent target firms. As these limitations have been reflectively brought up and noticed in this research, transparency and validity are increased.

6.3 Further research

As noted at the findings of this study, startups and small case firms of this study seem to adapt a concept of learning cycle as they progress their international expansion. This notion creates additional need for further studies, whereas the focus is to find out how
fast firms fail and with what resources these fail, and moreover will these firms learn from their failure and continue to improve their business venture. This would research the consistence and resilience of Finnish-based startups and SMEs, indicating also the firms’ commitment willingness towards international markets.

Another issue emerged from the findings that concerns the used resource pool on internationalization. Firms budgeted resources for internationalization that surpass multiple times their current turnover, indicating the urge to seek financial resources from external sources. Obviously, newly born firms do not possess substantial resources and require external funding to internationalize, but how does Finnish financial structure support the potential international ventures. Therefore, what are the actual gained results from different business grants offered by the government and what are the incentives for Finnish government to support new and expanding business activities.

Direction for further studies should also notice the geographical coverage of the foreign firms in China. As addressed in this study, China includes enormous market potential, but its scattered across the nation. Where do these firms position their offering and are they even willing to pursue the potential customers in rural areas even though the infrastructure is not currently at the state to support it.

More specific research is needed on the variation of industry- and product-specific features on internationalization process. If this research is to be repeated hereafter, I would suggest separating startups and SMEs from one another as a research object. As seen in the finding chapter of this research, these two distinct in multiple manners from the fundamental basis of the firm, its structure, behaviour and resources. Therefore, alongside these are incomparable and further research is needed to find the peculiarities of one another.
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APPENDIX 1: INTERNATIONALIZATION QUESTIONNAIRE

Questionnaire for Finnish-based SMEs and startups

1. General information

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Year of foundation</th>
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<td>Industry</td>
<td>Year of internationalization</td>
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<table>
<thead>
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<th>&lt;10 million</th>
<th>&lt;50 million</th>
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<tbody>
<tr>
<td>Number of employees</td>
<td>&lt;10</td>
<td>10-49</td>
<td>50-249</td>
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</table>

2. Internationalization process

1. Why did the company want to enter international markets in the first place?

2. What was the first country to internationalize? Why?

3. Did the founding team possess any previous experience of international markets?

   - Yes, <1 years of experience
   - Yes, 1-3 years of experience
   - Yes, 3-5 years of experience
   - Yes, >5 years of experience
   - No experience on international markets

4. Where there any external investors or consulting team involved in the internationalization process? If yes, where were they from and what was their role in the process?

5. Which of the following describes the internationalization of your firm?

   - Step-by-step, risk averse, cautious and previously planned process
   - Internationalization through relationships and business networks
   - Internationalization through entrepreneurial activities, rapid internationalization, born globals
   - Internationalize on markets with similar prevailing environmental forces, governmental bureaucracy adaptative internationalization
3. Internationalization process in China

6. Why did you choose to internationalize in Chinese market??

7. How long did it take from the decision to internationalize in China until the first concrete international operation? Time to first deal, contract etc.

- <1 year
- 1-3 years
- 3-5 years
- >5 years

8. Describe the market share that you were keen to achieve in China by the number of potential customers and sales. For example, 5 million customers and 10 million euros in sales.

9. Describe your resource commitment on internationalization to China. How many years and how much financing did you budget for establishing business in China? For example 2 years and 1 million euros per year.

10. Which of the following factors helped your company’s internationalization process in China? Please rate from 0-5 according to importance, where 0 stands for "no meaning at all" and 5 "essential for internationalization"

<table>
<thead>
<tr>
<th>Factor</th>
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<td>Market opportunity</td>
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<td>Market specific knowledge and experience</td>
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<td>Current market position on domestic markets</td>
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<td>Networks and relations</td>
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<td>Entrepreneurial behaviour and creativity</td>
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<td>Managerial competence</td>
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<td>Previous experience on international markets</td>
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<td>Similar business culture and market</td>
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<td>Technological superiority</td>
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<td>Size of the firm</td>
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</table>
11. Which entry mode describes your mode of entry in Chinese market?

☐ Exporting
☐ Licensing
☐ Franchising
☐ Majority joint venture
☐ Minority joint venture
☐ 50/50 joint venture (equal ownership)
☐ Wholly owned subsidiary
☐ Foreign direct investment (FDI)

12. How long did you gather information on the Chinese market before entering?

☐ <1 year
☐ 1-2 years
☐ 2-3 years
☐ >3 years

4. Post-entry phase

13. Do you think that it was essential for firm's survival to enter international markets? If yes, describe shortly why?

14. Do you think that it was essential for firm's survival to enter Chinese market? If yes, describe shortly why?

15. Did your expectations on internationalization come true and are you satisfied with the results?

16. Did the company have a direct vision on the outcomes of internationalization? Did it change afterwards?

17. Would you change anything that you did when entering to China?

18. What would you suggest for others that are planning to internationalize in China? Strategy, entry mode, planning etc.?

19. Free word on internationalization. Is there something you wish to highlight about internationalization process or internationalization as a concept that this questionnaire doesn't include?