



# **Cultural differences when entering a new market**

**-A study of Swedish companies entering the Eastern European markets**

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## **Abstract**

When a company moves to a foreign market, it must learn how to deal with that market's particular culture. A country's culture can mean its language, religion, norms and so on. A company needs to take many different factors into account when moving to a foreign market and certain markets are riskier than others. If a Swedish company would expand to Norway, there may not be that many cultural differences, but if the new market is South Africa for example, then certain questions regarding cultural differences would come up.

The purpose of this dissertation is to find out more about Swedish companies' problems with cultural differences in emerging markets. This is done through research concerning secondary and primary data. The secondary data came from literature on the topic, and the primary data come from interviews with Swedish companies that have moved into emerging markets. We base the research on case studies involving two Swedish companies, Culinar and Bong Ljungdahl. These two firms expanded in to Eastern Europe while the region was going through a period with high growth, thereby making most of the countries emerging markets. The aim is to see how these two companies dealt with the issues concerning cultural differences when they arrived at the foreign market.

**Keywords:** Eastern Europe, emerging markets, cultural differences, Swedish companies, Bong Ljungdahl, Culinar, national culture, corporate culture

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# Chapter 1

## Introduction

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The first chapter introduces the background of the dissertation. Furthermore, it discusses the research problems, the aim and perspectives. Additionally, the chapter describes our limitations, research questions and the definition of terms and the outline.

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### 1.1 Background

When a company enters a new market, there are various problems it might encounter, such as, cultural differences. The whole concept regarding culture is quite wide and rather hard to comprehend. Companies have to take cultural differences into consideration, differences like; languages, religions, social standards and demographics. If the company has the information and knowledge it needs, the entering process and the cultural shock will be less painful. Mode of entry is also a vital matter for companies, for example what mode of entry is the best to use for the chosen market, and how to combine the mode of entry process with cultural differences.

Previous research have been done in the fields of emerging markets, culture, marketing, as well as mode of entry, by authors like Geert Hofstede, Svend Hollensen (2007), Charles Jonscher and Ashley Summerfield (1994) in addition to several others.

We find the issues regarding cultural differences interesting and the effect culture has on companies' marketing strategies as well as their choice of mode of entry. We are focusing on what some Swedish companies considered to be their main concerns regarding cultural differences when they entered a foreign market, and how they solved the issues that emerged from the differences. We chose to work with Swedish companies, from different industries, that several years ago entered

the East European markets instead of companies that just recently entered those markets.

The reason for us doing this research is that companies are always looking to expand to new opportunistic markets and their attraction for the Eastern European markets comes mostly from the new-found political freedom in those countries (Hollensen, 2007). For every new country a company establishes itself in, there probably is a new culture which may create issues for the company in several business areas, due to cultural differences, (See figure 1.1). This dissertation is aimed to research which issues several Swedish companies have dealt with when they entered the Eastern European markets and how they solved them. From this research a guide for other companies planning to enter East European markets, will be created. The guide will combine all the areas discussed in previous research, which might help them to avoid and/or to deal, in the best way possible, with issues resulting from cultural differences.

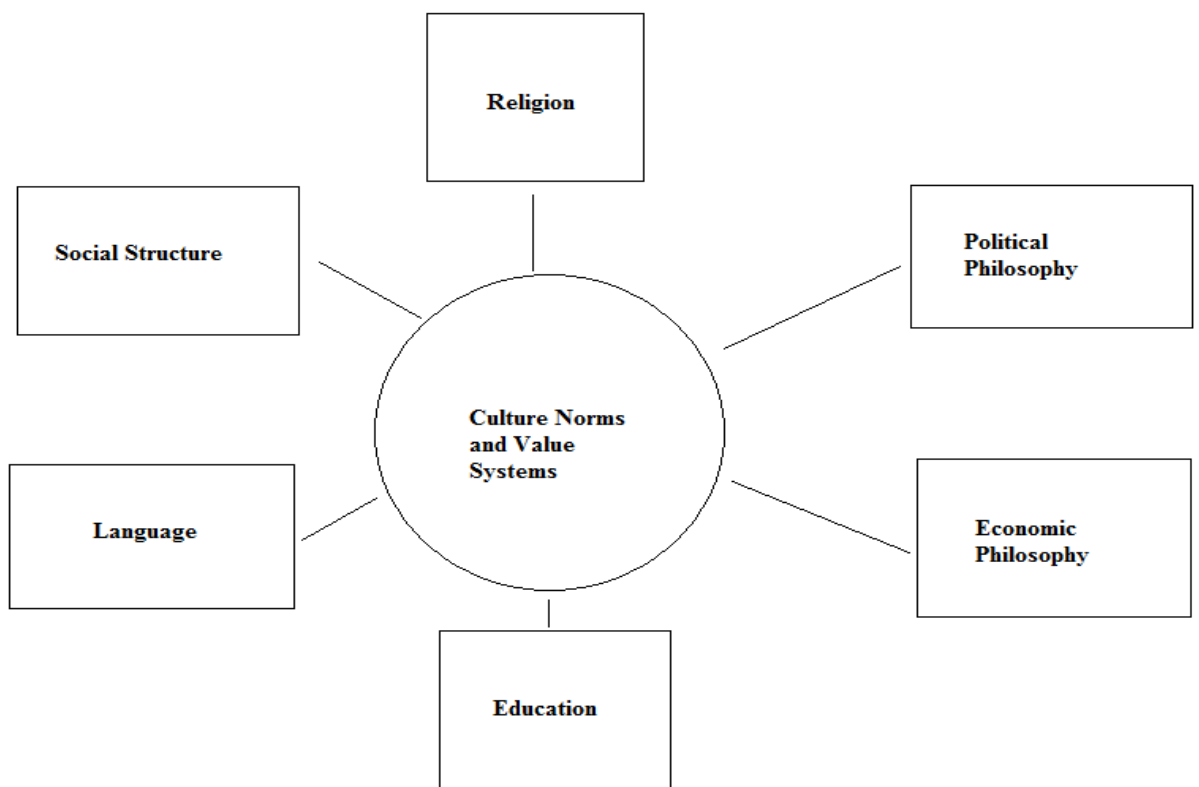


Figure 1.1 The Determinants of Culture (From: Hill, 2007, p 93)



## 1.2 Problem

According to Hofstede & Hofstede (2004), people tend to believe that all humans, no matter what culture, deep down are alike when it comes to behaviour. They clearly state that this is not the case, and a lot of bad business decisions are made, because managers act in the same way as they would have done in their domestic culture.

Harris & Morran (1999), state that the most significant problems when it comes to cultural differences involve; different languages, different values and different attitudes. When doing business in a foreign market, communication is essential, and the three factors mentioned above are all influencing the communication process. A business relationship or deal can easily be damaged because of misunderstandings that are based on cultural differences.

A new market's culture can affect a company's strategy in many ways. One of the aspects that this research focuses on is a company's mode of entry, which in many ways is decided by cultural differences. This issue is examined in the article "*Choice of entry modes in sequential FDI in an emerging economy*" by Yi Zhang, Zigang Zhang and Zhixue Liu (2007). For example, if a Swedish company decides to enter the Danish market, the management might decide to start off by establishing a factory. The move to this new market is considered to be associated with little risk, because the management assumes that the cultures are relatively alike. The company would probably not make the same assumptions regarding the new culture if they were to move to, for instance, the Russian market. This other move might demand a different mode of entry, since there are many cultural differences between the markets that must be taken into consideration. These differences were studied by Alan Jones, Grahame Fallon and Roman Golov in their article "*Obstacles to foreign direct investment in Russia*" (2000).

The research problem of this dissertation is that many firms hesitate when it comes to entering new upcoming markets, often because it is seen as a risk. As stated by the authors above the differences between countries' cultures may cause significant problems for companies when entering a new market. This study focuses on finding out what Swedish companies consider to be the main concerns regarding cultural differences when entering an emerging market, and how the

risk of this action can be reduced. In order for us to do this we will conduct interviews with Swedish companies that have already entered emerging markets several years ago, to see what they regard to be the most significant problems when it comes to cultural differences. The results from the interviews will be analyzed using existing theories and models, for instance the Model of Cultural Differences by Hofstede (1983).

### **1.3 Purpose/Aim**

The aim of our research is to increase the understanding of Swedish companies' operations in emerging markets, and what difficulties the companies are facing because of cultural differences.

### **1.4 Research Questions**

- How do Swedish companies gain knowledge regarding the culture of the new market?
- How do companies deal with problems that are specific for a certain market?
- What is the most efficient way to reduce risk that is related to the emerging market's cultural differences?

### **1.5 Limitations**

In this dissertation we have chosen to limit our research to focus only on the Eastern European markets instead of all emerging markets. We have also limited ourselves to examine only Swedish companies, instead of all types of companies all over the world. We will also focus entirely on the cultural aspects and the issues these presents for the companies when entering an Eastern European market. We chose to base our research on Culinar and Bong, since the companies are both located in, or around, Kristianstad and we have some prior knowledge of these companies. Hence, it will make it easier for us to complete our study and dissertation in the best way possible. We also chose to focus our dissertation merely on Eastern Europe, as we believe it is an interesting market that has seen fast growth over the years. Since many Eastern European countries have already entered into the EU and many more are moving in that direction, Eastern Europe will most certainly be an important marketplace for companies even in the near future. Due to this reason we believe Eastern European markets are worth studying more closely. The reason we chose to focus only on cultural differences

is due to the issues that it causes, since a countries culture affect several areas including the marketing- and mode of entry strategies, which are our primary research areas. Therefore, we feel that an in depth study is of more importance, instead of doing a shallow research on several areas, like infrastructure or legal obstacles. Furthermore, we chose not to explain the mode of entry, franchising, in our theoretical review since this entry mode is mainly used by service companies like MacDonald's, Burger King and IKEA.

## **1.6 Outline**

The dissertation has the following outline.

## **Chapter 2**

This is the literature review chapter, and it begins explaining culture and cultural differences. Furthermore, this chapter describes the different types of mode of entry. Finally, it explains various economical models and how they are used to analyze cultural dilemmas. A summary of the chapter is presented at the end in form of a table.

## **Chapter 3**

In this chapter we explain and describe our choice of methodology, data collection method and research approach. Furthermore, we present our research philosophy and a short summary.

## **Chapter 4**

The empirical method is described in this chapter. Firstly, the research strategy, time horizon and sample selections are discussed. Secondly, we analyze validity and reliability. Finally, the operationalization of the empirical findings is presented.

## **Chapter 5**

In this chapter we will, shortly, present our companies with a company background. Finally, we are doing summaries of our interviews.

## **Chapter 6**

This is the analyzing chapter, where we are analyzing our findings.

## **Chapter 7**

In this chapter we will draw our conclusions and give advice for future research.

## 1.7 Definitions

*Emerging markets* – “Countries in the world that are expected to experience lots of growth. Investing in these countries has lots of potential for big returns, but it also carries lots more risk than typical domestic investing.”

(<http://www.teenanalyst.com/glossary/e/emergingmarkets.html>)

*Business to business* – “B2B. A transaction that occurs between a company and another company, as opposed to a transaction involving a consumer. The term may also describe a company that provides goods or services for another company.”

([http://www.investorwords.com/632/business\\_to\\_business.html](http://www.investorwords.com/632/business_to_business.html))

*Business to consumer* – “B2C. A transaction that occurs between a company and a consumer, as opposed to a transaction between companies. The term may also describe a company that provides goods or services for consumers.”

([http://www.investorwords.com/5430/business\\_to\\_consumer.html](http://www.investorwords.com/5430/business_to_consumer.html))

*Joint Venture* – “A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.”

([http://www.investorwords.com/2671/joint\\_venture.html](http://www.investorwords.com/2671/joint_venture.html))

*Foreign Direct Investment* – “An investment abroad, usually where the company being invested in is controlled by the foreign corporation.”

(<http://investor.cisco.com/glossary.cfm?FirstLetter=f>)

## Chapter 2

### Literature Review

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This chapter explains the definition of culture and cultural differences in Eastern Europe. Further, it describes different modes of entry that are available to the companies entering a new market as well as the advantages and disadvantages of them. This chapter also describe various economical models, and explain how they are used to analyze cultural differences. Finally, this chapter explains how culture affect a company's marketing strategy.

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One definition of culture is difficult to establish, but according to Geert Hofstede "culture is the collective programming of the mind which distinguishes the members of one human group from another" (Hollensen, 2007, p. 216). Edward Tylor defines culture as "that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities acquired by man as a member of society" (Hill, 2007, p. 90).

#### 2.1 Culture categories

In order to understand the different issues that companies face when going international, one must understand the different cornerstones of culture.

According to Harris & Morran (1999), culture can be divided into different categories to make it easier to understand the different aspects of culture. *Sense of self and space* is one category. In different cultures appreciation and self-identity can be expressed in different ways. For instance, in some cultures it is more acceptable to brag, while in other cultures people tend to be more humble. In some cultures people are formal and structured, when others are informal and flexible.

Further, Harris & Morran (1999), explain *communication and language* which is another category. It involves both spoken and body language. There are many different languages in the world, and these are spoken with different dialects in different parts of a country. Apart from dialects, a language contains slang which can be difficult for foreigners to understand. Another major part of communication is the body language, which differs between cultures. Body language is in a way universal, but gestures and signals has different meanings in different cultures.

In different cultures there are different *food and feeding habits*. For instance, many Americans and Europeans eat a lot of beef while this is strictly forbidden to Hindus. Muslims and Jews are normally not allowed to eat pork, while many Swedes have special ham for Christmas. Food differs widely between cultures, but also the way that food is eaten and served. In some cultures food is eaten directly with the hands, in other cultures people use wooden sticks and so on.

*Values and norms* vary between cultures, and the need system looks different in different parts of the world. In many places people are trying to survive to the next day, because of lack of food and water, while people in other places are focused on increasing their living standards through better jobs and material possessions. For instance, in America success is often measured in wealth, while in some Pacific islands it is measured based on how much one shares of his or her wealth. A culture's value system sets the norms of behavior of the society. These norms can for instance include work ethics and family structure. Even though there are differences between cultures, globalization is creating more shared values and norms over the world (*Ibid*).

Another important aspect of culture is people's *beliefs and attitudes*. This is a factor of culture that is hard to measure. A person's belief is individual, and cannot be applied on a whole culture. A religion can have a similar effect on peoples' attitudes, but the way person A interprets a message might not be the same as person B. Therefore, it is difficult to know how people see themselves, others and what they believe is going to happen in the world (*Ibid*).

## 2.2 Culture in Eastern Europe

As a company it is of tremendous importance to study the culture of the country you are entering. Culture is a very important factor and without research from the company problems can arise. One of the more severe ones is culture shock which in some cases can lead to disorientation and confusion for the company which leads to not entering at all or failure.

Following Hofstede's model for assessing cultures, and referring to Maik Huettinger's (2008) and Kasia Zdunczyk's (2007) previous studies about culture in Eastern Europe, we can get a clear understanding of the cultural differences in Eastern Europe. We find five different dimensions in Hofstede's cultural framework. When it comes to the first step, which is power distances and the influence it has on a country. Looking on Poland and Ukraine for example, we see that the power distance value is high, meaning that people are afraid of expressing their disagreements, doubts, thought and ideas. This is mostly because they have accepted their inferior position.

**Table 2.1 Value of Cultural Dimensions**

	IND	PD	UA	M	LTO
<b>Russia</b>	31	43	103	-5	24
<b>Belarus</b>	58	44	100	-3	22
<b>Ukraine</b>	51	23	57	13	56

*IND* = Individualism vs. Collectivism

*PD* = Power distance

*UA* = Uncertainty avoidance

*M* = Masculinity vs. Femininity

*LTO* = Long versus short-term orientation

From: Darryl J, Mitry and Thomas Bradly, (1999), <http://marketing.byu.edu/>. Available at: <http://marketing.byu.edu/htmlpages/ccrs/proceedings99/mitrybradley.htm>

The next step in this framework is individualism vs. collectivism. In Poland and Ukraine collectivism is the stronger part of the two. People tend to help each other more than in individualistic countries, according to Hofstede, compared to countries in the west, where the individualism vs. collectivism ratio is higher (Table 2.1 Value of Cultural Dimension and [http://www.geert-hofstede.com/hofstede\\_poland.shtml](http://www.geert-hofstede.com/hofstede_poland.shtml)).

**Table 2.2 Polish national culture expressed in terms of Hofstede's dimensions**

Hofstede dimension	Nasierowski and Mikula (1998)	Kolman et al. (2003)
Power distance	72	62
Individualism – collectivism	56	55
Uncertainty avoidance	106	85
Masculinity – femininity	62	87
Long versus short-term orientation	--	45

(From: Zdunczyk and Blenkinsopp's *Do organisational factors support creativity and innovation in Polish firms?*, (2007), [www.emeraldinsight.com](http://www.emeraldinsight.com). Available at: (<http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/2200100102.html>).

Further on, the third step is masculinity vs. femininity. Here the similarities end. Ukraine has a low masculinity vs. femininity ratio, while Poland has a high ratio, almost the same as the United States. For example, Ukraine has a very masculine culture; therefore, they cherish competitiveness, assertiveness and ambition. A feminine culture, Sweden for example, values relationships and life quality. (Table 2.2 Polish national culture expressed in terms of Hofstede's dimensions and [http://www.geert-hofstede.com/hofstede\\_poland.shtml](http://www.geert-hofstede.com/hofstede_poland.shtml))

Cultures and countries that have a high ratio of uncertainty avoidance prefer rules and a structured living based e.g. religion, legal systems and fixed norms and manners. Poland, Ukraine and other countries in Eastern Europe are either Roman Catholic or Orthodox Christian. According to Hofstede, Zdunczyk (2007) and Huettinger (2008), countries in Eastern Europe (including Poland) have a high ratio of uncertainty avoidance.



The final step in Hofstede's framework is the long vs. short term orientation. Eastern European countries and generally less developed countries have a low ratio score, which means they have a short term orientation. This on the other hand, means that “values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face’”. This concludes Hofstede's framework model.

According to Hofstede, Zdunczyk (2007) and Huettinger (2008), the culture in Eastern Europe differs greatly from the western culture. Using the framework developed by Hofstede as a model for the countries the diversities are clear. These ratios all have their roots in the lifestyle of these countries. Everything normal citizens do affect these ratios. We now also know that religion has a great affect on people's lifestyles as well as the country's company's choice of promoting a product. Every action has a reaction, but also a consequence. This differs from the western one's and these factors are important for a company to remember when researching a new and emerging market.

### **2.3 Deciding mode of entry**

When a company decides to enter a new country, the company has to decide which type of mode of entry it will choose and this decision is believed to be influenced by four groups of factors (Hollensen, 2007).

- Internal factors
- External factors
- Desired mode characteristics
- Transaction-specific behaviour

Of these four groups of factors the one that is interesting to us and our dissertation is external factors, because in these factors is the, socio-cultural distance between home country and host country with other words the cultural differences between the country's. Socio-culture consists of education levels, business- and industrial practices, language, and cultural characteristics (*Ibid*). A company's choice of mode of entry is influenced by the socio-cultural differences since it can create internal uncertainty in the company and by so doing it will affect their choice. The larger the socio-cultural differences are the more likely it is that the company will choose joint venture instead of direct investment, because it will make it easier for

them to withdraw from the market, if they are unable to adapt to the new market. The larger the socio-cultural differences are the more likely it is that companies choose an entry mode that has a relatively low commitment of resources and a high level of flexibility (Hollensen, 2007).

## **2.4 Export Modes**

When using the entry mode of export the company's products are manufactured in either the domestic market or in a third country and then directly or indirectly exported to the market in the new country. The use of export is the most common mode for company's initial entry into a new market, and is a useful way of determining the markets growth potential (*Ibid*). Export is usually the typical way for companies to initiate entry to a foreign market which more and more evolves towards foreign-based operations. There are three major types of export channels, indirect export, direct export and cooperative export (*Ibid*).

*Indirect export* describes when the exporting activities are not directly taken care of by the company itself. Instead another domestic company like a trading company or an export house, usually without investments in the foreign sales from the producing company, perform those activities.

*Direct export* unlike indirect export here the producing company itself takes care of the exporting activities and also the direct contact with the intermediary in the foreign market.

*Cooperative export* signifies the company's involvement in collaborative agreements with other companies regarding the exporting functions.

### **2.4.1 Indirect export modes**

When the producing company use independent organisations in their home country, or a third country, to carry out the exporting activities the company is using the mode of indirect export. This is a good way for companies to gradually enter foreign markets, and evaluate them before investing major resources and efforts into the new market. Using independent organisations has the benefit of limiting the risks associated with cultural differences, since the independent organisation usually have great knowledge of the culture in the foreign market.

Exporting also has the advantage of offering the company lowest costs and lowest risk of any entry mode but it also has its disadvantages. The disadvantages are that the company has very little or even no contact with the foreign market and therefore receive limited information about the foreign markets potential. The company also has little control over when, where, how and by whom their products are sold. There are five main types of indirect exporting entry modes.

*Export buying agent*; is a representative of the foreign buyer and is located in the producing company's home country. The agent offers the service of negotiating price and identifies sellers to the foreign buyers. The agents usually have vast knowledge of the foreign markets cultural differences, and therefore offer companies an advantage since they do not have this knowledge themselves (Hollensen, 2007).

*Broker*; is also located in the producing company's home country and is another type of agent. The main function of the broker is to bring together the seller and buyer and thus is a specialist in the contractual function. The broker distinguishing factor of the broker against the export buying agent is that the broker may act as the agent for the seller or for the buyer. As well as the agent, the broker also possesses great knowledge of the foreign markets culture (*Ibid*).

*Export management company/export house*; are specialist companies in export and are usually specialized by, geographical area, customer type or product. The export management company/export house handles all the documentation that is necessary, and has great knowledge of the local purchasing practices as well as the foreign markets culture (*Ibid*).

*Trading company*; play a central role in diverse areas of business such as shipping, warehousing, finance and several other areas. They are also involved in managing counter-trade activities where sales in one market are paid for by receiving other products in exchange from that market. The trading company's role is to find a buyer for the products that has been received in exchange as quickly as possible. In Eastern Europe, as well as in developing countries, counter trade still is a widespread form of trading due to their lack of "hard" currency. Trading company's knowledge in counter trade therefore is beneficial for

companies conducting business in Eastern Europe and developing countries (Hollensen, 2007).

*Piggyback*; is a way of export for companies that are inexperienced in the export area. The inexperienced company, called the “rider”, makes a deal with a larger company already operating in the foreign market, called the “carrier”, to act as an agent for the inexperienced company. By using the company’s own exporting facilities and distribution channels to export and distribute the “riders” products. This has the advantage for the “rider” that the company do not have to establish its own distribution system, but it also has the disadvantage that the company has to give up control over its product marketing (*Ibid*).

#### **2.4.2 Direct export modes**

Direct exporting is when a company sells directly to a company in a foreign market, and is carried out in two ways, either through distributors or through a foreign based agent. Both agents and distributors have the advantages of having great knowledge in the local market, conventions and customs, employ foreign nationals and having existing business contacts (*Ibid*).

*Distributors* or in other words importers help companies to export their products. A distributor is the exclusive representative of the company in the foreign market, and in many cases own and operate retail establishments and wholesale, service facilities and warehouses (*Ibid*).

*Agents* represent the company in the foreign market, and sells to retailers and wholesalers in the importing country. Agents can either be exclusive, which means that they have exclusive rights to a sales territory, or they can be semi-exclusive, the agent then also handles non-competing goods from other companies. Finally the agent can be non-exclusive, and handle a wide range of goods including goods that may compete with the company’s products. (*Ibid*)

### **2.4.3 Cooperative export modes**

The last major export channel is the cooperative export, which is when companies come together and form so called export marketing groups. If companies cannot achieve sufficient economies of scale in both manufacturing and marketing, on their own they group together with other similar companies to form an association, thereby achieving sufficient economies of scale by sharing costs. Companies in the association can more efficiently research foreign markets together and also receive better representation in them. The disadvantage with cooperative export is that there is a risk that the companies have different objectives and therefore may risk a relationship that is unbalanced. (Hollensen, 2007)

There are two very distinct advantages with exporting. The first is that is less costly than other modes of entry since the company does not have to establish manufacturing operations in the foreign country, which often has substantial costs. The second is that the company might receive substantial scale economies from the global sales, due to manufacturing being located at a centralized location and the products then exported to other markets (Hill, 2007).

There are however also several disadvantages with exporting. First, if there is the possibility to manufacture the company's product at a lower cost abroad it might not be appropriate to export from the company's home country. A second disadvantage with export is high transportation costs that can make exporting uneconomical for the company. In addition high trade barriers and tariffs can make exporting uneconomical, creating a third disadvantage with export. The fourth disadvantage arise when companies outsource its sales, distribution and marketing to other companies, since they might carry competing firms products as well and so creating divided loyalties (*Ibid*).

## 2.5 Modes of entry

Companies may sometimes consider it impossible or maybe just undesirable to export from domestic production to a foreign market. There are several advantages to produce in foreign markets among others the production costs are lower and also the fact that the company is closer to the foreign customer. Being closer to the customers gives the company a better understanding of the culture and customers needs, like product design or delivery. The companies have a wide range of different modes of entry to choose from mainly licensing, joint venture or foreign direct investment (FDI) (Hollensen, 2007).

### 2.5.1 Licensing

Licensing is a way for companies to establish themselves in a foreign market and to set up local production without having to invest too much capital. This is an arrangement where the license giver called the “licensor” gives the receiver of the licence called the “licensee” something of value and in return the “licensor” receives payment from the “licensee” (*Ibid*). The license gives the “licensee” the right to use one or more of the following things:

- A patent covering a product or process;
- Manufacturing know-how not subject to a patent;
- Technical advice and assistance, occasionally including the supply of components, materials or plant essential to the manufacturing process;
- Marketing advice and assistance;
- The use of a trade mark/trade name

There are several strategic factors for using licensing; one factor is that the licensor firm will remain *technologically superior* in its product development. It wants to concentrate on its core competences (product development activities) and then outsource production and downstream activities to other firms.

Another reason is that if *government regulations* restrict foreign direct investment or if political risks are high licensing may be the only realistic entry mode. In addition there may be *constraints on imports* into the licensee country (tariff or non-tariff barriers).

A further factor is that even if direct royalty income is not high *margins on key components* to the licensee (produced by the licensor) can be quite high (Hollensen, 2007). Furthermore, the licensor do usually *not have to bear the development costs and the risks* of entering a new market, because typically the licensee puts up most of the capital needed. Another factor for using licensing is that if a company possess *intangible property* that has business applications but does not want to develop those applications then licensing is a good way to receive income from those products (Hill, 2007).

There are not only advantages with licensing but also disadvantages, there are three main disadvantages with licensing, the first being that companies *do not have the tight control* over marketing, manufacturing and strategy that is necessary to benefit from location economies. Since each licensee establish their own production operations which limits the company's ability to benefit from producing at a centralized location. The second disadvantage is that it limits firm's *ability to coordinate strategic moves* across different countries by using profits from one country to support activities in another country. The third and last disadvantage is that a company may *lose control over their technological know-how*, which constitutes many firms competitive advantage (*Ibid*).

### **2.5.2 Joint venture**

A joint venture is when two or more companies establish a partnership and is it an international joint venture then the companies will be located in different countries (Hollensen, 2007). There are several reasons to establish a joint venture some of them are the following:

- Complementary technology or management skills provided by the partners can lead to new opportunities in existing sectors (e.g. multimedia, in which information processing, communications and the media are merging).
- Many firms find that partners in the host country can increase the speed of market entry.
- Many less developed countries, such as China and South Korea, try to restrict foreign ownership.
- Global operations in R&D and production are prohibitively expensive, but are necessary to achieve competitive advantage.

- The use of local managers give companies access to knowledge regarding cultural differences, and how to solve the issues it poses.
  - Not as costly as acquisitions (Hollensen, 2007).
  - The company receives the partner's knowledge of the country's language, culture, business system and political system.
  - The company share costs and risks with the local partner.
- (Hill, 2007)

When establish a joint venture the difference in organisational culture between the companies may pose a serious issues for the companies it is therefore important to develop a shared culture. The language differences also cause a problem when it comes to international joint ventures. Companies have to carefully study the local culture in order to avoid the joint venture to fail it is usually preferred to use local managers to avoid the risk of failure due to cultural differences.

There are three other major disadvantages with joint venture which are the following:

- Just like with licensing the company risks losing control over its technological know-how.
  - The company also lose the tight control over the subsidiaries it might need to benefit from location economies.
  - The arrangement of shared ownership may lead to conflicts regarding control since the different companies' objectives and goals might change or if they have different views on the strategy and what it should be.
- (Hill, 2007)

### **2.5.3 Foreign direct investment**

Foreign direct investment or FDI is something that takes place when companies invest directly into local facilities. There are two main forms of FDI, Greenfield investment which is to establish a completely new operation in a foreign country, or acquisitions which are to either acquire or to merge with a company that is already established in the foreign country (*Ibid*). FDI is beneficial for the company but also for the country receiving the FDI (Alan Jones, Grahame Fallon and Roman Golov, 2000).



### **2.5.4 Acquisition**

In a market that is highly competitive or there is high entry barriers, acquisitions may be the only way for a company to establish themselves in the market. Companies that choose acquisition as their mode of entry gain the ability to enter the new market rapidly, which is important considering how quickly markets evolve (Hill, 2007).

They also gain an existing customer base, access to the acquired firm's distribution channels and sometimes the other firms already established brand names or their highly valued corporate reputation. In addition, the company may also in some cases manage to keep the existing management, which will help them gain experience in the local culture and market environment (Hollensen, 2007; Hill, 2007).

Another reason that companies acquire other companies is, since it is believed that it might be able to increase the efficiency of the acquired company by transferring technology, management skills and capital (Hill, 2007).

### **2.5.5 Greenfield**

Companies may in order to avoid the difficulties associated with acquisitions, feel the need to establish operations built from the ground up and also if there are no appropriate companies to acquire or they are too costly. The benefit for establishing wholly-owned operations is the ability to incorporate the newest equipment and technology, and furthermore to avoid the issues that may come when trying to change the company culture of the acquired firm. Besides a brand new operation gives the company the ability to shape the local firm's requirements and image as they please (Hollensen, 2007).

There are several advantages with wholly owned subsidiaries:

- It reduces the risk of losing the company's technological know-how.
- It facilitates global strategic coordination since the company receive tight control over their operations in different countries.
- The firm can benefit from location economies.
- The company receives all of the profits that are generated in a foreign market (Hill, 2007).

However there are also some disadvantages with wholly owned subsidiaries:

- It is the most costly and risky method of entering a new market because the company carries all of the costs and risks by itself.
- The company do not gain access to other companies experience regarding the new country's culture, and learning to do business in a new culture may cause several problems for the company and be extremely costly.
- Acquisitions raise a further problem of trying to incorporate different companies' cultures which may cause problems that more than offset the benefits received by acquiring an already established firm (Hill, 2007).

## **2.6 Economic models**

There are several economic models developed to analyse how culture affect company's different business areas.

### **2.6.1 The Uppsala Internationalization model**

In the 1970s, several Swedish researchers at the University of Uppsala studied the internationalization process of firms and their findings showed that companies initially moved to nearby markets and gradually moved to markets further away. They also found that companies first entered markets through export, and then after several years established wholly owned or majority owned operations. They identified four different stages companies went through when entering a new market, each stage leading to more international involvement and increased risk taking. The model is called The Uppsala Internationalization model, and the four stages are:

- Stage 1. No regular export activities (sporadic export).
- Stage 2. Export via independent representatives (export modes).
- Stage 3. Establishment of a foreign sales subsidiary.
- Stage 4. Foreign production/manufacturing units.

(Hollensen, 2007)

### 2.6.2 Hofstede's model

Knowledge of cultural differences may provide managers with useful guidance when developing different strategies for a company, but managers do not always have the time or resources to obtain this knowledge. In 1983 Hofstede developed a model trying to explain why some concepts of motivation did not work in different countries the same way they did in other countries. Hofstede came to the conclusion that people in different countries perceive and interpret their world along four dimensions.

The first dimension is *power distance* which refers to the difference between people in educational and physical terms stretching from relatively equal to extremely unequal. In societies with high power distance the power is concentrated to the few people at the very top of the organisation who makes all the decisions and the other people beneath the top level carry out the decisions. They are more accepting to the difference in power and wealth. However in low power distance societies the power is widely dispersed and more individuals participate in the decision making process, less hierarchy than in high power distance societies.

The second dimension of the model is *uncertainty avoidance* which regards the degree to which people in a country either prefers formal rules, for instance laws, and fixed patterns of life, for instance career structures, called high uncertainty avoidance societies, to enhancing security. On the other hand they might prefer a low uncertainty avoidance society where one face the future as it takes its shape. However in high uncertainty avoidance society's managers formulate, to avoid anxiety for the future, long-term planning and structure.

*Individualism* is the third dimension of Hofstede's model, that regards the degree to which people learn to, rather than acting as members of groups, act as individuals and being more self-centred and not depend as much on other people. Furthermore they also work towards fulfilling their own goals instead of the group's goals. Nevertheless in very less individualistic society's managers have a high loyalty towards the company and prefer joint decision making (Hollensen, 2007).

The fourth dimension in the model is *masculinity* which refers to the degree to which so called masculine values like achievement, success and money is regarded to a higher degree than the more feminine values as for instance, quality of life, service and solidarity. In typical masculine societies, like the United States of America, anything big is perceived as important, unlike in feminine societies were smaller things are considered to be more important, in countries like Denmark and Sweden.

The final and fifth dimension of the framework is *time perspective*; this dimension was developed by Hofstede and Bond in 1988, and defines the way members in an organisation look at the future in either a long-term orientation or in a short-term orientation. The long term orientation is about persistence and ordering relationships by status and the short term orientation include personal steadiness and stability (Hollensen, 2007).

Some of the strengths of Hofstede's model are that no study has ever been based on such a large sample and it makes comparisons between national cultures and looks deep in to cultural values. One of the weaknesses of the model is that the respondents only work in a single industry, the computer industry (Hollensen, 2007).

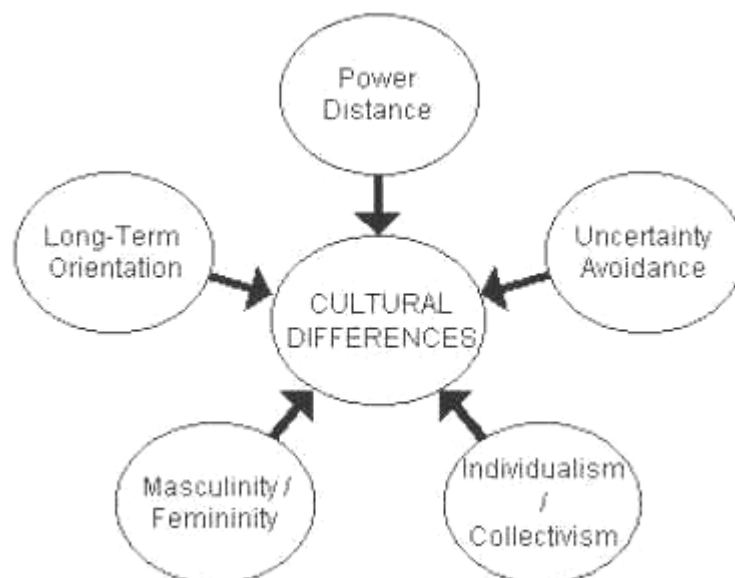


Figure 2.1: Hofstede's Model of Cultural Differences (From: Jonathan Frank and Janet Toland, "Email as a learning technology in the South Pacific: An evaluation", Educational Technology & Society 5 (3) 2002 (Available at: [http://www.ifets.info/journals/5\\_3/frank.html](http://www.ifets.info/journals/5_3/frank.html)))

### 2.6.3 PESTEL model

The PESTEL framework has categorised six main types of macro-environmental influences that has an effect on a company:

- Political
- Economic
- Social
- Technological
- Environmental
- Legal

These factors are not independent of each other instead many of them are linked and affect each other. If one of them change it is most likely that one or a few other also change thereby changing the organisations competitive environment. The PESTEL framework is best suited for looking at the future impact of environmental factors, since the future impact may not be the same as the past impact. The most interesting part of the PESTEL framework for us and our research is of course the socio-cultural factors see figure 2.2. (Johnson *et al.*, 2006)

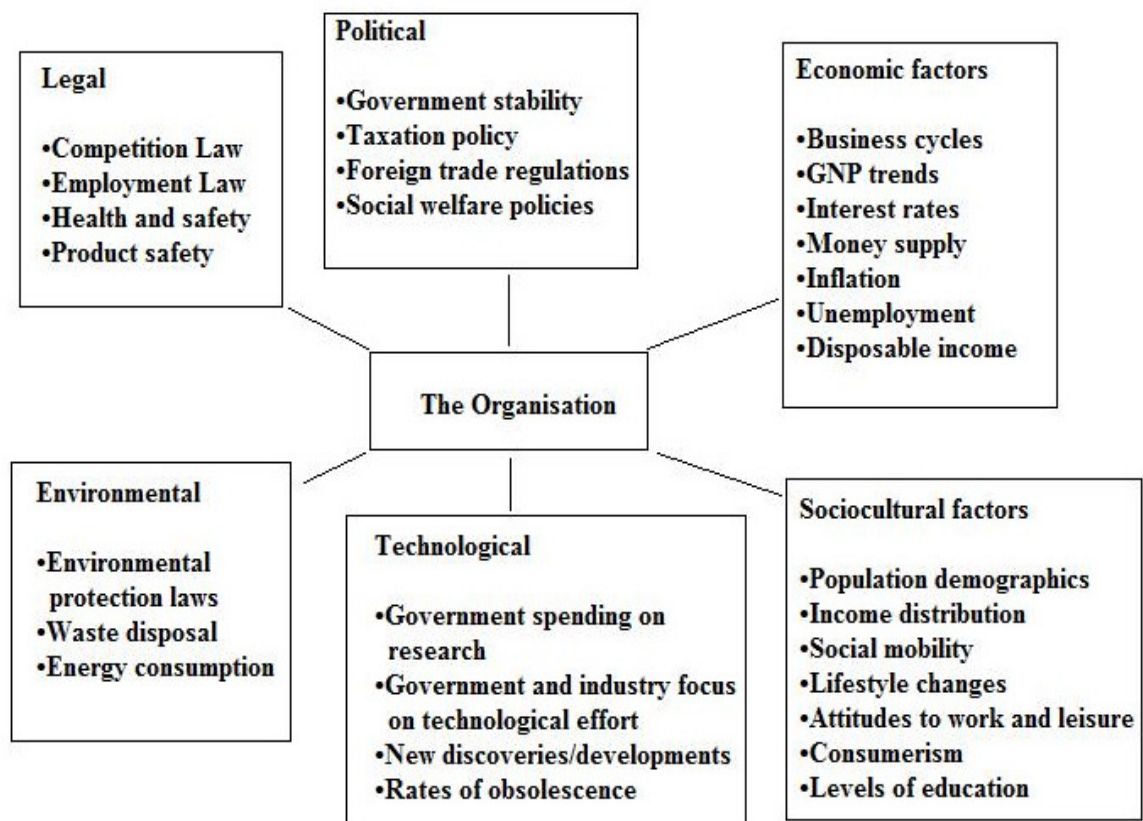


Figure 2.2: The PESTEL framework (From: Johnson *et al.*, 2006, p 68)

## **2.7 Culture and marketing**

Culture differs from country to country and therefore poses a problem for companies, since due to it they have to plan their marketing strategy to fit the individual country's culture in order to be successful. Since culture is a combination of values, beliefs and attitudes, what works in one country may not work in another. The tradition part of culture is one of the most important aspects of cultural differences, mainly so for food and beverages companies, since eating habits vary between different countries and cultures (Hill, 2007). Culture also plays an important role for companies when it comes to understanding customer behaviour and their decision-making process, so in the end culture affects people's consumption (Jobber *et al.*, 2006).

Therefore it is of most importance for companies to conduct in depth marketing research in order to know how certain things work in the foreign marketplace, this to help them choose the right promotional mix that fits the country's culture the best. Over the years, several models have been created in order to help companies develop their marketing planning (*Ibid*).

The management of the marketing mix is a very important activity for the company since several of the key points in the marketing mix, product, price, promotion and of course people, is affected by a countries culture, see figure 2.3.



Figure 2.3: The Marketing mix model, (Available at: <http://www.provenmodels.com/13/four-principles-of-the-marketing-mix/mccarthy>)

When it comes to the *product* the company has to consider which products that should be offered to the customers, since not every product can be sold all over the world due to different tastes and preferences that are determined by the cultural aspects of a consumers country. In addition, the company also has to consider the brand name and the packaging of the product in order to make it suitable for the individual country's cultural preferences (Jobber *et al.*, 2006).

*Price* is another factor that the company has to consider because people in different countries and in different cultures are more or less price sensitive. In some cultures people prefer a product with a low price over the product that is higher priced, but at the same time has slightly better quality. Whereas on the other hand people in some countries are prepared to pay more in order to receive better quality.

The *promotion* of the product also has to be designed to fit the individual countries culture. Regarding the promotional mix the company use to market

themselves, it consists of advertising, sales promotion, sponsorship, direct marketing, internet marketing and personal selling. The other thing that also has to be tailored to fit the country's culture is the message or the form of the promotion, for example, humour in the business life might be accepted in countries like the UK and Italy, but it might not be accepted in France or Germany (Jobber *et al.*, 2006).

In regarding to culture the last thing a company has to consider in their marketing mix is the *people*, and research customer behaviour, since they are the ones that will buy the product, but they may also be employed by the company. And they may have different work ethics and management styles that can collide with the company's corporate culture, so the company has to devote time to research the work culture in the company they plan to work with. Because if the company studies the work culture in the other country they may avoid problems related to cultural differences, in addition hiring employees native to the country may ease the cooperation between the different corporate cultures, as well as give the company knowledge of the new market (Charles Jonscher and Ashley Summerfield, 1994; Dianne S. Lewis, Erica French and Peter Steane, 1997).

## **2.8 Summary of the literature review**

In this final part of the literature review, we are summarizing the models that are used in the dissertation. We want to clarify the purposes of all frameworks and theories, see table 2.3. It is also of importance to display how all of them are influenced by cultural differences, and why they are featured in the research. The theories and models presented in the literature review have all interacted when creating the questions for the interviews.



**Table 2.3 The summary of the literature review**

<b>Model</b>	<b>Theory</b>	<b>Relevance</b>
<i>The Uppsala Internationalisation model</i>	This model contains four different stages of the internationalization process.	This model is used to see if the companies are following the different stages of it, or if they chose another way because of the cultural differences of the new market.
<i>Modes of Entry</i>	The different ways in which a company enters a foreign market; export, FDI etc.	If the companies did not follow the stages in the Uppsala Internationalization model, we want to analyse what modes of entry they chose instead, and why they did so.
<i>Hofstede's Five Dimensions model</i>	Five factors of culture, that can affect a company's structure, hierarchy, strategy etc.	With this model we will examine how the five factors have affected the companies, in relation to what is stated in theory, since all of them have an effect on a company when it is entering a new market and its choice of mode of entry.
<i>PESTEL framework</i>	A framework that contains six different factors, which describe a country's macro-environmental influences.	The important aspect of this model for our study is the category of social influences, since different socio-cultural factors are described in that category. These factors may have an effect on the cultural differences between countries and therefore on the organisations competitive environment.
<i>The Marketing Mix model</i>	Displays what tools of marketing that a company may use to market their product.	We will use this model in order to see if it may reveal any other issues caused by cultural differences that have not been revealed by the other models. Therefore, this model may help us to further analyse how cultural differences can affect these four aspects, regarding for instance price sensitivity, mode of entry and marketing strategy, and what companies have done to solve these issues.

## Chapter 3

### Method

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This chapter, firstly, explain our choice of methodology, data collection method and research approach. Further, it presents our research philosophy and finally a summary of the dissertations' method is made.

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#### 3.1 Choice of methodology

Our aim is to find out more about problems with cultural differences when Swedish companies are entering emerging markets. Mostly, we will use the past experiences of a few companies as foundation for the dissertation. To be able to analyze the answers we will get from our respondents, we will use theories and models that explain how companies should encounter cultural differences in different situations. We want to see if there is any difference between theory and reality.

We will look at different literature on cultural differences, globalization and emerging markets. In order to find answers, we will use articles on the Eastern European countries. This to get more knowledge on what some Swedish companies encountered when the companies entered these markets in the early and mid 90s.

The purpose of this dissertation is not to be able to generalize about our findings, but to increase the knowledge of the problem. The countries of the world work in different ways, and what works in one place does not necessarily work in another place. We want companies to realize the complications that different cultures can bring, and because of those carefully plan moves into new markets. We will do this by showing what theory suggests, and what Swedish companies actually did.

### **3.2 Data collection method**

Our field of research is not a new one, and there is plenty of literature on the subject of cultural differences. The most famous author is probably Hofstede, who has written several books on the subject. We are also looking at other authors' work when writing the theoretical review. When choosing the information for the dissertation, we have three criteria that the literature has to meet. It must be *contemporary, in a language that we can understand and related to our subject*.

In the dissertation we are using two different types of data; *secondary data* and *primary data*.

#### **3.2.1 Secondary data**

Secondary data is information that has already been collected by other people in other researches, and includes both quantitative and qualitative data. Secondary data can be divided into three main groups; *documentary data*, *survey-based data* and data compiled from *multiple sources*.

The documentary data that we collect is from the company's websites, from articles in journals and newspapers and from books written on the subject, these sources of data are called *written materials* and together with *non-written materials* it forms the subgroups for documentary data. Furthermore, documentary type of data is often used in research that also use primary data collected by different methods, in our case by a questionnaire.

The advantage of secondary data is that it saves time since it has already been collected, and it is also less expensive to use secondary data than primary data. The secondary data is likely of higher-quality than the data that is collected by the researcher himself, and the data can be used in comparison with the primary data (Saunders *et al.*, 2007).

#### **3.2.2 Primary data**

Primary data is new data that is specifically collected for the research, and the data can be collected in several ways, for instance through *observations* or by *interviews*. The use of interviews is a useful way of gathering valid and reliable data that is relevant for the research.

There are several different types of interviews, they can be either, highly structured and formalised or they may be unstructured and informal conversations, and in the middle is the semi-structured interview. The interview form that we use for this dissertation is the semi-structured form, since we do not use the same questions for all companies, only for some, and we do not use pre-coded answers, as is done in structured interviews. In addition, during the interviews additional questions or follow-up questions may be asked in order to deeper explore the questions and/or the answers, this is not something that is done in a structured interview. Since we use a predetermined list of questions we are not conducting unstructured interviews.

The semi-structured interviews are normally used to analyse data in a qualitative way, and since the data in our dissertation is of a qualitative nature, it is another reason that the semi-structured interviews fit our type of research. Semi-structured interviews are also used when the study is of an exploratory form, as ours is since the research analyses in what way cultural differences create issues for a company.

There are several issues with using semi-structured interviews, because the interviewer may unintentionally affect the person being interviewed due to, for instance tone or non-verbal behaviour, which is called interviewer bias. There may also be a so called *interviewee bias*, this means that the person being interviewed do not answer the questions completely honest, because for example the person being interviewed do not trust the interviewer, which will affect the validity and reliability of the information received (Saunders *et al.*, 2007).

### **3.3 Research approach**

In order to find answers for our aim, we conduct interviews with some companies that have moved into the markets that are selected for our research. Those companies are picked because of various reasons, for instance our own knowledge of them. The interviews will hopefully give us a deeper understanding of the problem, and provide enough information to draw a good conclusion which can give other companies, thinking of moving to emerging markets, a helping hand.

The interviews are held during personal meetings with representatives from the selected companies. Mostly, because we hope that a personal meeting will give us better understanding of the problem. If something is misunderstood during the interview, it will be easier to correct the error when sitting face to face with the respondent. The risky part of the interviews is of course the respondent, since he or she will be crucial for our research. It is up to a company to choose the representative, and we can only hope that the company will choose a person with a lot of important information on our field of choice.

Before we conduct the interviews we will study previous research in the field. Hopefully, we can contribute more to the interviews if we have good basic knowledge on the problem, enabling better discussions with the respondents.

When we analyze our findings, we will look for patterns in the respondents' answers, and try to see what parts that can and cannot be generalized when it comes to entering emerging markets. Maybe some things are specific for Ukraine for instance, while other parts can be applied to all emerging markets.

The last step of the research will be to put it all together, and make it easy to cope with. We are hoping that our final report will work good as a guideline for companies interested in going abroad, showing them the problems and the benefits that this kind of action can bring them.

### **3.4 Research philosophy**

The “research onion”, see figure 3.1, Saunders *et al.* (2007) present three major research philosophies; *positivism*, *realism* and *interpretivism*. The research philosophy we will use in this dissertation is interpretive, since the business world is far too complex to be summarized into “laws” that can be generalised to different situations and companies, like the positivistic philosophy states. The interpretive philosophy on the other hand argues that business situations are both unique and complex and they are a function of special individuals and circumstances, since all organisations are unique. The rich complexity of the differences in national culture leads to the fact that our research will not be fully generalizable too other companies, but it might give them an idea how to solve cultural issues. However, generalisability is not a crucial factor in our dissertation

and is not of highest importance in the interpretive philosophy. The use of a questionnaire, to gather the information needed from companies, is a method that fits well with the interpretive philosophy, since it emphasise on conducting research among people instead of objects.

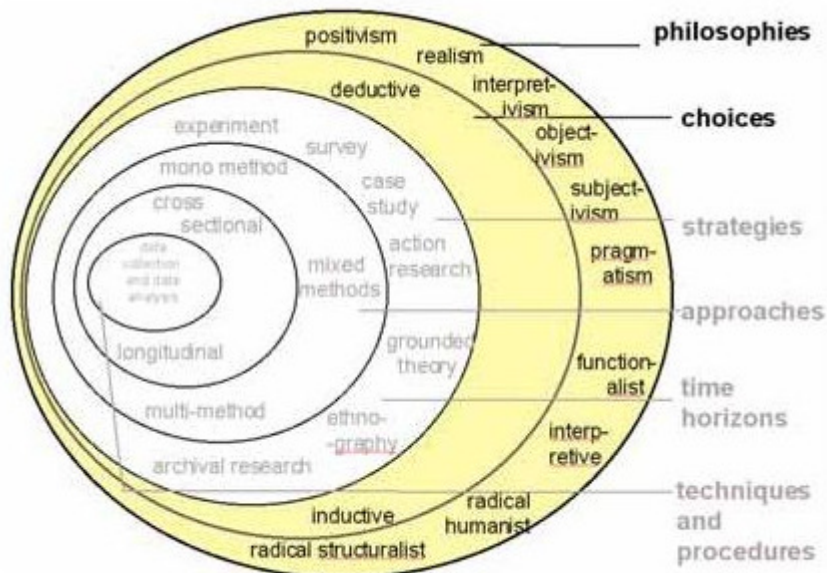


Figure 3.1: The “research onion” (From: Saunders et al, 2007, p 102)  
 (Available at: [http://vig.pearsoned.co.uk:8081/catalog/uploads/Saunders%20\(chapter%204\).pdf](http://vig.pearsoned.co.uk:8081/catalog/uploads/Saunders%20(chapter%204).pdf))

### 3.5 Deductive and inductive approach

Our research approach is of a deductive nature, called a "top-down" approach. This is because we began by formulating a research theory that we then narrowed down to specific research questions. These questions will then be answered with the information we receive from our questionnaire to the companies.

Our approach is not of an inductive nature since we did not start with the answers and then formulated the questions/theories as is done in an inductive approach. The inductive approach is also called “bottom up” approach, the total opposite of the deductive approach.

### 3.6 Summary

To sum up the dissertation’s methodology, we decide on matters such as primary and secondary data, research philosophy and research approach. The secondary data are collected through literature and articles on the topic. The primary data

will be collected through interviews with our selected companies. This dissertation's research philosophy is going to be interpretive, because the business world is too complicated to be summarized into "laws" that can be generalized about. The research approach of the dissertation will be deductive, since we began by creating the research theory, that later was narrowed down into research questions. The whole internationalization process is rather complex, and we believe that more easy accessed information is needed on this field of research. Because of the globalization, companies are being more exposed to competition then ever before, and it is of importance for them to possess knowledge regarding other cultures and cultural differences when doing business abroad.

## Chapter 4

### Empirical method

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In this chapter we are introducing the empirical method. We will discuss research strategy, time horizon and sample selection. Then we are doing an analysis of our interview questionnaire. Finally, we are discussing the reliability and validity of the analysis, and also criticism of the selections.

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#### 4.1 Research strategy

The purpose of this dissertation is to increase the understanding of Swedish companies' moves to emerging markets, and focusing on their culture related problems they are encountering. This is an explanatory research. According to Saunders *et al.* (2007), an explanatory study uses semi-structured interviews in order to get a better understanding of the relationships between variables. The interviews were conducted in semi-structured way, by this we mean that we are allowing the respondent to answer the questions in the way he or she want. We used non-standardised questionnaires, this because it is easier to adapt to the respondents. The meetings are held face to face with one respondent at the time, mostly because we want to create a better contact with the respondent.

The data of the research is qualitative, mostly because we believe that it will suit our dissertation better than quantitative data. The goal of this dissertation is not to be able to generalize, but to create a more in-depth understanding of the problem; therefore, quantitative data are not suitable. The dissertation contains various case studies of different companies' experiences when operating in Eastern Europe.

The questions for the respondents are created with the purpose of giving us enough information to achieve the goal of the dissertation which is to answer the research questions.



## **4.2 Time horizon**

There are two different types of time horizons, cross-sectional and longitudinal studies. Cross-sectional studies means that the research is based on a particular phenomenon at a particular time, and it can also be called a “snapshot” approach. Longitudinal studies differ by looking at development over a certain time period (Saunders *et al.*, 2007).

Since our dissertation is studying the process of entering a new market, and the difficulties that this brings, it is evident that we are using a mixture between longitudinal and cross-sectional studies. By this we mean that we are looking at both the actual entrance and the period of time that it takes to adapt to the new market.

## **4.3 Sample selection**

Our aim is to study how cultural differences affect Swedish companies’ moves to emerging markets in Eastern Europe. The sample selection of our dissertation consists of Swedish companies from different industries, which are operating in Eastern Europe. Due to our limitations and time deficiency we decide to investigate a smaller group of companies that are doing business in Eastern European countries, mainly Russia. We contacted 10 different companies in Sweden, but unfortunately we only received answers from two of the companies, Culinar and Bong Ljungdahl. Due to this our study of cultural differences did not become as wide as we first had hoped, and the low sample selection also had a negative effect on our research reliability. Another negative effect of the low number of companies is that the similarities on how companies have solved different cultural issues become less obvious. Because the more companies the more obvious the similarities will become.

Using the questions from our questionnaire we conducted a semi-constructed interview with Kristine Nilsson the sales director of Eastern Europe at Culinar. The interview lasted for approximately one and a half hour and during the interview further questions than the ones from our questionnaire were asked in order to receive more in depth information.

At Bong Ljungdahl we also used our questionnaire questions to conduct a semi-constructed interview with the President and CEO of Bong, Anders Davidsson. The interview with Mr. Davidsson lasted for approximately one hour and also during this interview non scripted questions were asked.

#### **4.4 Reliability**

Reliability means to what degree the data collection techniques or analysis procedures are receiving the same answers each time they are applied. When it comes to qualitative research, the question of reliability is if other researchers achieve the same knowledge as we do (Saunders *et al.*, 2007).

There are four threats to reliability; *subject or participant error*, *subject or participant bias*, *observer error* and *observer bias* (Saunders *et al.*, 2007).

*Subject or participant error*, may occur if a person interviews people at different times, for instance at different days of the week, then the results may vary since people are probably in a better mood on Friday afternoons than on Monday mornings which will be reflected in their answers (Saunders *et al.*, 2007). This is not a threat that will affect our study because we only interview one person at each company so we will not receive different answers from several people.

The threat of *subject or participant bias* may occur when the interviewee's answer according to what they think their bosses want them to say. It may also occur if the interviewee's answer according to what he thinks is "politically correct" (Saunders *et al.*, 2007). The threat of subject or participant bias is limited in our study, because we interviewed people higher up in the organisation; at Culinar we interviewed the Sales Director of Eastern Europe and at Bong we interviewed the President and CEO. However, the threat of receiving "politically correct" answers is present since we asked questions regarding corruption.

The threat of *observer error* occur during the interview when more than one person ask the interviewee questions, since each person ask the question in a different way and this may therefore lead to different answers (Saunders *et al.*, 2007). We decreased this risk by only having one person asking the questions and to follow the questions formulated in our questionnaire.

*Observer bias* is when the interviewer affects or misinterprets the answers from the interviewee (Saunders *et al.*, 2007). Since all three of us were present during the interviews we got three ways of interpret the answers and a high risk of misinterpretation. We limited this threat by verifying during the interview that the interpretations we made were correct, meaning that we ask if something was unclear to us regarding the interviewees answers, for example “did you mean that you solved the issue by doing like this (A) or did you mean you solved it by doing like this (B) ?”. We further limited the risk of misinterpretation by having all three of us taking notes during the interview, which we afterwards compared in order to see if we interpreted the answers in the same way, thereby making sure that we had understood the interviewee correctly.

Despite of the threats that might affect the reliability of our study, we feel confident that it is at a high level since we took several precautions in order to decrease the different threats.

#### **4.5 Validity**

The validity of a research signifies how well the result of it may be measured according to what the researcher wants to measure. There are two types of validity; *internal validity* and *external validity* (Saunders *et al.*, 2007).

*Internal validity* means the credibility of the study, in other words how well the actual results agree with reality (Christensen *et al.*, 2001). We believe that our study has a high level of internal validity for several reasons; the first reason is that we began by formulating our research questions and then formulated the interview questions for the questionnaire, which we used as a guideline during the interviews in order to not forget to ask a question. Thereby, we made sure that the questions in our questionnaire, that we asked the interviewee, were related and connected to our research questions and the purpose of our study. The second reason is that we conducted interviews, which increased the validity since we could make sure that we did not misinterpret the answers we were given. Furthermore, we could ask follow-up questions if something were unclear, thereby giving us great access to their knowledge and experience. Also the respondent could ask us to further explain something if it was not clear. The final reason is that we were very systematic when choosing models and theories to be

used to analyse our findings, and we were very open about which ones we chose and how we used them, thereby giving the study a high credibility and therefore a high validity.

*External validity*, sometimes also called *generalisability*, refers to the extent of which the results of the research may be equally applicable to other research settings (Saunders *et al.*, 2007). Our study has a low level of external validity since it cannot be generalisable due to several reasons; the first reason is, since we only studied a small and unrepresentative number of companies the results cannot be generalisable to other companies or other business sectors. The second reason is, that the purpose of the study was not to produce a generalisable theory, but to try to explain a problem that companies are facing. The third reason is, that business situations and organisations are all unique and complex, thereby making it impossible to generalize the results and summarize them into general “laws” that can be applicable to different situations and organisations. The final reason is, when conducting a qualitative research, using semi-structured interviews, one will not be able to make generalisations according to Saunders (2007).

## **4.6 Operationalization**

### **4.6.1 The interview questionnaire**

The questions in our questionnaire can be seen as unclear and hard to grasp, and in this part we want to increase the certainty of them by making the purpose of them clear and easy to understand. This will be made by connecting the questions to our theoretical framework. Each question is based on and related to the theory and the research questions of our dissertation. The questions were constructed after studying our field of research, and then they were formed with the purpose of answering the dissertation’s research questions, and thereby getting closer to the aim.

All interview questions, except questions 12 and 13, are measured by asking the interviewees to explain the difference between the domestic- and the foreign market. The specific differences are due to cultural differences. These differences will be used as a foundation for the analysis of the empirical findings.

**Questions 1 through 4** are based on consumer behaviour, which is related to socio-cultural differences and how these affect a company when entering a new market. In the theoretical chapter, the PESTEL framework displays how differences in socio-cultural factors might influence consumer behaviour and effect company's strategies and choice of mode of entry.

- 1) Here we want to see which factors, when it comes to consumer behaviour, that are influenced by cultural differences. Mostly, we want to know how advanced the marketing researches of the companies are. Did the companies conduct any marketing researches when going to the foreign market?
- 2) By asking the companies this question, we want to find out if there are any specific cultural differences in consumer behaviour in Eastern Europe. Are there any particular differences in consumer behaviour in this region, compared to the domestic region? And what cultural differences are affecting these behaviours?
- 3) This question is related to the previous questions, and here we want to find out how the companies did their marketing research. How important is a marketing research? Was it necessary to conduct a marketing research due to cultural differences?
- 4) Here we want to find out how the companies did their market segmentation, and if it was influenced by any cultural differences. What was the segmentation based on? Do the companies need to segment their products differently from the domestic market?

**Questions 5 through 7** are constructed with the help of the marketing mix model, which shows how the price, place, product and promotion aspects can be affected by different cultures. We choose to focus mainly on the price, because we believe that the majority of the people in the region that will be studied are price sensitive.

- 5) Here we want to see if any cultural differences in the new market affected the companies' pricing strategies. How much did the price sensitivity of the consumers matter when going in to the new market, compared to the domestic market?
- 6) We want to find out if there were any differences in the promotional mix from the domestic- to the foreign market. How was the promotional mix changed, in order to fit the new market? Was it hard to transform the

promotional mix for the new market? Does the same promotional mix work?

- 7) In this question we want a more in depth answer to the previous question. We want the companies to explain their experiences of different countries, when it comes to using the promotional mix. If a new promotional mix was used, what cultural differences were taken into consideration?

**Questions 8 through 10** are focusing on the impact that general cultural differences can have on companies. The models that are being used are the PESTEL framework and Hofstede's five dimensions model. The different culture categories have also been used when constructing the questions. These questions are asked in order to see what cultural differences affect a company, and how they may be solved.

- 8) Our assumption in this question is that the corruption levels are higher in most of the Eastern European countries than it is in Sweden. We want to find out if this assumption is correct. If that is the case, how did the companies deal with this issue?
- 9) Here we want to measure which cultural factors that has been most important when going abroad. We are comparing the Swedish culture with the foreign cultures. Our assumptions are that language, attitude and education are the most important factors, because communication is vital when moving in to a new market.
- 10) We want to find out if there are any differences in the advertising in the new market compared to the domestic market. We assume that there is different legislation regarding such matters in other countries. Is the usage of advertisement the same as the domestic market? Have there been any legal complications?

**Question 11** is also going to be about marketing, and how a company can facilitate the marketing process by using an agency. Furthermore, it is also to analyse if companies are using agencies in order to receive their knowledge and expertise about the cultural differences, and thereby limiting the risk. This question is formulated by looking at some parts of the marketing mix model.

- 11) We want to know how the usage of advertising agencies differs in the new market compared to the domestic market. Do the companies use such

agencies at all? Has any cultural difference affected the companies' choice to use advertising agencies?

**Question 12** is about the different mode of entries that a company can use when going international. The Uppsala Internationalisation model is used to see how the process might look like, regarding which mode of entry that is used and if the internationalisation process of the company follow the theory of the model.

12) By asking this question, we want find out which mode of entry that was used when entering the new market. Did any specific cultural differences affect the choice? Our assumption is that it might be too hard and risky to start of with a Greenfield operation, due to cultural differences like language and legislation.

**Questions 13 through 15** are based on Hofstede's five dimensions model and the PESTEL framework. The aim is to see how power distance, for instance, can vary between cultures. We want to measure how socio-cultural factors can affect the workplace.

13) We want to find out if the companies had to take any cultural differences into consideration when moving in to the new market. We assume that there are differences, when comparing the domestic- and the foreign markets by using Hofstede's five dimensions model. How did the companies adjust to such differences?

14) In this question we want to know if there were any differences regarding the workplace, compared to the domestic workplace. Our assumption is that for example the masculinity vs. femininity ratio is often different from this ratio in Sweden. How can this affect the companies' workplaces? And how did they adjust to the new situations?

15) Here we would like to find out if there has been any different usage of suppliers in the new market compared to the domestic market. Did any cultural differences influence this activity? How did they affect the usage of suppliers?

# Chapter 5

## Interviews

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In this chapter we will make presentations of the companies we have chosen. Further on, the chapter will present summaries of our interviews with the companies.

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### 5.1 Culinar

#### 5.1.1 Company background

Culinar is a Swedish company, with the main office located in Fjälkinge in the south of Sweden. The company's history goes back to the early 20<sup>th</sup> century, when the Svenska Stärkelsefabrikernas association was founded. This association assembled almost all of the 140 starch factories that existed at the time in the province of Skåne. In present time, Culinar is part of the Lyckeby Stärkelsen Group, a co-operative owned by about 1000 farmers from Southern Sweden. The company's core business is "taste solutions", meaning that it is manufacturing spices, seasonings and other things that can improve the taste of food. In 1991, Culinar made its first efforts to get into Eastern Europe, this through Latvia. Nowadays the company is present in many countries such as Russia, Poland and China (Culinar, 2008).

In order to find the answers for our questions regarding Culinar's Eastern European operations we made contact with Kristine Nilsson<sup>1</sup>, the sales director of Eastern Europe. The meeting took place at the main office in Fjälkinge, where we had the opportunity to interview Ms Nilsson.

The interview was semi-structured, meaning that we used a questionnaire (see appendix 1), but we also allowed the interview to be flexible. If someone came up with a good question during the interview, it was asked. Ms Nilsson answered the questions, but also added other useful information.

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<sup>1</sup> See references



### **5.1.2 The interview**

Firstly, Culinar is a company that is doing business to business, and has no real contact with the end consumer. The company first entered Eastern Europe in 1991, and it is today present in Latvia, Russia, Poland, the Czech Republic, Ukraine, Slovakia and Hungary. The reason that Culinar went into those markets in the first place was the competition. The West European markets were crowded, while those in the East were untouched.

The mode of entry that was used was export to independent distributors, this because it was considered better to allow native people to deal with the distribution. For instance, the attitude of the company was that one has to be Russian in order to do business in Russia. The way in which business is done in Russia cannot be compared to the way it is done in Scandinavia. Ms Nilsson gave some examples of this, and one was that business people in Russia are not as straight forward as the ones in Scandinavia. If a Scandinavian customer says that he or she is satisfied with the product, he or she is more likely to actually mean it than a Russian customer. Ms Nilsson also explained that business is more relationship focused in Russia than in Sweden.

When starting up a sales office in Moscow, Culinar received helpful information on Russian culture from its own Russian employees. A simple but good suggestion from an employee was that Russians like to consume mayonnaise, which created business opportunities for the company. Another vital source of information was the Swedish Trade Council, which is an organization specialized in managing cultural differences between countries.

Culinar did not conduct any market research before entering these markets, mostly because it was not associated with any greater risk. The cost of entrance was not high, and therefore, the company felt that it was relatively safe to take a chance on the East European markets. The marketing that was used when entering the Russian market was mainly a trade fair in Moscow. In addition, articles and advertisement in trade press is part of Culinar's promotional mix. The company website has also been useful when exposing the product range.

One thing that Ms Nilsson says is essential when doing business in Eastern Europe, as mentioned above, is the importance of the relationship to the customer. Therefore, one has to take that into account when marketing a product, business to business, in those markets.

A problem in Russia, and in many other countries, is the corruption that is integrated into the society. Bribes are common, and considered normal by many. Culinar does not want any part of this, and has lost business opportunities because of that policy.

In Russia, the diversity of products is not great compared to Scandinavian countries. Normally, the consumer does not have many choices, but the choice of high- or low quality. This can be explained by the gap between rich and poor people in Russia. Most of the people purchase products only because they cannot afford higher quality. Generally, the gap between rich and poor is not as big in Sweden, and because of this the diversity of products is higher.

Management is often different in Russia compared to Sweden. In Sweden, organizational culture tends to be more flat, while it is more hierarchical in Russia. Russian managers have a tendency of being more like the old style “boss”, meaning that they want to show their employees that they are the ones in charge. Occasionally, when Culinar is dealing with customers in Russia, business to business, the customers desire to deal with managers at a high level within Culinar, in order to feel important.

The most common problem, regarding cultural differences, is the language. To solve this problem, Culinar has used interpreters.

## **5.2 Bong Ljungdahl**

### **5.2.1 Company background**

Bong is an old Swedish envelope production company that was founded in 1737 in Lund, Sweden, and in 1808 Bong moved to Kristianstad, in the south of Sweden. In 1997, Bong merged with a company called Ljungdahls and became

Bong Ljungdahl AB, but is usually just referred to as Bong. Bong has facilities in Sweden, Denmark, Norway, Finland, Poland, Germany, Belgium, United Kingdom, Russia, Estonia, Latvia and Lithuania. Bong has an extensive range of envelopes and packaging solutions that can be divided into three sub-groups which are administrative envelopes, advertising envelopes and ProPac. Bong prefers to have a strong local presence, and therefore has a wide spread sales organisation. Accordingly, in every market Bong is operating it has established a sales organisation. Bong is keeping in direct contact with the customers through local representatives, to gain unique insight into the specific envelope requirements in the local market. More than 70% of Bong's products are today tailored to meet customer's specific needs. Local representatives also provide a familiarity with the local language and culture. Bong has about 8000 customers and the 25 largest accounts for approximately 49 per cent of Bong's sales. Most of Bong's sales are conducted through wholesalers since it is offering its customers a cost-effective source for office supplies and is thus a significant sales channel for Bong (Bong Annual Report, 2007).

We had the good fortune to be able to meet and interview the President and CEO of Bong, Anders Davidsson<sup>2</sup>, in order to receive the information needed to answer our questions. The interview was semi-constructed, which means that we used our questionnaire (see appendix 1) but also asked non-scripted questions that emerged during the interview.

### **5.2.2 The interview**

Bong has operated in Eastern European markets for several years. The first one that the company entered was Poland in 1994, then Estonia and Latvia in 2002, and the latest market is Russia in 2006. The reasons for entering Poland in 1994 were the country's high growth rate and the low competition from domestic competitors. Bong started off by exporting from Denmark, this to gradually commit further to the market. When entering Estonia and Latvia, the company did so partly because of the growth rate, but mostly to protect the important Finnish market.

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<sup>2</sup> See references

The Russian market is a little bit different, since there is more bureaucracy involved when exporting to the country. Some toll rates may fright off companies from exporting to Russia, which might be the purpose, because the government wants to protect domestic producers. All the circumstances that have led to Bong's entries into other markets have been more or less at random.

Bong did not conduct any market research before entering any of the given markets, this because it was not related to any greater risk. Mr. Davidsson believes that much of the helpful information on the markets has come from export in the start, and after gaining some experience maybe consider doing the business operation more advanced. Export leads to business contacts, which leads to experience.

Mr. Davidsson thinks that customers in Eastern Europe are similar to those in other countries. He believes that the way in which the personnel works is more different. In Sweden, the management can be open towards the staff, while personnel in Russia require a strong management. A leader in Russia should not show any weakness otherwise his or her employees will lose faith in the manager's ability to lead them.

Another aspect that seems to be more vital in Russia than in Sweden is the importance of financial stimulus for the employees. It is always important to receive fair pay for a job well done, but in Russia this factor seems to be more important than other factors. The loyalty of the employer is generally not that high in Russia, which might be explained by many years of communist ruling. Another relic from the Communist years is the inferiority complex that many Russians still feel towards the West, which makes it more important for foreigners to treat them politely and with respect.

There are problems with corruption in Eastern Europe, but Bong has a policy that says that the company will not take part in any type of those activities. When the company established a factory in Kaluga, a city south of Moscow, the mayor of the city was keen on bringing in foreign investors to the region. This made many processes easier when it came to the bureaucracy involved with the construction. Mr. Davidsson believes that good relationships with politicians and other people

in charge take away the need for bribes. In Kaluga, the mayor wanted foreign investors to come and create jobs for the inhabitants, without the authorities delaying the projects. There were several reasons for starting up a factory in Russia; the labor was cheaper than in Sweden, the company did not have to worry about high toll fees when supplying the Russian market, and the time between ordering and deliverance was shortened.

When it comes to the pricing strategy that was used, Bong did not want to be the low price option. Therefore, they charged more, in order to position the products as premium. Another reason was that the need for high quality products was high at the moment, because people were used to low quality products that were sold during the Communist days.

The marketing that Bong does in Eastern Europe is mostly trade fairs, which are considered to be a bit out of date in Western Europe, but popular in countries like Russia. It is a good way to create business to business relationships, which are important in those markets. Mr. Davidsson believes that a vital part of marketing in Eastern Europe is to invest in business relationships. There is more emphasis on this part of the selling process, and one has to have a good connection to the customer in order to sell. Another interesting aspect of the business environment in Russia is that there is a lack of trust among people when it comes to payments. Bong has solved this by giving shorter credit to their customers, but the company has not had any problems with companies that did not pay their debts.

Generally, East European markets have been good moves for Bong, and it seems that gaining experience from starting with export is a good way of entering them. In order to do business in Russia, a company needs to work together with Russians. It is wise to use some kind of consultant, who understands the ways of business in Russia and knows how to deal with the authorities.

## **Chapter 6**

### **Analysis and discussion**

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In this chapter the result of our findings will be analyzed and discussed. At the end of the chapter our conclusion will be presented, as are self-criticism and recommendations for future research.

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#### **6.1 Analysis of the Culinar interview**

When Culinar is exporting the products to Eastern Europe, the company uses independent distributors. This export option can be called “piggyback”, which is mentioned in the theoretical review. The exporting company is limiting its own risk, while the local distributor gets differentiated products. It can be seen as an exchange of resources. The exporter receives valuable insights into the foreign market, when at the same time leaving the distribution to a company with experience of the foreign market’s culture. This creates an extra middleman, but it can still be more efficient than starting up a distribution system in the foreign market.

##### **6.1.2 Culinar entering Russia**

In order to get proper information on the Russian culture, Culinar hired Russians for its Moscow sales office. This is a good way of getting to know the foreign market, because these people possess useful information on the different culture categories. For instance, in Sweden companies tend to pay their suppliers in time, while this is not as obvious in Russia. Ms Nilsson said that the problem in Russia is not selling the products, but receiving the money after the delivery. If the supplying company has a Russian in the labor force, he or she can tell the management that payment in advance is the standard procedure in Russia. This is just one example of a cultural problem that can be avoided by working together with local personnel; this will be further discussed later in the analysis.

### **6.1.3 Communication**

According to Bannon *et al.*, (2003) all cultures have different ways of communication. Some areas have more similar cultures than others, for instance Northern Europe. Russian culture is not like the culture of Sweden, and this can create communication problems. Therefore, it was a good move from Culinar to bring in Russians when doing business in the country.

### **6.1.4 The Uppsala Internationalization model**

When analysing Culinar by using *The Uppsala Internationalization model*, the results derived from it show that Culinar, to some extent, has followed the different stages of the framework. When Culinar first entered the Russian market over 10 years ago, it did so by *Export via independent representatives* which is the second stage of the framework. It is not until now, several years later, that Culinar is beginning to consider to establish its own wholly owned operations. This is perfectly in line with the research findings of *The Uppsala Internationalization model*, which states that companies only after several years of operating in a market and gaining knowledge of the market and the culture, feel safe to increase their risk by establish wholly owned operations.

### **6.1.5 Choice of mode of entry**

However, it is not only because Culinar felt more knowledgeable about the Russian market that the establishment of a Greenfield investment in Russia is considered, it is also, as Hollensen (2007) writes, to avoid the high Russian tariff barriers.

In addition, the fact that Culinar previously entered the Russian market by using export, also follows Hollensen's (2007) theory. This states that the greater the differences in socio-cultural aspect are the more likely it is that a company will choose an entry mode that has a low commitment of resources and a high level of flexibility. The low commitment and high flexibility will make it easier for the company to withdraw from the market if it is not able to adapt to the market and adjust to the cultural differences of the country (Hollensen, 2007).

### **6.1.6 Consumer behaviour and marketing research**

However, in contrast to Jobber *et al.*, (2006), who writes that culture affects consumer behaviour and that researching consumer behaviour is of most importance for companies, Culinar did not conduct any independent analysis of consumer behaviour or conduct a marketing research. The reason for this is that since Culinar is a business to business type of company it is not selling its products to the end customer. As a result from this, it is not as dependent on understanding the consumer behaviour as a business to customer type of company is.

Instead of conducting a marketing research Culinar hired Russian employees that had vast knowledge of the Russian market as well as an understanding of how the business culture is in Russia. According to authors Charles Jonscher and Ashley Summerfield (1994), as well as Hollensen (2007) and Hill (2007), using native employees makes it easier for companies to avoid issues that are caused by cultural differences.

### **6.1.7 The PESTEL framework and Hofstede**

An analysis of Culinar and its markets using the *PESTEL framework*, reveals that several sociocultural factors affect Culinar. One of these factors is the *income distribution* among the people in Culinar's markets. For instance, in the Russian market there is a big gap between the distributions of income. Most people have a very low income, which results in a high demand for low cost basic products like the products offered by Culinar, resulting in a big consumer group for Culinar.

Another cultural factor that affects Culinar is the *attitudes to work and leisure*, because in Eastern European markets people value a higher income level than people in for instance Sweden do. This is also something Hofstede described in his model as *masculinity* or *femininity*. Since people in Eastern Europe consider income and money to be of high importance, typical of a masculine society, there is a larger risk that they will take bribes in order to increase their income. The problem of bribes has been solved by giving the employees an opportunity to receive high bonuses based on their job performance, thereby decreasing the risk of bribes being accepted by the employees.



The third sociocultural factor, described in the PESTEL framework, which has an effect on Culinar, is the *levels of education*. Due to lower levels of education among the people in Eastern Europe, some of Culinar's production processes cannot be moved from Sweden to Eastern Europe. The lack of higher education and know-how reduces Culinar's ability to benefit from location economies, as described by Hollensen (2007), since it is not able to centralise all of its production and development to lower cost countries. This has a negative effect on Culinar's profitability, since it cannot take advantage of establishing production in countries with lower salaries and in addition it results in increased distribution costs for Culinar.

In Hofstede's model, the difference between people in educational and physical terms is referred to as *power distance*. According to Hofstede, Russia for example, is a high power distance society since there is a vast difference between peoples educational level. Furthermore, Russia has a very strict hierarchy, which is also found in the high power distance society. Since Sweden is not a high power distance society this cultural difference between the countries creates issues for Culinar, as mentioned earlier.

## **6.2 Analysis of the Bong Ljungdahl interview**

Bong first got into Eastern European markets through export, which seems to be the most common mode of entry. It is related to relatively little risk, and gives the company an opportunity to gain experience of the market. In fact, Bong did not conduct any market researches before entering any of the Eastern European markets that it is in. Instead Bong entered when it felt like the right time for the company, chancing a little bit on the markets. After seeing the results of these actions, the company must be satisfied with the outcome. The key to these markets, especially Russia, seems to be using people with origins from the different markets cultures. For instance, management is quite different in those countries compared to Sweden, and a Swedish manager could encounter difficulties when managing in Russia. Mostly, organizations are built around a strong management, while Swedish organizations tend to be more flat.

When it comes to problems related to basic differences of culture, such as languages and norms, Bong has encountered both positive and negative ones. When it turned out that some managers in Poland were corrupted, this is to some extent normal in that culture, the company was forced to take action. Bong started to do random samples in the accounting department of the company's Polish branch, in order to eliminate the corruption of the managers. The CEO of Bong, Mr. Davidsson speaks, although not fluently, a little Russian, which has been appreciated when he is visiting the Russian branch. The effort to speak their mother tongue shows a sign of good will, and gives him more credential. These are some examples of how cultural differences can turn into both positive and negative things.

### **6.2.1 The Uppsala Internationalization model**

The results from analysing Bong by using *The Uppsala Internationalization model* shows that Bong has followed the different stages of the model. This is because Bong initially used export through *independent representatives*, which is the second stage of the model, as its mode of entry when entering the markets. Bong continued with establishing *a foreign sales subsidiary* which is the third stage, and after some years Bong established its own wholly owned *foreign production*, which is the fourth and last stage of the model. The reason for establishing its own operations is because the management felt more confident with their knowledge of the market and were therefore willing to increase their risk exposure, as stated in *The Uppsala Internationalization model*.

### **6.2.2 Choice of mode of entry**

Bong also established its own foreign production, not only due to the increased knowledge, as Hollensen (2007) writes, but to avoid the high tariff barriers imposed by Russia.

The initial use of export also follows Hollensen's (2007) theory stating, that in countries with high differences in socio-cultural aspects, companies are more likely to choose a mode of entry with low commitment of resources and a high level of flexibility. The reason for that is to make it easier for the company to withdraw from the market if it is not able to adapt to the differences in the market as well as the country's culture.

### **6.2.3 Consumer behaviour and marketing research**

Bong did not conduct any research on consumer behaviour and did not do an independent marketing research, which Jobber *et al.*, (2006) describes being one of the most important tasks for a company. This is because culture affects consumer behaviour and may then have a huge impact on the company. Instead of doing its own research, Bong employed domestic people that have vast knowledge and understanding of the culture as well as to how business is conducted in the specific country. Using domestic employees might help Bong to avoid issues caused by cultural differences, according to Hollensen (2007) and Hill (2007), as well as Charles Jonscher and Ashley Summerfield (1994). In addition, since Bong sells its products to other companies it is not so dependent on understanding the consumer behaviour of individual people.

### **6.2.4 PESTEL framework and Hofstede**

Analysing Bong by using the PESTEL framework reveals that the company is affected by the socio-cultural factor of *attitudes to work and leisure*, because people in Eastern Europe, value income higher than for instance people in Scandinavia. Since people put such a high value on income it increases the risk of the employees accepting bribes. This is also an issue that is described in Hofstede's model where it is referred to as *masculinity* or *femininity*. In a masculine society, like Russia, people regard money and income to be more important than people in a feminine society, like Sweden, who regard for example quality of life to be more important than money and success. Therefore, employees in a masculine society are at a greater risk of accepting bribes. Bong has dealt with this issue, created by this cultural difference, by offering its employees good salaries and the possibility to receive substantial bonuses, reducing the risk of bribes being accepted. Bong also conducts random controls of the subsidiaries financial reports in order to detect any irregularities that will be the result if managers either accept or pay out a bribe. This gives Bong a way to monitor the behaviour of their employees and if someone is accepting or offering bribes they will be fired. This type of monitoring decreases the risk of employees accepting bribes.

# Chapter 7

## Conclusion

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This chapter will present firstly, our contribution and findings and secondly, our conclusion together with our Self-criticism and future research.

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### 7.1 Summary of the dissertation

The first step of this dissertation is to create an overview of the problem of cultural differences for companies when entering a new market. These problems can vary from language and behaviour to demographics and religions.

The issues that companies encounter regarding cultural differences are many, and this dissertation focuses on the following three research questions:

- How do Swedish companies gain knowledge regarding the culture of the new market?
- How do companies deal with problems that are specific for a certain market?
- What is the most efficient way to reduce risk that is related to the emerging market's cultural differences?

These questions are answered through two case studies on Swedish companies that have moved into Eastern European markets; Bong Ljungdahl and Culinar. Many of the Eastern European markets were emerging markets in the 1990s, after the fall of the Soviet bloc, and the cultures are often different from the Swedish culture. These are some reasons for choosing to base the research on this geographical region.

The literature review consists of theories and models that will be helpful when analysing the empirical data, such as Hofstede's five forces framework, the PESTEL framework and the Uppsala Internationalization model. Different modes of entries are also presented to show what companies do, depending on the new market's culture.

When it comes to the methodology of the dissertation, there are some choices regarding the research that has been made. There are three criteria that the literature for the literature review has to meet; it must be *contemporary, in a language that we can understand and related to our subject*. The research philosophy that is used is interpretive, this because the business world is too complex to be summarized into facts that can be generalized on companies and cultures. Furthermore, the research approach is of a deductive nature, because theory was narrowed down into specific research questions.

The research is explanatory, meaning that semi-structured interviews are used in order to get a better understanding of the relationships between variables. The data that are received from the semi-structured interviews are qualitative, in order to create a more in-depth understanding of the research problem. The time-horizon of the dissertation is a mixture of both longitudinal- and cross-sectional studies, because two periods are observed; the actual entrance and the period of time it takes to adapt to the new market. The sample frame is two Swedish companies that operate in Eastern Europe. The interviewees at those companies are managers, with knowledge of their Eastern European business.

As mentioned, semi-structured interviews were held with representatives at Culinar and Bong Ljungdahl. At Culinar we met Kristine Nilsson, sales director of Eastern Europe, for the interview. This interview was rewarding, and we received answers for most of the questions. At Bong Ljungdahl we met Anders Davidsson, President and CEO of the company. This interview was also good, and Mr. Davidsson explained how Bong Ljungdahl had dealt with the cultural differences when entering some Eastern European markets.

The analysis of the empirical data is one of the last steps of the research. The models and theories from the literature review are used to compare theory with reality. The results are often very interesting, especially when it comes to the companies' mode of entries. Both started off by exporting to the new markets, which is a good way of getting to know the market's culture, and it is also associated with less risk. As time goes by, the company feels safer in the new market, and may increase the level of commitment by starting up its own production facility.

## **7.2 Contribution**

The purpose of this study was to increase the understanding of Swedish companies' operations in emerging markets, and what difficulties the companies are facing because of cultural differences. To increase the understanding we conducted interviews with companies, and the contribution of our study is to, from these interviews, create some guidelines for companies to use when dealing with cultural differences. Since every company, every market and every national culture is different and since our study only focuses on the Eastern European markets, our results may not be generalized. Therefore, companies might not be able to do exactly as our guidelines suggest, but the guidelines may give the companies some ideas of how to solve an issue caused by cultural differences.

To summarize, the contribution of our study is our findings on how a company can solve problems created by cultural differences and to increase companies' knowledge on how to manage cultural differences.

## **7.3 Findings**

Corruption is a problem in many countries and may cause a company to lose valuable business, the issue of corruption can be managed by offering the employees high salaries and the possibility to receive substantial bonuses based on job performance.

Furthermore, a company can use random controls of the subsidiaries financial reports to detect any irregularities caused by bribes or embezzlement. This way companies can monitor their employees and quickly detect and take action against corrupt behaviour.

In addition, having good political relationships will reduce the risk for a company being forced to pay out bribes in order to receive business opportunities. Employing personnel, native to the country the company is entering, will give the company access to the employee's vast knowledge and understanding of the country's culture, the market and how business is conducted in the country. This knowledge will help a company to avoid issues caused by cultural differences. In addition, by using employees' knowledge about the market and culture of the country, a company may not have to conduct their own marketing research and

research on consumer behaviour, since the information is available through their employees.

Using export as a company's initial mode of entry will make it easier for a company to withdraw from the market if it is not able to adapt to the market and adjust to the cultural differences of the country. This is because the use of export offers the company a high level of flexibility and low commitment of resources. When the company feels more confident with their knowledge of the market, it can increase its risk exposure by establishing a foreign sales subsidiary and finally establish its own wholly owned foreign operations. A good model to use, when it comes to choosing a mode of entry, is *The Uppsala Internationalization model*.

#### **7.4 Conclusion**

The information gathered with the questionnaire has given us the facts to be able to answer the research questions.

When reviewing the interviews with both Culinar and Bong there are several similarities that emerge. Both companies are for instance business to business type companies. When the companies first entered the Eastern European markets, both chose export as their mode of entry due to its low commitment of resources and a high level of flexibility, making it easy to withdraw from the market. First after several years the companies established their own wholly owned operations. The reason for both Culinar and Bong to establish themselves in this way, is because as the knowledge of the markets increased so did the companies' willingness to increase their risk exposure.

Both companies employed domestic persons because they possess great knowledge of the country's culture and the way business is conducted. Therefore neither company conducted their own research on either consumer behaviour or marketing. Moreover the use of domestic personnel decreases the risk of issues caused by cultural differences.

Both companies identify that Russians are less loyal than for example people in Sweden, a cultural difference that makes it harder to do business in Russia. The reason for that is because you do not know if costumers or employees will stay

with the company for the long run. Both Culinar and Bong feel that keeping a good relationship with the customers in Eastern Europe is of most importance for conducting business and create successful marketing. Furthermore both companies use tradeshows as their main promotional tool.

When it comes to management both companies agree that there is a cultural difference between the west and the east. In western countries managers may be more open and softer in the way they lead and negotiate. While in eastern countries managers are less open and have to portray a stronger image in order to not lose the faith of the employees and also in order to gain business deals. The issue of corruption is, according to both companies, a major cultural problem when doing business in Eastern Europe, and is best solved through good political relationships as well as financial rewards to employees.

### **7.5 Self-criticism**

An over confident outlook on the time limit, as well as how long different aspects of the dissertation would take, lead to a stressful couple of weeks at the end. When looking back, a more efficient time planning would have been an advantage especially at the end stage of the study.

Furthermore, it was more difficult to get in contact with different companies than we had anticipated and also to be able to schedule meetings with the companies due to their limited time. We contacted over ten different companies, and only received answers from four of the companies. Three of them informed us that they had the time and one told us it did not have the time to spare. The remaining six companies never got back to us despite of several phone calls and e-mails from our part.

Unfortunately, we had to remove one of the companies due to the lack of time from their part, even though the company was very eager to help us. This was regrettable since the company, called *ITIM International*, is specialized in consulting companies regarding cultural issues and would have been a great contribution to our study.



## **7.6 Future research**

There are several different factors that can be used for further study. Instead of focusing on Eastern Europe there are other regions to choose from, such as, the BRIC-countries and the African continent. The BRIC-countries are upcoming markets, and many African markets may be interesting in the future. Today, many parts of Africa are still developing slowly, with various problems such as poverty and war. We still believe that many of these problems will be solved in the future, and that companies will see great business opportunities in African markets.

Furthermore, future studies can focus on other factors than culture or cultural differences, for instance; focusing mainly on corruption, infrastructure and logistics, and how things like those affect companies' willingness to invest in foreign markets. However, when using other factors, the frameworks and models used in our study may not be applicable.

It could also be interesting to base a research like this on quantitative data instead of qualitative data. Many things would of course have to be differently made, but the outcome of a research like that could be rewarding.

Finally, a word of advice; use a third perspective and do so in good time. This can greatly contribute with valuable expertise. We tried to contact Fredrik Wiklund, who works for ITIM International, a culture consultant company, as a cultural consultant for domestic companies preparing to invest in other countries. We made contact with him, eventually, but by that time his schedule were full and he was not able, though willing, to participate in our research.

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### **Personal communication**

<sup>1</sup>Kristine Nilsson, Sales Director Eastern Europe, Culinar, interview 20 August 2008.

<sup>2</sup>Anders Davidsson, President and CEO, Bong Ljungdahl, interview 21 November 2008.

## **Appendix:**

### **Appendix 1 Questionnaire**

#### **Background Questions**

Which countries in Eastern Europe are you currently present in?

Which were the main reasons for you to enter these markets?

When did you enter these markets?

Were there any specific reasons for you to enter at that moment?

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1. Before entering a new market did you conduct any type of research on consumer behaviour?

- Who is important in the buying decisions?
- How do they buy?
- What are their choice criteria?
- Where do they buy?
- When do they buy?

2. Culture is one of the social influences that affect consumer behaviour. Did you identify any specific cultural aspects in Eastern European markets that would have an effect on your consumer's behaviour?

2a. If so, how did you solve it?

3. Did you conduct any type of marketing research, ad hoc or continuous research, before or after entering the new market?

3a. If so, what type did you use?

3b. Were there a specific reason for you to use that type of marketing research?

3c. Did any cultural differences affect your choice?

4. Before entering the new market, did you conduct any type of market segmentation in order to identify a specific consumer group to focus your marketing on?

4a. If so, were there any behavioural-, psychographic- or profile variables that you focused on?

4b. If so why did you focus on these?

5. Did you formulate any type of pricing strategy before entering the new market?

5a. If so; which method did you use, cost-based, competitor-orientated or market-led pricing?

5b. Did any cultural difference affect your choice?

6. What type of promotional mix did you use to market your products?

- Advertising
- Sales promotion
- Sponsorship
- Direct marketing
- Internet marketing
- Personal selling

7. Did the individual country's cultural differences affect your choice of promotional mix in that country?

7a. If so, in what way?

8. In some countries bribes are considered an accepted part of business life: bribes are an essential part of competing. Where you ever faced with the issue of bribes?

8a. If so, in what way?

8b. How did you deal with this issue?

9. There are several cultural differences between countries like religion, language, social institutions (family, class and so on), education, values and attitudes, manners and customs. How have these affected you?

9a. In your marketing strategy, how you marketed your products?

9b. Which would you say has overall affected you the most and then secondly, thirdly and so on?

10. Have the cultural differences in a country affected your choice of media, TV, newspapers, radio, magazines or outdoor advertising?

10a. In what way?

11. Have you used advertising agencies in order to facilitate your marketing/advertising?

11a. If so did you use a local agency or a big international agency?

11b. Why did you choose that?

11c. Was that decision affected by cultural differences?

11d. If so, how?



12. Which type of mode of entry did you use when entering the new market?

12a. Why did you choose it?

12b. What cultural aspects affected your choice?

13. What issues regarding cultural differences did you encounter?

13a. How did you solve these?

14. Which cultural issues regarding the workplace did you encounter, for instance employees, work ethics, management and so on?

14a. How did you solve these issues?

15. Did you face any cultural issues when it came to suppliers?

15a. If so, how did you solve them?

Are there any issues due to cultural differences that you have encountered that we have not asked about that you think may be of interest to us in our research?