The Choice of Entry Mode for Successful Business in an Emerging Market

Norwegian Business Operations in Indonesia

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Preface

First of all, I would like to thank all the companies that have contributed to this master thesis by participating in the case study. The feedback on my requests went well beyond my expectations, and I feel very privileged to have gotten to talk to so many incredibly friendly and interesting people throughout this process.

I am also very appreciative of the University of Agder for giving me the opportunity to be a part of the internship program in Indonesia, which gave me first hand experience with Norwegian business in Indonesia, and that initially sparked my interest for this topic. I would also like to give a special thanks to my former colleagues in Innovation Norway Indonesia, for providing me with valuable information and insight into the establishment of business in Indonesia, and of market opportunities for Norwegian companies there.

Last but not least, I would of course like to give a special thanks to my supervisor Stein Oluf Kristiansen, for great support and assistance throughout this whole process, from our early discussions in Indonesia last September and up until today.

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Kristiansand 20.05.16

Abstract

The main topic for this master thesis is the choice of entry mode for successful business in emerging markets, with a focus on Norwegian companies in the Indonesian market. The problem statement of the thesis is as follows: *What are the main factors affecting the choice of entry mode for Norwegian companies in the Indonesian market?*

Several studies on the choice of entry modes have previously been conducted. However, a study of factors that impact the decision making of Norwegian companies entering the Indonesian market have not previously been done. The main objective for this thesis was therefore to provide a deeper insight into the establishment of Norwegian business operations in the Indonesian market. The findings of the thesis should consequently be of interest to Norwegian companies aspiring to establish themselves in Indonesia, as well as for companies that already have a presence there.

The research method for the thesis is a qualitative case study, based on a sample of six Norwegian companies currently engaged in the Indonesian market. The main sources of data collection consisted of interviews with people in managerial positions in each company, content analysis, and the researcher's personal observations from time spent in Indonesia.

One of the main findings was that local partnerships were preferred by most of the companies, irrespective of company size, sector and international experience. A high level of management control was also found to be important, and many of the companies therefore preferred high-control entry modes. The majority of the companies stated a high level of perceived cultural distance between Indonesia and Norway, and high levels of perceived risk regarding their operations there. Corruption, lack of trust, irregular import quotas, and a complex bureaucracy were some of the main sources of this perceived risk. Company size and level of resource commitment also seemed to play a major role in the choice of entry mode. Small, low resource commitment-companies often preferred more flexible, contractual entry modes, such as exporting and licensing, while large, high resource commitment-companies preferred direct entry modes such as joint ventures and wholly owned subsidiaries. Additionally, Indonesian rule of law was found to have an impact on the choice of entry mode, with special directives for foreign direct investments,

differences regarding sector regulations, and rules for the acquiring of licenses and permits.

Conclusively, the key factor for successful business in Indonesia was found to reside in the creation of strong, personal relationships with local stakeholders and partners, basing decisions on knowledge and understanding rather than on assumptions.

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1. Introduction

The main topic for this master thesis is the choice of entry mode for successful business in emerging markets, focusing on Norwegian companies in the Indonesian market. According to Werner (2002), "entry modes" is the third most researched field in international management. However, the study of factors that impact the decision making of *Norwegian companies* entering the *Indonesian market* have not previously been conducted. The main objective for this thesis is therefore to provide deeper insight into the establishment of Norwegian business operations in Indonesia, with the aspiration that the findings can be of interest for Norwegian companies who wish to establish themselves in emerging markets such as Indonesia, for Innovation Norway's future work in Indonesia, and for the Norwegian companies that are already established there.

Norway now finds itself in the middle of a rising economic crisis. And with this increasing financial uncertainty, it becomes even more important to consider new and innovative ways of increasing profit, developing products, and reaching new and more fruitful markets. On a global scale, the business world is becoming more dynamic and cross-cultural than ever. But for a company to survive in this increasingly competitive and challenging marketplace, managers and employees need to strengthen their cross-cultural competence, or as Gertsen and Søderberg (2010 p. 249) put it; "to raise their cultural intelligence".

Many Norwegian - as well as other western companies have been outsourcing their manufacturing operations to Asian countries such as China, Vietnam, India, and Bangladesh for several years. But it is not only in this part of the value chain that there are possibilities for foreign investments. A growing middle class and increasing purchasing power in many third world countries are now making some markets emerge with new and profitable opportunities for foreign direct investments. Indonesia - Southeast Asia's largest economy, is one of these countries that are getting increasing attention as up and coming *emerging markets*.

As discussed by Tian (2007), selecting an entry mode is one of the most important strategic decisions that a company has to make when entering a new market. Whether it is for reactive or proactive reasons, entering a foreign market requires careful consideration

and knowledge about the specific market, the business culture, and the socioeconomic conditions and institutions of the country. And how a company chooses to deal with these factors will have a great impact on the company's success or failure. While working as an Intern in Innovation Norway in Jakarta, I experienced Norwegian companies operating in Indonesia first hand, which initially sparked my interest for this topic and led to the creation of the following problem statement: *What are the main factors affecting the choice of entry mode for Norwegian companies in the Indonesian market?*

The research method for the thesis is a qualitative case study, based on a sample of Norwegian companies currently engaged in the Indonesian market. A qualitative research method was chosen because it, as discussed by Myers (2013, p. 5), *"is designed to help researchers understand the social and cultural contexts (..) within which decisions and actions takes place,"* which was also the main objective for this thesis. A case study became the logical choice within the qualitative method, since it according to Yin (2014, p. 3), *"allows the researcher to retain a holistic and real-world perspective"* of the topic. The main sources of data collection consist of interviews with people in managerial positions in the different case companies, content analysis, and the researcher's personal observations from time spent in Indonesia.

The next chapter of the thesis is a descriptive chapter, looking more closely at challenges and opportunities for Norwegian business in Indonesia. Then, relevant theory and previous empirical findings will be presented in Chapter 3, as well as six propositions related to the problem statement, subsequent to the appropriate sub-chapters. Afterwards, an overview of the research method will be presented in Chapter 4, followed by an introduction of the six participating companies and the collected data for each company in Chapter 5. Chapter 6 consists of analysis and discussion based on the six propositions, as well as previous empirical findings. Lastly, chapter 7 will provide a conclusion of the topic, as well as limitations of the study and recommendations for future research.

A "Reflective Note" with discussions on how the thesis topic relates to the subjects of Internationalization, Innovation, and Responsibility can be found in the appendix of the thesis.

2. Challenges and Opportunities for Norwegian business in Indonesia

In this chapter, an introduction to the term *emerging markets* will be presented. Then a deeper look will be taken at the Indonesian market, the country's economy, business culture, corruption, and rule of law. A brief country comparison of Norway and Indonesia will then be made, followed by a presentation of Norwegian operations in Indonesia at present, and lastly, a look at the future business opportunities for Norwegian companies within the different sectors Maritime, Aquaculture, Energy & Environment and Oil & Gas.

2.1 Emerging Markets

The term emerging markets was first brought up by economists at the International Finance Corporation in 1981, when the group was promoting the first mutual fund investments in developing countries (Khanna, Palepu & Bullock, 2010). More specific criteria for defining merging markets are presented in the figure below.

Frequently used criteria for defining emerging markets

Category	Criteria
Poverty	Low- or middle-income country Low average living standards Not industrialized
Capital markets	Low market capitalization relative to GDP Low stock market turnover and few listed stocks Low sovereign debt ratings
Growth potential	Economic liberalization Open to foreign investment Recent economic growth

Source: Standard & Poor's; International Finance Corporation; Trade Association for the Emerging Markets; J. Mark Mobius, *Mobius on Emerging Markets* (London: Pitman Publishing, 1996), 6–23.

Figure 1: Emerging Markets. Source: Mobius (1996)

As described by Mobius (1996) in the figure above, the "criteria" for emerging markets are that the country must be a low to middle-income country, with relatively low standards of living and a low level of industrialisation. A low market capitalization relative to the country's GDP is common, as well as growth potential through economic liberalisation, openness to foreign investment, and a recent economic growth.

According to Khanna, Palepu and Bullock (2010), markets such as Brazil, China, India, and Russia have been emerging the last years due to their recent fast economic growth. And the opening of these large economies to global capital, technology, and talent over the past two decades has fundamentally changed their economic and business environments (Khanna et al., 2010). As a result, the GDP growth rates of these countries have dramatically outpaced those of more developed economies, lifting millions out of poverty, creating new middle classes, and new markets (Khanna et al., 2010). According to Khanna et al. (2010) some view the financial crisis of 2008–2009 as an accelerating factor for the emergence of these markets, which are now becoming dominant players in the global economy.

According to Euromonitor International (2015) Nigeria, Indonesia, Mexico, the Philippines and Turkey are markets that are now emerging, and that are predicted to become new economic giants for the future. Indonesia is at present Southeast Asia's largest economy, and the country is according to Indonesia Investments (2016) being increasingly mentioned as an appropriate candidate to be included in the BRIC countries (Brazil, Russia, India and China) since it is rapidly showing signs of similar newly advanced economic development.

2.2 The Indonesian Market

Indonesia is the world's largest archipelagic state, located in Southeast Asia between Australia and China (The World Bank, 2015). With a population of 254.5 Million, Indonesia is now the world's fourth most populous nation, the world's 10th largest economy in terms of purchasing power parity, and has recently become a member of the G20 (The World Bank, 2015). The country's GDP was $888.5 billion in 2014, and the country's gross national income per capita has steadily risen, from $560 in the year 2000 to $3,650 in 2014 (The World Bank, 2015).

According to a report by Oxford Business Group (2016), manufacturing and industry are seen as the main drivers of new growth in Indonesia, and as 2015 drew to a close, international financial institutions maintained GDP growth forecasts of around 5% for 2016 (Oxford Business Group, 2016). Foreign direct investment was hitting a new record in 2014, and Indonesia's trade and investment flows have improved considerably over the last 10 years (Oxford Business Group, 2016). According Oxford Business Group (2016), there are now early signs that Indonesia's economy is beginning to feel the effects of the government's renewed infrastructure focus, with many new projects including power plants, highways, and a $1.5 billion transit project in the capital Jakarta. The government has also pledged to introduce tax incentives and measures aimed at attracting capital inflows, including lower energy tariffs for labour-intensive industries such as petrochemicals, ceramics and glass (Oxford Business Group, 2016).

2.2.1 Corruption

There is no hiding that corruption is a major issue in Indonesia. According to Transparency International (2015) the Corruption Perception Index score of Indonesia is 36 (where 100 is clean and 0 is highly corrupt), which indicates quite a high level of corruption. One of the challenges with corruption in Indonesia is that briberies and facilitation fees are often not considered corruption. Fighting corruption in a business setting is therefore very hard, as Indonesian employees view these "fees" as necessary parts of doing their job.

The current president of Indonesia, Joko Widodo (Jokowi), has made the fight against corruption one of his main missions. A major method for achieving this has been to try and remove some of the existing opportunities for corruption (the Economist, 2015). Already when he was the governor of Jakarta, he moved many government services online, denying corrupt bureaucrats the chances for extortion, and is now encouraging all private Indonesian enterprises to do the same (The Economist, 2015). The move towards online procurement has according to The Economist (2015) already saved Indonesia billions of dollars. Jokowi has also made a move to clean up the oil-and-gas sector. After being appointed president, Jokowi replaced the entire board of the state-owned oil and gas firm Pertamina (the Economist, 2015). And in May 2015 the government decided to

liquidate Petral, an offshore trading arm of Pertamina, as it had long been suspected of being controlled by Indonesia's "oil-and-gas mafia" (the Economist, 2015).

2.2.2 Institutions and Rule of Law

The understanding of a country's formal and informal institutions can be crucial in whether a company's expansion abroad becomes successful or not. The formal institutions are according to Peng (2006) political laws and regulations, judicial decisions and economic contracts, in other words, the power of the political authorities that a company may face. The informal institutions are the social norms of behaviour that exist in a society, which makes the basis of a country's cultural and ethical context (Scott, 1995). It is important to be aware of both the formal and informal institutions of the country, as misinterpretation can contribute to limiting the range of possible actions for the company.

With Indonesia ranked 114 out of 189 countries in the Ease of Doing Business 2015 report made by the World Bank (2016), the business environment in Indonesia can be described as somewhat challenging. Laws tend to be unclear or conflicting, and many of the formal dispute settlement mechanisms are considered to be ineffective (Export.Gov, 2016). Deregulation has contributed to reducing some barriers, but non-tariff barriers still remain a challenge for foreign investors (Export.Gov, 2016).

According to Indonesia Investments (2016), there are two legal entities that are permitted for foreign direct investments in Indonesia:
1. A foreign investment limited liability-company (Perseroan Terbatas Penanaman Modal Asing, or PT PMA).
2. A Representative Office.

If the company's plan is to generate revenues, profit or engage in sales directly in Indonesia, then you need a PT PMA, in other words - a wholly owned, Indonesian subsidiary (Indonesia Investments, 2016). If the aim is to explore business opportunities in Indonesia through market research, networking, and so on, without engaging in commercial transactions, then it is according to Indonesia Investments (2016) better to establish a representative office. The company can in that case decide to establish a PT PMA later on. Both the limited liability foreign investment company (PT PMA) and the

foreign representative office need to get a certificate from the Trade Attaché of the Republic of Indonesia (Indonesia Investments, 2016).

There are however some sectors that are closed, or partially closed, to foreign investment (Indonesia Investments, 2016). The sectors that are open to foreign investment can be found in the *Negative Investment List* (Daftar Negatif Investasi), a list that is compiled - and regularly revised by the Indonesia Investment Coordinating Board (Badan Koordinasi Penanaman Modal) (Indonesia Investments, 2016). If a sector is partially closed to foreign investment, the list states a maximum allowed percentage of foreign ownership (Indonesia Investments, 2016). This indicates the need to have a local partner in order to be able to engage in business in that particular sector. Relevant sectors for this thesis that have particular restrictions are according to the Negative Investment List, the Oil & Gas sector and the Energy sector (Badan Koordinasi Penanaman Modal, 2016).

The table below show some specific differences between the establishments of a foreign investment company (PT PMA) and a representative office in Indonesia.

	Foreign Investment Company	Representative Office
Allowed Activities	All business activities related to the sector it is engaged in and received approval for from the Investment Coordinating Board of Indonesia.	Only for market research & local representation.
Best Option for	Companies that want to engage in commercial activities in Indonesia	Companies that want to engage in market research, networking, etc. It is strictly forbidden to generate profit and revenue or engage in sales directly
Foreign Ownership Restriction	Foreign ownership varies between 0% - 100% depending on the Negative Investment List	No restriction
Minimum	IDR 10 billion (paid up capital at	No requirement

Capital	least 25% of investment plan)	
Benefits	Operates as an independent limited liability company within the business classification	No capital requirement, Takes less time to establish
Disadvantages	Large capital requirement	Cannot engage in commercial activities, Valid for a maximum period of 5 years
Issuing Work Permits and Visas for Foreigners	All shareholders, directors and commissioners eligible for work permit, unlimited amount of business visa sponsorships, work permits can be issued to foreign experts	Work permit for the chief representative, unlimited business visa sponsorships, 3 Indonesians for every expat hired
Compliance	Monthly withholding tax report, quarterly/semi-annual investment report	Monthly withholding tax report, annual activity report to the Investment Coordinating Board of Indonesia
Time to Establish	10 weeks	6 weeks
Estimated Costs	± USD $3,500	± USD $2,000

Table 1: Foreign Investment Company or Representative Office. Source: Indonesia Investments (2016)

As can be seen in the table above, there are quite a few differences between the establishment of a PT PMA and a representative office. The choice therefore depends a lot on the type of business that will be conducted, as well as the sector the company operates within, based on the regulations stated in the Negative Investments List.

2.2.3 Indonesian Business Culture

Working in Innovation Norway in Jakarta, having Indonesian colleagues, attending - and arranging business meetings and events, taught me a lot about Indonesian business culture and etiquette. My main observation was that Indonesians put great emphasis on personal relationships, even in business settings. A major key to success in negotiating a business partnership in Indonesia is therefore clear communication and the development of long-term relationships.

When meeting someone for the first time in a business setting, it is common to introduce yourself with your full name and the name of your organisation. Business cards are exchanged immediately after introductions and should be presented with both hands. When addressing senior management in Indonesian companies, it is common to use the courtesy terms "Bapak" for male and "Ibu" for female. Meetings rarely start on time and guests often arrive late. Business dealings tend to be slow, but it is important to never loose your temper, as displays of impatience or rudeness is considered highly embarrassing.

When sending out invitations to a meeting or and event, guests may not confirm their participation even if they intend to show up, or may confirm long after the deadline. Last minute cancellations of meetings are also common, so it is important to keep a high level of flexibility to accommodate last minute changes. English is normally used as the business language, as most of the educated Indonesians speak English quite well. However, a translator could be needed on some occasions, so bringing a native speaking partner with you when attending meetings is always a good idea. Potential Indonesian business partners may often be reluctant to provide information on turnover, competition, and market share before meeting in person, so travelling to the country to meet with possible partners is very important, even at an early stage of the establishment process.

2.2.4 ASEAN

The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration by the founding nations: Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN, 2015). It now also includes Brunei Darussalam, Vietnam, Lao PDR, Myanmar, and Cambodia, making up what is today the ten Member States of ASEAN (ASEAN, 2015).

As set out in the ASEAN Declaration, the aims and purposes of ASEAN are to accelerate the economic growth, social progress and cultural development in the region through joint endeavours, equality and partnership (ASEAN, 2015). ASEAN was founded to promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields, and to provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres (ASEAN, 2015). Another aim is to collaborate more effectively for the greater utilisation of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples (ASEAN, 2015). Being a part of ASEAN is very important for the international trade and collaborations for Indonesia, as it is continuing to contribute to increased foreign direct investments and increased GDP growth in the country.

2.3 Country Comparison - Norway and Indonesia

In order to get a good overview of the similarities and differences between the two countries in question, a short country comparison has been made.

	Norway	**Indonesia**
Population	5.136 Million	254.5 Million
Surface Area	385,178 Km2	1,910,930 Km2
Important Resources	Petroleum, natural gas, nickel, hydropower, fish, timber, copper, bauxite, fertile soils, tin, coal, gold, silver	Petroleum, natural gas, nickel, hydropower, fish, timber, copper, iron ore, lead, zinc, titanium, pyrites
GDP	$ 499.8 Billion	$ 888.5 Billion
GDP per Capita (PPP)	$ 64,004	$ 10,033
Annual GDP Growth	2.2 %	5.0 %

Income level	High Income	Lower Middle Income
Currency	Norwegian Krone	Indonesian Rupiah
Level of Corruption	Low (87 of 100)	High (36 of 100)
Average Import time	7 days	26 days
Government type	Constitutional Monarchy	Republic
Main Religion	Christianity (90.1 %)	Islam (86.1 %)

Table 2: Country Comparison - Norway and Indonesia. Sources: The World Bank (2016), Nation Master (2016) and Transparency International (2016).

As can be seen in the table above, there are both similarities and differences between the two countries. Norway and Indonesia have many of the same natural resources, they both have closeness to the ocean and the maritime. While Indonesia has a much higher GDP than Norway, the large population makes for a significantly lower GDP per capita, along with a much lower income level. Indonesia also takes the lead in the annual GDP growth rate.

Norway and Indonesia find themselves almost on opposite sides of the scale regarding the level of corruption. While Norway is considered to be "clean", Indonesia is highly corrupt. Matters of import are also more complicated and time consuming in Indonesia than in Norway. Religious - and cultural differences may also have an impact on business relations, bearing in mind the actualities of today, but as most Indonesians practice a quite liberal branch of Islam, they are normally very open to other religions and cultures.

2.4 Norwegian Business in Indonesia

Innovation Norway's office in Jakarta was opened in 2012, as a part of the commercial sector of The Royal Norwegian Embassy. In an interview on 07.03.16 with Ole Schanke Eikum, the Managing Director of Innovation Norway Indonesia, he explained that they are now receiving a steady stream of inquiries from Norwegian companies that are interested in establishing business in Indonesia. According to Eikum, the number of Norwegian companies has also steadily increased throughout the years that he has been

there, stating that *"The ones succeeding with establishing business give good feedback, and they are happy to take part in this fast growing economy."*

Almost 60 Norwegian companies are now in some way established in Indonesia, and according to Eikum *"We divide among direct establishment with a subsidiary, representative office or joint venture, representation through the use of an agent, and Norwegian companies that are only exporting. Due to Indonesian regulations, some Norwegian subsidiaries have a partly Indonesian ownership."* The different companies are displayed below in two presentations made by Innovation Norway.

Figure 2: Norwegian Companies in Indonesia 1. Source: Innovation Norway (2016)

Figure 3: Norwegian Companies in Indonesia 2. Source: Innovation Norway (2016)

Because of Indonesian law, the use of agents is according to Eikum widespread, especially for technology and device suppliers in the oil and gas sector. According to Eikum the most challenging part of establishment in Indonesia is the long time needed to enter the market. *"You need to establish all permits and licenses, build a good network and participate in very long tender processes. The company's management and board of directors therefore need patience and stamina in order to get a breakthrough."*

The two biggest sectors for Norwegian businesses today are according to Eikum the oil & gas sector and the maritime sector, with LNG (liquefied natural gas) being *"a hot topic"*. There is also increasing Norwegian interest in the sectors of renewable energy and fish farming. On the outlook for the future, with opportunities and challenges for Norwegian companies in Indonesia, Eikum stated *"There are many interesting opportunities for Norwegian companies, but maybe I will mention the aquaculture sector as the most promising one."*

Eksport fra Norge (1000 NOK)

Figure 4: Norwegian Exports to Indonesia. Source: Innovation Norway (2015)

As is shown by the figure above, Norwegian export to Indonesia has steadily increased since 2010. And over the last ten years, it has according to the Norwegian Government (2015), increased with more than 200%. Of this, a large amount came from the seafood industry (Norwegian Government, 2015).

2.5 Market Opportunities for Norwegian companies

EFTA (The European Free Trade Association) with its member states Iceland, Liechtenstein, Norway and Switzerland, have since January 2011 been negotiating a "Comprehensive Economic Partnership Agreement" with Indonesia (EFTA, 2016). In addition to trade in goods, the negotiations also include services, investments, trade facilitation, intellectual property rights, and sustainable development (The Norwegian Government, 2013). This agreement will improve market access for exports of Norwegian products, as well as services. Especially shipping services, energy related services and telecommunications are of priority to the Norwegian Government (The Norwegian Government, 2013).

According to the Norwegian Minister of Industry Monica Mæland, *"Indonesia is a market with great potential, but they have traditionally had a restrictive import policy. That's challenging. A free trade agreement will facilitate more exports of goods and*

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services within a stable and predictable framework." (The Norwegian Government, 2015).

2.5.1 Exports of Norwegian Seafood

According to the Norwegian Seafood Council (2016), the value of Norwegian salmon exports has increased sharply during the last year. The average export price for fresh whole salmon was in February 2016 NOK 55.05 per kg. This was a price increase of 31% compared with the same month last year. As stated by Pål T. Aandahl, analyst for the Norwegian Seafood Council, *"strong demand and a favourable foreign currency situation are driving the price for salmon and consequently the value to new heights"* (Norwegian Seafood Council, 2016).

In 2010 the total exports of Norwegian seafood to Indonesia was 881 tonnes, with a value of 39.2 million NOK. By 2012, these exports had more than doubled, to the whole of 4095 tonnes with a value of NOK 89.6 million (Engø, 2013). Exports of salmon increased from 732 tonnes in 2010 to 2,036 tonnes in 2012 (Engø, 2013). In 2010, there was no export of mackerel to Indonesia. In 2011, the export was 669 tonnes, which more than doubled to 1546 tonnes in 2012 (Engø, 2013).

According to research by Innovation Norway (2015), this increase in Norwegian seafood exports to Indonesia has been due to the growing middle class and affluent market in Indonesia, as well as an increased awareness of the quality of Norwegian Seafood (Innovation Norway, 2015). The most common species of Norwegian Seafood that are exported to Indonesia are Salmon, King crabs, Mussels, White fish and pelagic fish. Norwegian salmon holds around 70% of the market share of salmon in Indonesia, whilst the remaining share is accommodated by Tasmanian and Chilean Salmon (Innovation Norway, 2015).

Cold storage facilities for fresh seafood products are available in big cities such as: Jakarta, Surabaya, Medan and Bali. Supermarket chains like Carrefour, Hero, Ranch Market, Food Hall, and Kemchicks, are playing important roles in displaying and selling good quality imported seafood products (Innovation Norway, 2015). In order for Norwegian companies to be able to export to Indonesia, the company must appoint a local importer with an import license number (Angka Pengenal Import) and Fish import

license (Innovation Norway, 2015). Meeting prospective partners face to face prior to the appointment is according to Innovation Norway (2015), essential in maximizing the potential in Indonesia.

2.5.2 The Maritime and Aquaculture sectors

Indonesia is as previously mentioned the worlds largest archipelagic country. It consists of 17,508 islands, with a coastline of 81,000 km and ocean areas of 5.8 million km2 (Innovation Norway, 2012). The maritime and aquaculture sectors consequently play very important roles in the Indonesian economy. According to Innovation Norway (2012), aquafarming production in Indonesia is now growing with 30% annually. The Ministry of Marine Affairs and Fisheries in Indonesia has declared its commitment to becoming the world's leading fish producer by expanding its aquaculture industry and allocate US$ 108 million to upgrade the infrastructure, and assist the local aquaculture industry (Innovation Norway, 2015). As the main species for Indonesian aquafarming is Barramundi and Tuna, this will not be in direct competition with Norwegian export products such as Salmon, Mackerel and King Crab. This commitment and increased focus on aquafarming and fisheries in Indonesia therefore represents great business opportunities for Norwegian suppliers of equipment, technology and knowledge of aquafarming, as well as the in the shipbuilding industry.

Indonesia's ports have good market potential for development both in terms of their number and capacity. Currently, Indonesia has 2,154 ports. On average there is one port for approximately each 40 kilometers of coastline in Indonesia (Sukaesi, 2015). Under the ASEAN Connectivity Master Plan, 14 Indonesian ports are being prioritized for construction. And in the future, 19 ports will be capable of accommodating ships with capacities of 5,000 twenty-foot equivalent units (Sukaesi, 2015). According to Sukaesi (2015), the domestic shipping fleet has more than doubled over the last eight years. With the Ministry's plan to expand their maritime operations, a large fleet of ships with a big capacity will be required, with estimated investment in container ships of US$6.7 billion needed by 2030 (Sukaesi, 2015). This may also lead to business opportunities for Norwegian shipbuilding companies and maritime technology providers.

2.5.3 The Energy, Environment and Infrastructure sectors

With more than 25 cities larger than Oslo and increasing urbanization, Indonesia faces some great challenges. One of the main problems for large cities such as the capital Jakarta is the increasing level of pollution. In an interview in The New York Times (2015), Dr. Budi Haryanto, chairman of the University of Indonesia's Department of Environmental Health, said that air pollution causes 2.8 million lost work days a year, along with 1.3 million absences at schools, 9,000 hospitalizations and at least 6,500 premature deaths. And according to data by the Indonesian Ministry of Health, the transportation sector contributes to between 70% and 80% of total outdoor air pollutants, with the number of vehicles in the city increasing with around 10% a year (New York Times, 2015).

Having lived in this immense city, I quickly learned that most people do not use any form of public transportation. This is mainly due to the fact there does not actually exist a well functioning transit system there. Most people drive their own car or motorcycle, and the city is plagued by traffic congestion. As previously mentioned, the new government has made improvement of the infrastructure one of their main objectives. And according to Innovation Norway (2016), Indonesia plans to spend USD 464 billion on infrastructure development in the period 2015 – 2019. These investments can represent great opportunities for Norwegian businesses in the years to come, from the development of environmentally friendly transportation facilities to technologies for payment of toll roads and so forth.

Although the electricity production has increased with around 13% annually the last three years, around 12 million households are still without electricity (Innovation Norway, 2012). The annual electricity consumption is expected to increase to 375 TWh in 2020, and the state owned electricity company, PLN, is planning to invest US$ 9.6 billion/year until 2020 (Innovation Norway, 2012). Although the energy sector is centrally planned, private investors will according to Innovation Norway (2012) be able to play an increasingly significant role in the large investments that will take place in the years to come. Indonesia is favoured with a large amount of renewable energy sources, such as geothermal, biomass, and hydropower (Innovation Norway, 2012). Only a small portion of these energy sources is utilized today, and the business opportunities for Norwegian

companies may therefore consist of investing in renewable energy production and engineering, procurement and construction-contracts (Innovation Norway, 2012).

2.5.4 The Oil and Gas sector

A decline in Indonesia's oil production in combination with increased domestic demand turned Indonesia into a net oil importer from 2004 onward (Indonesia Investments, 2016). This decline in oil production was according to Indonesia Investments (2016) due to a lack of exploration and investments in this sector. This has according to Indonesia Investments (2016) been a result of weak government management, the high level of bureaucracy, an unclear regulatory framework and legal uncertainty regarding contracts. Due to a growing population, an expanding middle class and a growing economy, the demand for fuel is continuing to increase (Indonesia Investments, 2016). As domestic production cannot meet domestic demand, Indonesia now imports about 500,000 barrels of fuel per day (Indonesia Investments, 2016).

While the oil production has been declining the last few years, there has been an increase of Indonesian gas production. Special Task Force for Upstream Oil and Gas Business Activities, SKK Migas have according to Innovation Norway (2012), stated that the supply of LNG for domestic consumption would be delivered from several big projects, including the Indonesia Deepwater Development (IDD) project by US-based Chevron and the Italian firm Eni. The IDD project is expected to begin production in 2018, with an expected output of 1.1 billion cubic feet per day of natural gas (Innovation Norway, 2012).

The increase of Indonesian gas production is very promising, and both state owned and private enterprises are currently exploring the solutions for distribution of natural gas (Innovation Norway, 2012). In this market there is according to Innovation Norway (2012), many opportunities for Norwegian Oil & Gas technology and expertise.

3. Theoretical Framework

An overview of the most important theoretical aspects will now be presented, along with six propositions following the sub-chapters most relevant for each proposition.

3.1 Entry Modes

Sharma and Erramilli (2004, p. 268) defined an *entry mode* as *"a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations, or both production and marketing operations there by itself or in partnership with others"*. Root (1994, in Ekeledo & Sivakumar, 2004 p. 1) additionally put a time frame on the term when he explained an entry mode as *"an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years"*.

Selecting an entry mode is one of the most important strategic decisions that a company has to make when entering a new market - so important that it according to Tian (2007), may determine the company's success or failure. To compete with the companies that are already established in the host country, the entering companies also need to possess superior resources and capabilities that can generate high enough profits to counter the costs of servicing these markets (Tian, 2007).

There are many ways or modes by which an international company can enter a new market, such as exporting, licensing, franchising, strategic alliances, joint ventures, and wholly owned subsidiaries (Tian, 2007). According to Brouthers and Hennart (2007), exporting, licensing and franchising are often referred to as contractual entry modes, while wholly owned subsidiaries and joint ventures are referred to as direct entry modes.

3.1.1 Exporting, Licensing and Franchising

Exporting is the process of selling goods and services produced in one country to other countries (Yadong, 1999). It is normal to divide between direct and indirect exporting. Direct exports is the most basic mode of exporting, where a company produces its products based on economies of scale in the home country and sells the excess products abroad, keeping a high level of control over the product distribution in the foreign

markets (Cullen & Parboteeah, 2011). Indirect exporting is the process of exporting through domestically based intermediaries in the foreign market of choice. In this case, the exporter has no control over its products once it is located in the foreign market (Cullen & Parboteeah, 2011).

According to Agarwal and Ramaswami (1992), the exporting mode is a low resource - and consequently low risk alternative. And one of the advantages of exporting is the level of control over the selection of foreign markets and the choice of foreign distributors. Exporting also gives a better protection of trademarks, patents, goodwill, and other intangible property. Additionally, there is a potential for greater sales, and therefore greater profits, as the costs are mostly related to marketing (Agarwal & Ramaswami, 1992).

In the case of licensing, an international licensing agreement allows foreign firms, either exclusively or non-exclusively to manufacture a company's product in a specific market (Hill, Kim & Hwang, 1990). The licensee then bears most of the cost related to entering and serving the foreign market. The level of resource commitment from the company is therefore low, and is limited only to training the licensees and personnel involved in monitoring their business operations (Hill, Kim & Hwang, 1990).

Compared to licensing, franchising agreements tends to have a longer time horizon, and the franchisor offers a broader package of rights and resources which usually includes equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way as it is done by the franchisor (Hoy & Stanworth, 2003). However, while a licensing agreement involves intellectual property, trade secrets and other similar factors, in franchising this is limited to trademarks and the operational "know-how" of the business (Hoy & Stanworth, 2003).

3.1.2 Strategic Alliances

A strategic alliance is a cooperative agreement between companies, with shared research, formal joint ventures, or minority equity participation (Isenberg, 2008). The focus is

often on creating new products or technologies rather than distributing existing ones. Strategic alliances are often created for short-term durations or projects (Isenberg, 2008).

3.1.3 Joint Ventures and Wholly owned Subsidiaries

According to Kogut and Singh (1988) Acquisition refers to the purchase of stock in an already existing company in a sufficient amount to get control. A Greenfield investment is a start-up investment in new facilities, and such an investment can be wholly owned or a joint venture (Kogut & Singh, 1988). A joint venture is the pooling of assets in a common and separate organization by two or more firms who share joint ownership and control over the use and fruits of these assets (Kogut & Singh, 1988). The joint venture mode involves relatively low resource commitment and therefore provides risk, return, and control equivalent to the extent of the equity participation of the investing firm (Agarwal & Ramaswami, 1992). In the case of a wholly owned subsidiary, the company bears all the costs and risks of entering and serving the market, and owns all the revenue generating assets (Hill, Kim & Hwang, 1990).

3.2 Perspectives on Entry Modes

3.2.1 Transaction Cost Theory and The Resource-based view

A large number of theories have been used to explain the entry mode choice decision, and among the most commonly applied are according to Brouthers and Hennart (2007), the *transaction cost theory* and *the resource-based view*.

The transaction cost theory is as discussed by Williamson (1989), a theory accounting for the actual cost of outsourcing production or services. A transaction cost is a cost sustained in the making an economic exchange, or in other words, the cost of participating in a market (Williamson, 1989). According to Williamson (1989), transaction cost theory stresses the importance of proprietary assets possessed by companies, such as patents, knowledge, products, processes, brand name, product differentiation, and marketing skills.

According to Gollnhofer and Turkina (2015), entry mode choice based on the transaction cost theory argues that managers suffer from a bounded rationality where potential

partners may act opportunistically, and that this contributes to the choice of an entry mode with a higher level of control. Using a database of foreign investment in China from 1979 to 1992, Chen and Hu (2002) found that the hypothesized effects of transaction cost factors on entry modes were supported, and that the wholly owned subsidiaries were more likely to be chosen than contractual modes when the investments involved marketing skills and long planned duration. They also found that the foreign investment projects whose modes were selected according to the prescription of the transaction cost theory were more successful than those whose modes were selected otherwise (Chen & Hu, 2002).

The resource-based view is a term used when talking about the collection of valuable resources at the company's disposal that can be considered a basis for the competitive advantage of the company (Meyer, Wright & Pruthi, 2009). According to Meyer et al. (2009), research of the resource-based view shows that the choice of entry mode often depends on the company's existing capabilities as well as the resources it would like to acquire (Meyer, Wright & Pruthi, 2009). The company's current resources - or lack thereof, consequently has an impact on the choice of entry mode, as different entry modes offer different approaches to benefiting from the local resources.

3.2.2 The Process of Internationalization

When developing their theory of internationalization, Johanson and Vahlne (1977) connected the process by which a firm proceeds from exporting to joint venture and wholly owned subsidiaries to the reduction in perceived risk regarding the foreign market, as the firm acquires more experience. Johanson and Vahlne (1977) came up with a model to explain their view on the process of internationalization.

Figure 1.   The Basic Mechanism of Internationalization—State and Change Aspects.

```
┌──────────────────────────────┐        ┌──────────────────────────────┐
│  ┌────────────────────────┐  │        │  ┌────────────────────────┐  │
│  │      Market            │  │───────▶│  │    Commitment          │  │
│  │      knowledge         │  │        │  │    decisions           │  │
│  └────────────────────────┘  │        │  └────────────────────────┘  │
│                              │        │                              │
│  ┌────────────────────────┐  │        │  ┌────────────────────────┐  │
│  │      Market            │  │◀───────│  │    Current             │  │
│  │      commitment        │  │        │  │    activities          │  │
│  └────────────────────────┘  │        │  └────────────────────────┘  │
└──────────────────────────────┘        └──────────────────────────────┘
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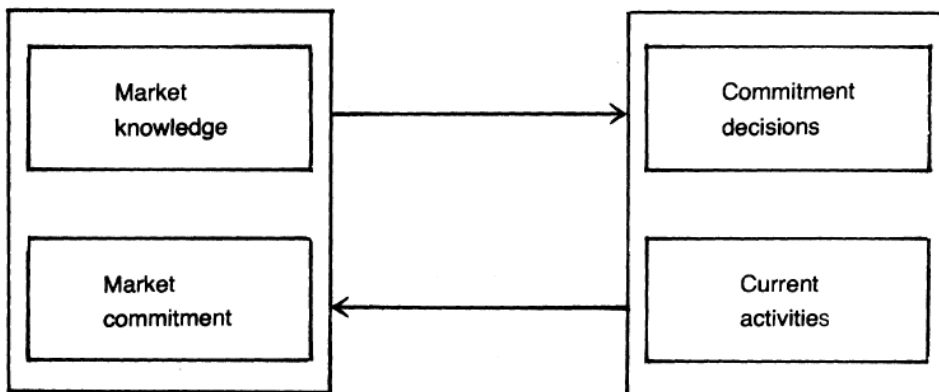
Figure 5: The Mechanisms of Internationalization. Source: Johanson and Vahlne (1977)

According to Johanson and Vahlne (1977) the model assumes that the state of internationalization affects perceived opportunities and risks, which in turn influence commitment decisions and current activities. Johanson and Vahlne (1977) suggested that when establishing international operations, companies need accurate market knowledge, which comes from direct experience in the foreign market, rather than the more objective and general market information that is attained without personal experience. This means that firms can be expected to first enter nearby markets with a low psychic distance, because these countries often have similar language, culture, political system, level of education, and level of industrial development (Johanson & Vahlne, 1977). Once a company has acquired more knowledge about how to operate internationally, it will according to Johanson & Vahlne (1977), be more inclined to enter countries with a greater psychic distance.

Barkema, Bell and Pennings (1996) discussed Johanson and Vahlne's (1977) model, and argued that although the model gives a good prediction of a company's successive stages of internationalization, exceptions may occur. They use the example of when firms already have considerable experience from other, culturally similar markets.

3.2.3 Characteristics of Entry Mode Choices

As is shown in the figure below, Hill, Kim and Hwang (1990) presented three different constructs that characterises the three main choices of entry modes: the level of control,

the level of resource commitment, and the level of dissemination risk (risk related to a lack of communication).

Entry mode	Constructs		
	Control	Resource commitment	Dissemination risk
Licensing	Low	Low	High
Joint venturing	Medium	Medium	Medium
Wholly owned subsidiary	High	High	Low

Figure 6: Characteristics of Entry Modes. Source: Hill, Kim and Hwang (1990)

As we can see, licensing has according to Hill et. al (1990), a low level of control, a low resource commitment, and a high level of dissemination risk, while wholly owned subsidiaries have high levels of control and resource commitment, and a lower level of dissemination risk. Joint venturing is located in the middle of the two, with medium levels of all the constructs. Hill, Kim and Hwang (1990), argued that the company's level of resource commitment has a large impact on the strategic flexibility of the company when choosing a mode of entry. This flexibility could according to the authors be regarded as highest in the case of licensing, and lowest in the case of a wholly owned subsidiary (Hill et al., 1990).

According to Brouthers and Hennart (2007), there appear to be two main views in the literature on the meaning of entry modes and the differences among contractual entry modes (export, licensing and franchising), and direct entry modes (joint ventures, and wholly owned subsidiaries). The first view is expressed by a number of authors and arranges exporting, licensing, franchising, strategic alliances, joint ventures, and wholly owned subsidiaries along a continuum of increasing control, commitment, and risk (e.g. Anderson & Gatignon, 1986; Erramilli & Rao, 1990; Hill, Hwang, & Kim, 1990 in Brouthers & Hennart, 2007).
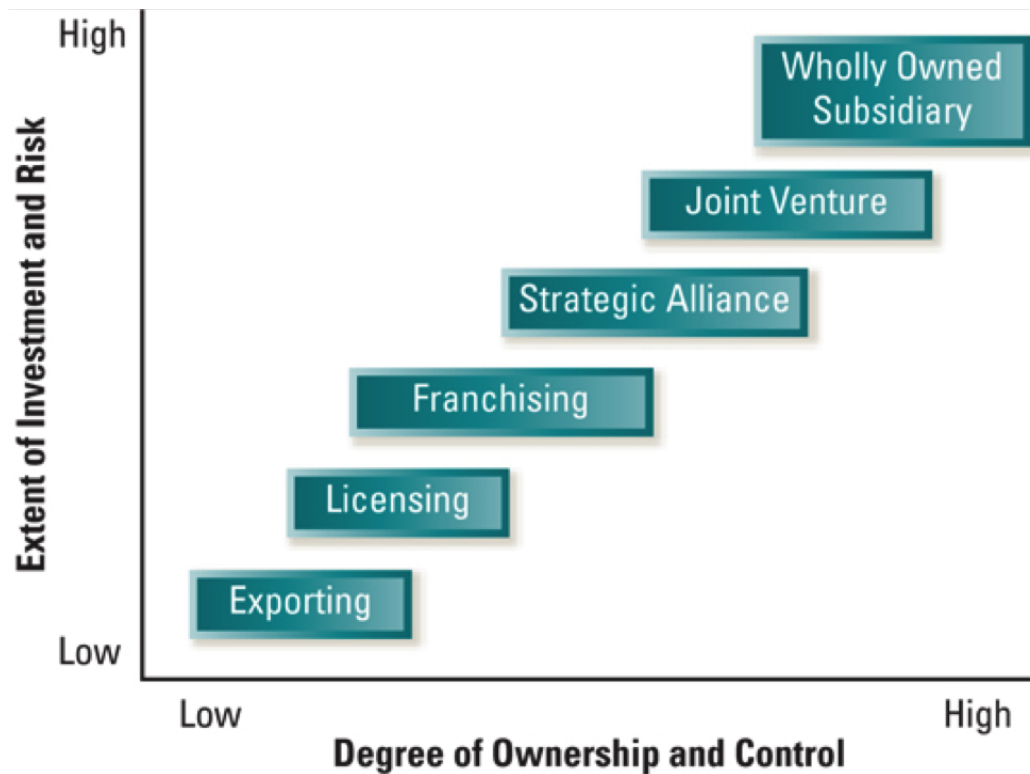
Figure 7: Entry Modes, Control, Commitment and Risk. Source: Study Blue (2015)

As shown graphically in the figure below, exporting is characterised by low levels of risk, commitment and control, while a subsidiary is chosen when firms want maximum control, are willing to make maximum commitment and to take on maximum risk.

The second perspective is expressed by Hennart (1988a, 1989, 2000, in Brouthers & Hennart, 2007). He does not view joint ventures as a step in the continuum between contracts and wholly owned subsidiaries but instead classifies modes of entry into two categories: contracts and equity, with exporting, licensing and franchising in the contract category and joint ventures and subsidiaries in the equity category. According to Hennart (2000, in Brouthers & Hennart, 2007), the main difference in entry modes lies in the method chosen to compensate input providers. The fundamental characteristic of equity is that input suppliers are paid based on the actual results of the venture, in contrast to contracts, where payments are specified based on forecasts (Hennart, 2000, in Brouthers & Hennart, 2007).

Throughout this thesis, the first perspective, articulated through a continuum of increasing control, risk and resource commitment, will be used as the main basis for the entry mode theory, since this is the most theoretically grounded perspective.

3.2.4 Norwegian companies' Entry Mode Choices

In their study of Norwegian multinational companies' activities in Sweden, Germany, the United Kingdom, Spain, Poland, Japan, and the United States, Randøy and Dibrell (2002) made several findings that are relevant for this thesis. One of their main findings was that the companies with a strategic objective of getting access to skills and capabilities were more inclined to use high resource commitment foreign market entry modes. They also found that international experience was an important factor, and that the Norwegian companies with extensive international experience had significantly higher resource commitments than the less experienced ones (Randøy & Dibrell, 2002). Their findings also proved that smaller companies or divisions serving the foreign markets were constrained by their size (Randøy & Dibrell, 2002). According to the authors, *"this suggests that less experienced firms are constrained in their ability to manage larger foreign market commitments"* (Randøy & Dibrell, 2002, p. 134).

Randøy and Dibrell (2002) also found that perceived cultural distance increased the use of high foreign market resource commitments. The authors argued that this unfamiliarity effect has more to do with the choice of foreign market, rather than the actual serving of that particular market. Randøy and Dibrell (2002, p. 135) therefore stated, *"If a division chose to operate in an unfamiliar environment, then the divisions might want a high degree of control, which to a large extent implies a substantial resource commitment."*

3.2.5 Proposition 1

The first proposition is established based on the findings of Hill, Kim & Hwang (1990), and Brouthers & Hennart (2007), as well as several other authors, that entry modes can be arranged along a continuum of increasing control, commitment, and risk, where low levels of control, risk and commitment indicates the choice of exporting, and high levels of control, risk and commitment indicates the choice of a subsidiary. Additionally, with the findings of Randøy and Dibrell (2002) in their study of Norwegian companies in foreign markets, that those operating in unfamiliar environments preferred a high degree

of control, the following proposition has been made to find further empirical evidence of this.

P1: *A high perceived need for management control indicates the choice of a subsidiary.*

3.3 Cultural Distance, Risk and International Experience

3.3.1 Cultural Distance

In the last few decades, international business research has made extensive use of the concept of *cultural distance* to explain the expansion behaviour and the related success of multinational companies (Drogendijk & Slangen, 2006). According to Zhao, Luo and Suh (2004), cultural distance and country risk are the two most common causes of external uncertainty, and Gollnhofer and Turkina (2015) stated that differences in local cultures go in hand with differences in organizational and administrative practices. O'Grady and Lane (1996) argued that perceived similarity can cause decision makers to fail because they do not prepare for the differences between cultures when entering a foreign market, stating that *"more attention needs to be paid to the perception of similarity and difference, as well as to the decision making process regarding entry"* (O'Grady and Lane, 1996, p. 314).

Culture is often defined as the homogeneity of characteristics that separate one human group from another (Gollnhofer & Turkina, 2015). And as discussed by Hofstede (1980), each culture incorporates fundamental norms, values and institutions. Cultural distance has been measured in various ways, including the cultural dimensions by Hofstede (1980), and the index developed by Kogut and Singh (1988). Drogendijk and Slangen (2006) discuss Hofstede's (1980) dimensions, and whether his findings are still relevant in the 21st century. Their research indicates that Hofstede's measures of national cultural distance do explain establishment mode choices by multinational enterprises, but that the explanatory power of the measure is somewhat low (Drogendijk & Slangen, 2006). Smith (2006) argued that the study of culture as it applies in an international business context must move beyond Hofstede's dimensions toward a *"more qualitative analyses of culture"* (Smith, 2006, p. 915). Additionally, as stated by Sackmann and Phillips (2004 p.378) *"organizations may be home to, and carriers of, several cultures"*.

López-Duarte and Vidal-Suárez (2013) conducted an extensive research on cultural distance and the choice between wholly owned subsidiaries and joint ventures. Their results indicate that increased cultural distance leads to differences related to values, norms and behavioural rules which makes it more difficult to search for potential partners, conduct the negotiation process, and later enforce contracts (López-Duarte and Vidal-Suárez, 2013). In particular, their results point towards language differences as a deciding factor. According to López-Duarte and Vidal-Suárez (2013), when investing through a joint venture, the potential role the local partner plays in reducing external uncertainty critically depends on the relationship with the foreign investor. Therefore, when language diversity exists, the foreign investors will prefer to invest through wholly owned subsidiaries and avoid collaborating with a local partner (López-Duarte and Vidal-Suárez, 2013). Their results also hint at the existence of an interaction effect between cultural distance and political risk, leading to a preference for joint ventures over wholly owned subsidiaries when the environment is characterized by both high political risk and cultural distance (López-Duarte & Vidal-Suárez, 2013).

Cultural distance in a business setting has also often been viewed as *psychic distance*, which was described by Johanson and Vahlne (1977, p. 24) as *"the sum of factors preventing the flow of information to and from the market. Examples are differences in language, education, business practices, culture, and industrial development."*

The term *psychic distance* was also used by Ojala (2008) in his study of Finnish companies in Japan. His findings indicate that psychic distance is based on a manager's personal experiences and feelings about how distant a country is, rather than on actual cultural differences between the two countries (Ojala, 2008). Ojala (2008) also found that, despite a psychic distance between Finland and Japan, most of the firms entered Japan at a very early stage of their internationalization process, and did so by using direct entry modes. According to Ojala (2008, p. 1) *"this was mainly due to the market size, sophisticated industry structure, and requirements for intensive cooperation with the customers during the sales process"*. The firms were, as described by Ojala (2008) able to overcome psychic distance by hiring local employees and by using western managers who already had working experience in the Japanese market.

3.3.2 Risk and Uncertainty

As discussed by Chen and Hu (2002) and Kogut and Singh (1988), a high cultural distance leads to higher transaction costs and higher uncertainty, which consequently leads to higher perceived risk. According to Slangen and Tulder (2009), it is well accepted that multinational companies prefer joint ventures to wholly owned subsidiaries in foreign countries where the formal and informal external environment is highly uncertain. According to Slangen and Tulder (2009), several studies have used the level of political risk in foreign countries as a substitute for the amount of external uncertainty. *"Political risk refers to the likelihood of an unfavourable change in the governmental regime of a country or in the policies issued by this regime"* (Henisz, 2000; Miller, 1992 in Slangen & Tulder, 2009, p. 279). According to Slangen and Tulder (2009), the higher level of political risk, the higher the tendency is of multinational companies to enter the foreign market through low control modes, rather than high control modes.

Dikova and van Witteloostuijn (2007) found that there needs to be a satisfactory level of institutional advancement in the foreign market for the company to be willing to establish high resource and high control operations, as it would otherwise become too expensive to be sufficiently protected against issues like violation of property rights. First hand knowledge of a foreign market's formal and informal institutions is therefore according to Barkema, Bell and Pennings (1996), a critical resource, as this kind of knowledge is not easily acquired. Barkema et. al (1996) therefore argued that a local partner - be it a joint venture or an agent, is required, especially during the early stages of the market entry, to avoid the issues as previously described. This would be particularly important in markets where there is still an unsatisfactory level of institutional advancement.

3.3.3 Proposition 2

Based on the theory discussed in this chapter, it is clear that cultural distance is a factor that has an impact on the choice of entry mode, but also a factor that is difficult to operationalize without using old and perhaps outdated measurements. As argued by Ojala (2008), this distance can also be based on a manager's personal experiences and feelings about how distant a country is, rather than on the actual cultural differences between the two countries. Similar to Ojala (2008), the concept of *perceived cultural distance* was used by Randøy and Dibrell (2002) in their study of Norwegian companies abroad. As

this concept seems to be the most suitable for this research, the level of *perceived cultural distance* will therefore be used to measure cultural distance in this thesis.

As discussed by Chen & Hu (2002) and Kogut & Singh (1988), a high cultural distance leads to higher transaction costs and higher uncertainty, which consequently leads to higher *perceived risk*. And as presented in chapter 3.2.3 by Hill, Kim & Hwang (1990), and Brouthers & Hennart (2007), the level of risk increases along a continuum from contractual modes to direct entry modes, with the choice of a subsidiary indicating that the company wants maximum control, is willing to make maximum commitment, and to take on maximum risk. Based on this, the following proposition has been made.

P2: *The choice of a direct entry mode leads to high levels of perceived cultural distance and risk for the company.*

3.3.4 Proposition 3

As have been suggested by Barkema, Bell and Pennings (1996), the level of risk and uncertainty can be reduced by having knowledge about the specific market, which can be achieved by having a local partner or agent. To find more empirical evidence of this, the following proposition has been made.

P3: *A high level of perceived risk and uncertainty indicates the choice of a local partner in the establishment stage.*

3.3.5 International Experience

According to Koch (2001), international experience plays a major role in shaping the company's strategic directions, corporate culture, and knowledge. Without the sufficient and relevant experience and knowledge there is according to Koch (2001), a stronger sense of risk and uncertainty involved in the global marketing decisions, which in turn constrains the company's freedom of entry mode choice.

Typically, international experience is considered an indicator of low levels of internal uncertainty (Dow & Larimo, 2009). In terms of being a predictor variable, international experience has according to Dow and Larimo (2009) been the most frequently employed construct in the entry mode literature. And as found by Dow and Larimo (2009),

international experience is relevant to entry mode selection because experience has the potential to reduce the cost and increase the effectiveness of the monitoring of agents, which reduces risk and makes a higher level of control more attractive. As discussed by Dow and Larimo (2009 p. 79), there are two types of experience that are relevant when looking at entry mode decision-making: *"General International Experience",* and *"Culture Specific Experience"*. The distinction between these two types of experience is directly parallel to Johanson and Vahlne's (1977, p. 28) *"general knowledge"* and *"market-specific knowledge",* which formed the basis of their internationalization process theory.

Ekeledo and Sivakumar (2004) talk about *geographic experience* and *industry experience*, where geographic experience comes from a firm's familiarity within a specific region of the world in which the target foreign market is located. This is quite similar to Dow and Larimo's (2009) *culture specific experience*. Industry experience is according to Ekeledo and Sivakumar (2004) a function of a firm's age in its own industry, and the extent of the firm's knowledge about its industry's functions in other countries. A firm that possesses both substantial industry experience and geographic experience will, according to Ekeledo and Sivakumar (2004), favour a full ownership entry mode.

Managers who possess international experience often perceive international endeavours with greater clarity than those less experienced (Oviatt & McDougall 1995, in Randøy & Dibrell, 2002). According to Randøy and Dibrell (2002) the less experienced companies will prefer low commitment modes, such as exporting. And as it acquires more international experience, the company will as discussed by Johanson and Vahlne (1977) tend to move more towards direct investments, and a higher level of resource commitment.

3.3.6 Proposition 4

This proposition is based on the findings of Dikova and van Witteloostuijn (2007), Dow and Larimo (2009), Barkema, Bell and Pennings (1996), and Ekeledo and Sivakumar (2004) that culture specific experience comes from a firm's familiarity within a specific region of the world, in which the foreign target market is located, and that this experience

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is relevant to entry mode selection because it has the potential to reduce country risk and make higher levels of control more attractive. Similar to Dow and Larimo (2009) the term *culture specific experience* will be used in this thesis. Hence, the following proposition has been made.

P4: *There is a reduction in perceived country risk as the firm acquires more culture specific experience.*

3.5 Company Size, Resource Commitment and Sector

3.5.1 Company Size

As discussed by Tian (2007), a firm's asset power is reflected by its size, multinational experience, skills, and ability to develop differentiated products. And according to Ekeledo and Sivakumar (2004, p. 78), *"the size of a firm is often an indicator of its competitive advantage in financial, physical, human, technological, or organizational resources"*. A large firm size therefore reflects a firm's ability to absorb the high transaction costs involved in international expansion (Buckley and Casson, 1976 in Ekeledo & Sivakumar, 2004). Additionally, empirical evidence indicates a positive relationship between large firm size and wholly owned entry modes (Buckley and Casson, 1976; Terpstra and Yu, 1988; Caves and Mehra, 1986; Kimura, 1989; Yu and Ito, 1988, in Ekeledo & Sivakumar, 2004).

Based on their own research, Ekeledo and Sivakumar (2004) found that managers tended to make entry mode decisions based on considerations of firm-specific resources that would give the firm competitive advantage in the foreign market, as well as enhancing their resources. A large firm that possesses substantial industry experience will therefore, according to Ekeledo and Sivakumar (2004), favour a full ownership entry mode.

3.5.2 Resource Commitment

According to Gollnhofer and Turkina (2015), entry mode strategies can be placed on a continuum going from relatively low resource commitment (export, licensing, and franchising,) to high resource commitment (joint venture and subsidiary). Gollnhofer and Turkina (2015) also found that in cases of high cultural distance, the probability of opportunism increases, and multinational companies will therefore be expected to choose

a high resource commitment entry mode to control their foreign affiliates more effectively.

However, companies operating in markets abroad can according to Kogut and Singh (1988), be expected to prefer a low resource commitment entry mode, like exporting or franchising, to deal with the additional costs of expanding to foreign markets. And as argued by Kim and Hwang (1992), low resource commitment entry modes enable companies to withdraw easily from the host market in the case of failure, as high resource commitments contribute to the creation of an exit barrier.

Evidently, the views on resource commitment and entry mode choice seem to differ quite greatly. However the most recent view of Gollnhofer and Turkina (2015), which is based on a thorough literary review, that high resource commitment can be related to high control entry modes, seems to be the most probable. As discussed by Kogut and Singh (1988) and Kim and Hwang (1992) high cost of expanding indicates the choice of contractual modes, however, these costs could be considered much less of a barrier for companies that have a substantial amount of financial resources and industry experience.

3.5.3 Proposition 5

This proposition is based on the findings of Ekeledo and Sivakumar (2004), that large companies have a larger abundance of capabilities that creates competitive advantages such as increased knowledge, experience, and financial resources, and the findings of Randøy and Dibrell (2002) that large companies will prefer a high degree of control over the foreign operations and a substantial resource commitment. Additionally, the proposition is based on the findings of Gollnhofer and Turkina (2015) that entry mode strategies can be placed on a continuum going from relatively low resource commitment (export, licensing, franchising) to high resource commitment (joint venture, subsidiary), and the arguments of Kogut and Singh (1988), and Kim and Hwang (1992) that high levels of resource commitment would indicate the need for a substantial amount for financial resources to deal with the additional costs of direct investments.

P5: *Large companies are more inclined to choose high resource commitment modes than small companies.*

3.5.4 Business Sector

According to research by Ekeledo and Sivakumar (2004 p. 80), *"the firm's industrial sector has enormous influence on the mode of operation the firm uses in a foreign market"*. Bell (1995, in Ojala, 2008) found in his study of Finnish, Irish and Norwegian companies, that the companies' internationalization behaviour was more related to industry specific characteristics than to psychic distance between countries. And according to the findings of Ojala (2008), companies in high-technology sectors were more inclined to internationalize into foreign markets than other sectors.

Capital intensity may also be an indicator of differences between sectors, as discussed by Brouthers and Brouthers (2003). According to Brouthers and Brouthers (2003), capital intensity varies across industries from low levels in consulting, architecture, engineering, and other "knowledge-based industries", to high levels in hotel, airline, telecommunication, electricity and energy, and other "capital intensive industries" (Brouthers & Brouthers, 2003).

Sanchez-Peinado and Pla-Barber (2006) carried out a research to determine if differences in business types were linked to different behaviour patterns in the entry mode choice. Their main finding was that companies in knowledge-intensive industries preferred higher control entry modes than companies in capital-intensive industries when faced with conditions of country risk and cultural uncertainty (Sanchez-Peinado & Pla-Barber, 2006). They also found that capital-intensive companies preferred flexible entry modes that could permit quick responses to technological changes within the sector (Sanchez-Peinado & Pla-Barber, 2006).

In a study by Brouthers, Brouthers and Werner (2002), they look at how differences between service and manufacturing firms influence entry mode strategy. They found a statistically significant difference, with results indicating that manufacturing firms were more likely to choose joint ventures, while service firms were more likely to choose wholly owned subsidiaries (Brouthers et. al (2002). They also found that macroeconomic risk had an impact on service firm strategy but not manufacturing firm strategy (Brouthers et. al (2002).

3.5.5 Proposition 6

Based on the findings of Ojala (2008), Ekeledo and Sivakumar (2004), the company's business sector seems to have an impact on the choice of entry mode. And according to Sanchez-Peinado and Pla-Barber (2006), and Brouthers, Brouthers and Werner (2002), there are also differences between manufacturing and service companies, as well as between knowledge-intensive and capital-intensive industries. As previous research on the relationship between business sectors and entry mode choice was quite limited, the following proposition was made in order to further investigate this.

P6: *There are differences between business sectors when it comes to the choice of entry mode.*

4. Method and Data Collection

4.1 Conceptual Framework

Miles and Huberman (1994, p. 18) defined a conceptual framework as *"a visual or written product that explains, either graphically or in narrative form, the main things to be studied - the key factors, concepts, or variables - and the presumed relationships among them."*

The objective of this thesis is to identify the main factors that have an impact on Norwegian companies' choice of entry mode when establishing business in the Indonesian market. The research of the thesis therefore has an explorative, inductive reasoning. As previously mentioned, the problem statement is as follows: *What are the main factors affecting the choice of entry mode for Norwegian companies in the Indonesian market?*

Based on the problem statement and the previous theoretical and empirical findings presented in chapter 3, the following propositions were developed:

P1: *A high perceived need for management control indicates the choice of a subsidiary.*

P2: *The choice of a direct entry mode leads to high levels of perceived cultural distance and risk for the company.*

P3: *A high level of perceived risk and uncertainty indicates the choice of a local partner in the establishment stage.*

P4: *There is a reduction in perceived country risk as the firm acquires more culture specific experience.*

P5: *Large companies are more inclined to choose high resource commitment modes than small companies.*

P6: *There are differences between business sectors when it comes to the choice of entry mode.*

Based on the problem statement, the theoretical framework and the propositions, the main factors affecting the choice of entry mode to be considered are found to be: perceived need for management control, level of resource commitment, level of international (culture specific) experience, perceived cultural distance, business sector, and company

size. The different entry mode options are: exporting, licensing, franchising, strategic alliance, joint venture, and wholly owned subsidiary. To get a clear overview and understanding of the relationships between these concepts, a figurative research model have been made.
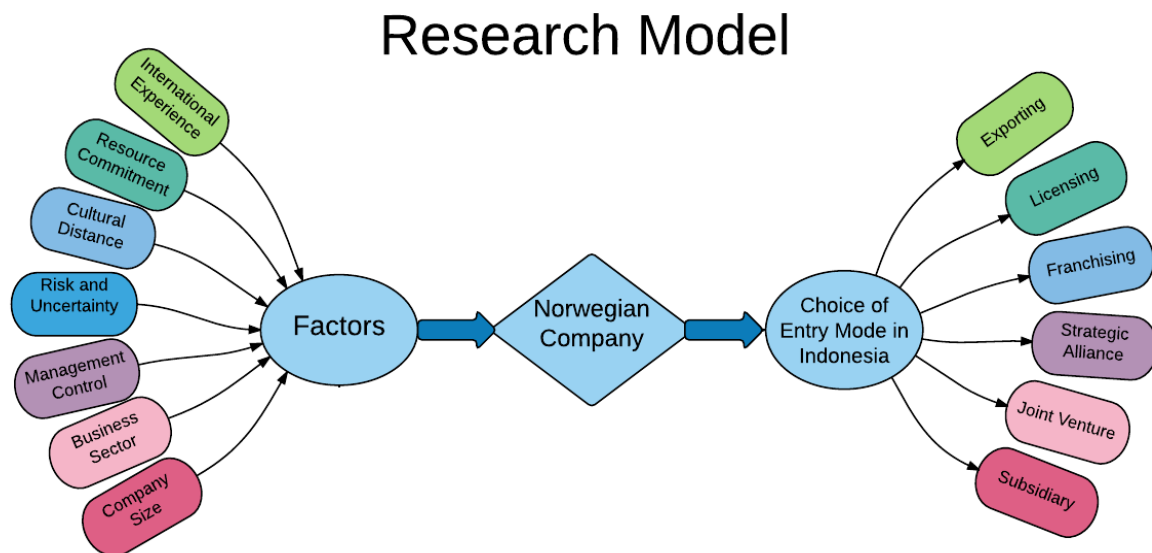
Figure 8: The Research Model

The aim of this research was to get a deeper understanding of the different factors related to the choice of entry mode for Norwegian companies in Indonesia, by comparing previous findings with the results of this thesis. Therefore, to effectively and informatively understand the more complexity and dynamic of these concepts, a qualitative research method was chosen.

4.2 Qualitative Research Method

While quantitative research emphasizes numbers and mathematical modelling for the creation of standardized and generalized results, qualitative research is designed to help researchers get a deeper understanding of the social and cultural contexts that people live in (Myers, 2013). The chosen research method in this master thesis is a qualitative research method, and there are several reasons for this choice. First of all, the main objective was as previously mentioned, to get a deeper understanding of the choices of Norwegian companies entering a new and foreign market. A quantitative approach would

only graze the surface of this topic, and not provide the necessary depth of understanding. Secondly, the production of statistical data and key-numbers were not an aim in this thesis. The main goal was to generate descriptive, empirical findings that could be used as a tool for Norwegian companies when entering a foreign market such as Indonesia.

According to Sekaran and Bougie (2013), qualitative research may involve repeated sampling, collection of data, and analysis of data, and is therefore not a step-by-step, linear process. Qualitative data sources may according to Myers (2013, p. 8) include *"observations, fieldwork, interviews, questionnaires, documents and texts, and the researcher's impressions and reactions"*. While the data collection process is undertaken, the data that have already been collected can be analysed right away, which can lead to new ideas and understandings throughout the process (Sekaran & Bougie, 2013). And as qualitative data collection produces large amounts of data, the first step in the data analysis is therefore to reduce and comprise the data through categorization to help the researcher to draw meaningful conclusions about the data (Sekaran & Bougie, 2013).

As mentioned, the primary motive for conducting qualitative research is the ability to give a deeper understanding of why a certain action is executed. To get a more extensive look into the selection of companies, and to better understand the complexity of motives for each company, the main method within qualitative research was chosen to be a case study research.

4.2.1 Case Study Research

In a case study, the researcher *"uses empirical evidence from real people in contemporary real-life organizations"* (Myers, 2013, p. 76). The case study researcher seeks according to Myers (2013) to understand how and why a particular business decision was made, or how and why a business process works the way it does.

According to Yin (2014, p. 3), a case study allows the investigator to focus on a "case" and *"retain a holistic and real-world perspective, such as by studying group behaviour, international relations, organizational and managerial processes"*. As discussed by Yin (2014, p. 2), a case study research would be the preferred method *"when the main research questions are how and why questions, the researcher has little or no control over behavioural events, and when the focus of the study is a contemporary rather than*

historical phenomenon". The aim of this thesis was to understand the factors that have an impact on the managerial processes of decision making related to the choice of entry modes in new and foreign markets, which makes it suitable for a case study. The research focus for the thesis is also a contemporary, rather than historical phenomenon, and the researcher has little control over behavioural events.

According to Darke, Shanks and Broadbent (1998, p. 280), *"the design and scope of a case study research project requires a comprehensive literature analysis to be undertaken in order to understand the existing body of research literature within the research area and to position the research question(s) within the context of that literature"*. Depending on the depth and range of the existing literature on the subject, the initial focus of the case study can, as discussed by Hartley (2004), be either narrow and defined, or broad and open-ended. One of the strengths of case study research is according to Hartley (2004) that it allows for theory development that is grounded in empirical evidence, which makes it well suited to the exploration of issues in depth and of following leads into new constructions of theory.

Relying on theoretical propositions is as discussed by Yin (2014) a good strategy for analysing case studies. The theoretical framework should according to Yin (2014), guide the analysis because the theoretical propositions that have formed the design of the case study will help the researcher to focus attention on the data that is actually important for the case. Comparing empirical data with the initially predicted results that have been found, and exploring if the expected patterns are present or absent is also a good analysis technique (Yin, 2014).

Based on the arguments of Yin (2014), the collected data in this thesis will be analysed and discussed with regards to each of the six, theoretically grounded propositions. The findings of the case study will also be compared to previous empirical findings in order to find out if the propositions can be considered empirically grounded – or if more research on the subject will be necessary.

According to Darke, Shanks and Broadbent (1998), the number of cases to be studied depends on the focus of the research question. While single cases provide for in-depth investigation and rich description, multiple cases allow for theoretical replication and

case comparisons. As argued by Yin (2014), it is easier to draw conclusions and see patterns if the research consists of multiple cases. Based on the reasoning of Darke, Shanks and Broadbent (1998) and Yin (2014), this case study was chosen to consist of multiple cases, rather than a single case. This was also due to an interest in finding similarities and differences between the companies, and the aspiration of being able to draw more generalized conclusions that could potentially be of aid for a broader range of companies planning to enter the Indonesian market.

As discussed by Darke, Shanks and Broadbent (1998), effective and efficient data collection for case study research requires careful planning and smart use of both the case participants' and the researcher's time. As collecting data from case participants can be difficult and time-consuming, researchers should have sufficient background information about each case prior to commencing the data collection (Cavaye, 1996). According to Myers (2013), a disadvantage with case studies is that it can be difficult to get access to the relevant people in the companies that one wishes to study, because the companies may be sceptical to whether the research will be of value and relevance to them. To increase the probability of receiving positive answers from the selected companies for this case study, a letter of introduction was provided by the researcher's former employer in Innovation Norway Indonesia. This letter of introduction encouraged participation in the case study, and stated that the results of the thesis would be of use to Innovation Norway's work in Indonesia, as well as for the companies that were currently operating there. This letter was attached to the introductory email that was sent to the companies.

According to Yin (2014), there are several sources of evidence for case studies such as documents, archival records, interviews, researcher observations and so on. Yin (2014) further argues that interviews contribute to the best access of the participants' views and interpretations of actions and events, and should be the primary data source when case study research is undertaken. Myers (2013) is of the same opinion, stating that the most common technique for collecting data in a case study is by doing interviews, and that an interview is *"an excellent window into an organization"* (Myers, 2013, p. 81).

4.2.2 Interviewing

"Interviewing is a qualitative research technique that involves conducting individual interviews with a small number of respondents to explore their perspectives on a

particular idea, program, or situation" (Boyce & Neale, 2006, p. 3). According to Boyce and Neale (2006) the primary advantage of interviews is that they provide much more detailed information than what is available through other data collection methods. As described by Boyce and Neale (2006), the interview process consists of several steps. The first is to make a plan where you identify the stakeholders that will be involved, identify what information is needed and from whom, and make a list of stakeholders to be interviewed (Boyce & Neale, 2006).

The next step is to develop an interview guide that lists the issues to be explored. According to Boyce and Neale (2006), there should be no more that 15 main questions to guide the interview, one should ask factual questions before opinion questions, and use probes when needed. The interview method can be quite time consuming, difficult to generalize, and is also prone to be biased as the respondents often want to show that their "way of doing things" is working (Boyce & Neale, 2006). It is therefore important that the interviewer makes the respondent feel comfortable with sharing details, and appear interested in what they are sharing. It is also important to use effective interview techniques, such as avoiding yes/no and leading questions, and keeping personal opinions in check (Boyce & Neale, 2006).

When analysing the data, one should read through all the interview responses to look for patterns or themes among the participants (Boyce & Neale, 2006). If a variety of themes is found, one should according to Boyce and Neale (2006) try to arrange them into groups in a meaningful way, for example by company size, sector, gender of the participant and so on. When presenting the results of the interviews, direct quotes from the respondents will according to Boyce and Neale (2006) add credibility to the information. It is important to use qualitative descriptors rather than trying to "quantify" the information (Boyce & Neale, 2006). Numbers and percentages sometimes indicate that the results can be projected to a population, however this is not within the capabilities of this qualitative research procedure (Boyce & Neale, 2006). Data can still be displayed in tables, boxes, and figures to make it easier to read (Boyce & Neale, 2006).

As mentioned, the interviews for this case study were carried out with people in managerial positions in each of the six participating companies. It was important that the interviewees had specific knowledge about the company's establishment in Indonesia.

Due to geographical distance since many of the respondents were located in Indonesia or in other Asian countries such as the Philippines and Hong Kong, most of the interviews had to be conducted through phone calls, skype, and emails. However, there were still occasions when the interviews could be conducted in person. The interviews were semi-structured, based on an interview guide that was created with regards to the six propositions, with the goal of acquiring optimal answers to the problem statement. This interview guide can be found in the appendix of the thesis. The results of the interviews will be presented in Chapter 5 based on the arguments of Boyce and Neale (2006), and then analysed and discussed in Chapter 6 based on the discussion by Yin (2014) and Myers (2013).

4.2.3 Content Analysis

According to Titscher, Meyer, Wodak and Vetter (2000, p. 55), content analysis is *"the longest established method of text analysis among the set of empirical methods of social investigation."* The development of content analysis is also increasing in significance with the dramatic expansion of mass communication (Titscher et. al, 2000). According to Kolbe and Burnett (1991) content analysis can be used to systematically evaluate the content of all forms of recorded communications, and can assess the effects of environmental factors, such as economical, cultural and regulatory factors (Kolbe & Burnett, 1991). Additionally, content analysis forms a good empirical basis for further production of research evidence (Kolbe & Burnett, 1991). Based on this, content analysis has a good potential for being a companion research method alongside other methods, and the use of such a combination can according to Kolbe and Burnett (1991) contribute to enhancing the validity of the research, through comparisons of findings.

The content analysis of this research consists of data collection for the different case study companies, of Indonesia as a market, the Indonesian rule of law regarding foreign investments, and of market opportunities for Norwegian business in Indonesia. The collected data consists of information released by the companies themselves through their organizational websites, and of reports produced by governmental entities and organizations such as the World Bank, The Norwegian Government, and Innovation Norway. Content analysis based on prior research on the relevant subjects has also been conducted, and comparisons between theoretical and empirical findings have been drawn

based on the results of the combination of content analysis and interviews, which will be presented in Chapter 6.

4.3 Sampling and Data Collection

4.3.1 Sampling

According to Sekaran and Bougie (2013), sampling involves a procedure of selecting elements out of a chosen population, based on certain criteria. And when choosing interviewees, one should according to Boyce and Neale (2006) consider a sample that best represents the diverse stakeholders and opinions of those stakeholders. The general rule about interview sampling is according to Boyce and Neale (2006) that when the same stories, themes, issues, and topics are emerging from the different interviews, then a sufficient sample size has been reached.

The sampling for this thesis was done by selecting a number of companies out of the population of Norwegian companies that were currently engaged in the Indonesian market. This information was provided by Innovation Norway in Indonesia. In order to explore the differences between company size, sector, resource commitment, and international experience, the companies were chosen based on variations of these factors, and belong within one the different sector-groupings: Oil & Gas, Aquaculture, Maritime, and Energy. The population of Norwegian companies operating in Indonesia at the moment is approximately 60 companies. Out of the companies that were contacted, six wished to participate in the case study, and after conducting the interviews and content searches for these companies, this was found to be a sufficient number to get a good overview of the situation and the relevant factors that have an impact on the decision making process when entering the Indonesian market.

4.3.2 Operationalization

Sarantakos (1993, p. 46) defined operationalization as *"the process of converting concepts into their empirical measurements or of quantifying variables for the purpose of measuring their occurrence, strength and frequency"*. To better be able to analyse the findings of the data collection with regards to the problem statement and the six propositions, the theoretical concepts used in the propositions were operationalized into more measurable factors:

Perceived need for management control (as compared to operating in Norway):

Lower - Similar - Higher

Perceived cultural distance:

Low - Medium - High

Perceived risk and uncertainty in Indonesia (as compared to operating in Norway):

Lower - Same - Higher

Perceived sector risk in Indonesia (as compared to other sectors):

Lower - Same - Higher

General International Experience (Outside of Norway):

Low (1-5 years), Middle (6-11 years), High (12+ years)

Culture Specific Experience (in Indonesia or similar cultures):

Low (1-5 years), Middle (6-11 years), High (12+ years)

Size:

Small (below 100 employees), Medium (100-1000 employees), Large (1000+ employees)

Level of Resource Commitment:

Low (Product sales), Medium (Sales/Marketing/Services), High (All operations)

Sectors:

Maritime, Aquaculture, Oil & Gas, Energy

4.3.3 Validity and Reliability

According to Joppe (2000 p. 1, in Golafshani, 2003, p. 599), *"Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are."* According to Golafshani (2003), some qualitative researchers have argued that the term validity is not applicable to qualitative research, but they have also realised the need for some kind of qualifying check or measure for their

research. According to Golafshani (2003, p. 603), *"the quality of a research is related to generalizability of the result and thereby to the testing and increasing of the trustworthiness of the research."* Even though the ability to generalize findings is one of the most common tests of validity for *quantitative* research, Patton (2001, in Golafshani, 2003) states that the generalizability in *qualitative* case studies, is however not as simple, and will depend on the cases selected and studied.

Joppe (2000, p.1 in Golafshani, 2003 p. 598) defines reliability as *"the extent to which results are consistent over time and an accurate representation of the total population is under study."* She additionally states, *"If the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable."* According to Stenbacka (2001, p. 551), while reliability is used in quantitative studies to evaluate the quality of the study with a *"purpose of explaining"*, the quality concept in qualitative study has the purpose of *"generating understanding"*. This difference in purposes of evaluating the quality of studies in quantitative and quantitative research is according to Golafshani (2003, p. 601), *"one of the reasons that the concept of reliability is irrelevant in qualitative research"*. And according to Stenbacka, (2001) the concept of reliability can even be misleading in qualitative research. However, as stated by Patton (2001, in Golafshani, 2003) reliability can be viewed as a consequence of the validity in a study, with regards to the researcher's ability and skill. The way to achieve validity, and consequently reliability of a research, is according to Golafshani (2003), to eliminate bias and increase the researcher's truthfulness.

Based on the discussions of Joppe (2000), Golafshani (2003), Stenbacka (2001) and Patton (2001), it is clear that the testing of validity and reliability will not be as easy in a qualitative study as it would have been in a quantitative study. It may however, still be relevant to briefly consider some aspects of validity and reliability in the study. Looking at the reproduction of results, it will be hard to say whether the results of the interviews can be viewed as generalizable for the whole population that is Norwegian companies in Indonesia. Even though approximately 10% of the total population took part in the case study, it is not a given that the same results will be provided by a sample of different companies. Still, having chosen companies from different sectors and business types, a broader perspective can be given than if the study only contained companies within one sector or industry. The case study also contained content analysis of relevant documents,

reports and company websites. The use of such a combination can according to Kolbe and Burnett (1991) contribute to enhancing the validity of the research, through comparisons of findings.

To increase the probability of getting in touch with the relevant people in the selected companies, the researcher's former employer in Innovation Norway Indonesia provided as previously mentioned a "letter of introduction". This letter of introduction may have contributed to a larger and more relevant response rate. Being collected through the use of interviews, there are also many factors that could have an impact on the acquired data, such as the interview settings, the respondents' mood on the day of the interview, and perhaps most importantly; the interview skills and knowledge of the interviewer. The general notion of this case study was that all the interviews went well. The interviewer made sure that all the questions were clear, that the respondents understood the meaning of them, and how this related to the overall topic of the thesis. The respondents appeared to be relaxed and willing to answer all of the questions, and they were also very positive to the topic of the thesis.

5. Presentation of Data

The six participating companies in the case study will now be presented. First an introduction of each company will be made, followed by the most relevant points from the interview(s) related to each company.

5.1 Statoil

Statoil is an international oil and gas company with operations in 37 countries. With more than 40 years of experience from oil and gas production on the Norwegian continental shelf, Statoil has been one of the most important players in the Norwegian oil industry (Statoil, 2016). Statoil is headquartered in Stavanger, Norway, with approximately 22,000 employees worldwide, and is listed on the New York and Oslo stock exchanges (Statoil, 2016).

Outside of Norway, the Angolan continental shelf is the largest contributor to Statoil's oil production, and is a key building block for Statoil's international production growth. Statoil has been in the country since 1991 and are partners in ten producing fields (Statoil, 2016). Statoil's subsidiary Statoil Asia Pacific, which is headquartered in Singapore, is responsible for Statoil's sales, marketing and other downstream activities in Asia (Statoil, 2016).

Statoil opened a representative office in Indonesia in 2006 and has since then systematically built up an offshore exploration portfolio (Statoil, 2016). In recent years, their explorations for oil and gas in Indonesia have gradually moved towards the eastern part of the country (Statoil, 2016). Statoil now have ownership holdings in the deep-water blocks Kuma and Karama, with a 51% interest in the Karama PSC, and a 40% interest in the Kuma PSC (Statoil, 2016). Both fields are located off the coast, in water depths ranging from 1,000 to 2,000 metres (Statoil, 2016).

5.1.1 Interview with the former Country Director of Statoil in Indonesia

In an interview on 24.02.16 with Tor Fjæran, the former Country Director of Statoil in Indonesia, he talks about his experiences with establishing Statoil's business operations in the country. On the reason for establishment there, Fjæran mentions sustainability and profitability as important factors. According to Fjæran, Indonesia have a long experience

with land drilling, dating back to the late 1800s but little offshore experience. Statoil has therefore remained offshore in Indonesia, since that is what they are best at.

Establishment

Statoil entered Indonesia in 2006 with the help of the American oil giant ConocoPhillips. *"Indonesia is a complex country in terms of doing business, but we did it together with ConocoPhillips, who had several years of experience in Indonesia and a good knowledge of the market, and that was of great help to us. We applied for a license together with the state owned company Pertamina and got it through partnership with them. It was important for us to build a strong relationship with Pertamina, and we also had Norwegian backing in bilateral relations between Norway and Indonesia since both of our companies were state-owned."*

They started out with an office in Jakarta with five Norwegians, and then recruited more local staff. According to Fjæran, it was not a simple "straightforward" establishment. *"We tried to do it step by step, and to tread lightly to avoid making mistakes. We established ourselves in Indonesia after Statoil's experiences with corruption in Iran, and that had made us extra aware of the challenge with corruption. It is very easy to be drawn into things if you are not prepared."*

Since Statoil operates in several other countries, there are some slight variations between the establishment forms in the different countries, but all in all they are relatively similar, as Statoil always needs to apply for licenses. *"In my experience it is easier to establish business in Indonesia than in, say, Russia or Nigeria, but it is more complicated than in for example the US or Canada."*

Risk and Control

On the management's need for control of operations in Indonesia, Fjæran stated, *"It is important to at an early stage make a country analysis to try to understand how the country works, both politically and socially. You can enter alone, to ensure control, but for us it was nice to have someone to do it together with. To secure ourselves against the problems we could face, we still wanted a certain level of control. But things usually look worse than they really are, seen from the outside. Spending time to understand the*

country and the community is the best way to establish control. The key lies within understanding rather than assuming."

On the amount of risk in the Oil and gas sector compared to other sectors, Fjæran brings up corruption as a main cause for risk. *"I have previously worked a bit in the fisheries industry, and like with Oil and Gas, corruption has also been complex matter there. The way I see it, the greater value traded, the more opportunities there are for corruption. In this sense oil and gas may be more susceptible, but as long as it is a sector that requires permits and use of land, there will always be a high degree of risk. This would probably apply to the energy sector as well. Still, the advantage of the oil/gas and energy sectors is that they have a high priority in the country and with the government, which can in some cases make things easier."*

Cultural Distance

Fjæran lived in Indonesia for six years, together with his Norwegian family. On the matter of a cultural distance between Norway and Indonesia, Fjæran states that there is a significant distance. *"I found that the longer you are in a place, and the more you think you know and understand, the more complicated you find out that things really are. Especially if you go out in the regional areas. You always learn something new."*

The main issues in a business setting, was the lack of trust in the local politicians and the high level of corruption. *"It's an insane bureaucracy, especially in the Oil and Gas industry. Corruption penetrates the Indonesian community, and one can not trust the system. We tried to avoid meetings and relations with politicians, but this was even more complicated in the regional areas. There we met politicians who also had important business roles. We often experienced pressure, but we just had to take the time it took, even if it cost us a lot more.*

Another challenge is according to Fjæran the lack of efficiency. *"There are no incentives to do a good job, rather incentives to do as little a possible. There is also a very low focus on innovation and efficiency. For instance, the government has not previously invested a lot to develop Pertamina, which has become a problem now that they want to build a stronger oil and gas business in the country."*

Fjæran still has a positive outlook on Indonesia and how it has developed throughout the last few years, stating *"I'm very impressed with how democracy has evolved over the years I've been there. Asia and Indonesia is far better at this than South America, Africa and the Middle east."*

5.2 Wilhelmsen Ships Service

Wilhelmsen Ships Service is a part of Wilhelmsen Maritime Services AS, which is a wholly owned subsidiary of Wilh. Wilhelmsen Holding. Wilh. Wilhelmsen was established in 1861, and was by 1900 the largest fleet under the Norwegian flag (Wilh. Wilhelmsen, 2016). In 1911 they entered into liner trade, and increased their international presence by establishing "the Norwegian Africa and Australia Line" (Wilh. Wilhelmsen, 2016).

Wilhelmsen Ships Service is now a leading global provider of products and services to the offshore and maritime industry (Wilhelmsen Ships Service, 2016). This includes safety products and services, Unitor marine products, Unitor and Nalfleet marine chemicals, maritime logistics and ships agency (Wilhelmsen Ships Service, 2016). Wilhelmsen Ships Service is divided into four main regions; Europe, Asia Pacific, Americas and Africa, Middle East and the Black Sea, with regional headquarters in Lysaker, Singapore, Houston and Dubai. They have 4,500 specialised marine employees in 75 offices worldwide, and service 2,200 ports in 125 countries, making it the world's largest maritime network (Wilhelmsen Ships Service, 2016). Last year they made product deliveries to 25,000 vessels and handled 70,000 port calls (Wilhelmsen Ships Service, 2016).

Wilhelmsen Ships Service has been active in Indonesia for 26 years, 25 of which were together with its former partner PT Tirta Samudera Caraka (Eikum, 2015). Wilhelmsen Ships Service split from its partner on March 1st 2015, and now has a small representative office in Jakarta.

5.2.1 Interview with the General Manager of WSS Indonesia

In an interview on 03.02.16 with Lennart Stockmann, the General Manager of Wilhelmsen Ships Service in Indonesia, he mentions high levels of corruption, briberies

and facilitations as major challenges for the company's operations in Indonesia. Corruption was according to Stockmann one of the main reasons for the split between Wilhelmsen Ships Service and their former partner PT Tirta Samudera Caraka.

Establishment

Wilhelmsen Ships Service now has a representative office in Indonesia, but their goal is according to Stockmann to find a new local partner. The company has establishments in other countries as well, but does not use the same entry mode in all the different markets. *"It varies from country to country. Some countries require by law that you must have a partner to establish a sustainable and long term partnership, while other countries, allow you as a foreign company to do the establishment without any domestic partners/companies are involved" (Stockmann, 2016).* Stockmann also stated that, *"if we as a global company could be granted more free hands without applying for all kind of various documentations, it would be better and more attractive for any serious companies to set and prepare for a more sustainable future."*

Risk and Control

Stockmann believes that there is a much higher need for management control in Indonesia than in Norway. He also thinks that the maritime sector has a higher level of risk than other sectors. *"For me it is very clear that 99% of the Indonesian people, employees and companies are trying to work around the law, especially the tax law. Corruption, bribery and facilitations are common every day in every sectors, but especially within the maritime sector".*

Cultural Distance

Stockmann has lived in Indonesia for 14 years, and according to him, there is a high cultural distance between Indonesia and Norway. His experience with the Indonesian business culture is that it is not always easy, and *"you can never take a no for a no"*. He also states *"You don't find too many honest, reliable, trustworthy and transparent business agreements. There is always a way for the Indonesians to get clear of any contract agreement. I simply don't trust an Indonesian agreement and there again, many Indonesian companies can't accept an agreement made outside Indonesia."*

On successfully doing business in Indonesia, Stockmann stated that *"First you must understand how Indonesia works, and then you must accept how it works. Always try to contact someone, expats or foreign company representatives, who have been in Indonesia for some years to learn more about what you should and should not do."*

5.3 SN Power

SN Power's history dates back to 2002, when the two Norwegian state entities Statkraft and Norfund joined forces as a 50-50 joint venture to establish a hydropower company that focused on emerging markets (SN Power, 2015). SN Power and its subsidiaries now have over 500 employees worldwide in 13 countries, and have reported US$2.6 billion in total assets and US$1.9 billion in equity on a consolidated basis (Norfund, 2016). During the company's first four years in operation, SN Power in quick succession entered the markets of Sri Lanka (2003), Peru (2003), India (2004), Chile (2005), the Philippines (2005), and Nepal (2006). In 2006 SN Power and their Philippine partner Aboitiz launched SN Aboitiz Power (SNAP), where SN Power holds 50%. SNAP then acquired Magat, the largest hydropower plant in the Philippines (SN Power, 2015).

In June 2013, Statkraft and Norfund agreed to restructure and prolong their cooperation within renewable energy until 2023, but now with an increased geographical focus on Southeast Asia, Africa and Central America (SN Power, 2015). In Indonesia, SN Power officially signed an agreement in September 2015 for the development of a 127MW hydropower project in the river Lariang in West Sulawesi (Eikum, 2015). If everything goes according to plan, the project will be completed in 2020.

5.3.1 Interview with Country Director of SN Power Philippines

In an interview on 17.02.16 with the country director of SN Power in the Philippines, Tor Stokke, he elaborated on their new project in the river Lariang in West Sulawesi, Indonesia. SN Power's entry mode in Indonesia is a partnership with the Indonesian company PT Energi Infranusantara, together with their long time partner in the Philippines, Aboitiz.

Establishment

According to Stokke, there is a minimum requirement of a 50% local partnership, due to regulations in the Indonesian energy industry. *"PT Energi Infranusantara will contribute with both knowledge and capital. We have considered various partners but ended up on this one, which we hope will be a good partner for us."*

SN Power is now using consultants in Indonesia, and has a close relationship with the Norwegian Embassy there, since they are still quite early in the development process. According to Stokke, *"the full development takes several years from start to finish, with different stages of engineering and location scouting. The project will cost between 4-600 million dollars, so there is a large investment going into this. Things therefore need to be very carefully planned and executed."* If this project turns out to be successful, other projects in Indonesia will be set in motion, and SN Power is according to Stokke considering opening a representative office in Indonesia, as they have done in several other countries. Normally, SN Power uses a combination of their own employees, and locals.

The main reason for entering Indonesia was according to Stokke *"the good climate conditions with a lot of rain, which is of course important for hydropower. There is also a large demand for more energy in Indonesia, and due to relatively low costs related to constructing the facilities and running it, the establishment will hopefully give a high yield."*

SN power has establishments in several other countries, and Stokke explained that SN Power uses partners in most places, as it is often a requirement to obtain licenses. However, in some places like for example Peru, SN Power has never had a partner, and that has according to Stokke also worked well.

Risk and Control

On the need for management control in Indonesia as compared to in Norway, Stokke stated that *"things work in different ways, business in Norway is more based on trust. The need for control in Indonesia is higher than in Norway, especially when it comes to decision making. However, in my opinion the need for control is even higher in the*

Philippines than in Indonesia." Having had operations in the Philippines since 2005 is therefore according to Stokke an advantage for SN Power.

On the level of risk in Indonesia, Stokke mentions corruption, permits, and licenses as the main challenges and causes of risk. SN Power has a zero tolerance for corruption, which makes business deals challenging and prolonged. And the level of risk in the energy industry compared to other industries is according to Stokke higher. *"When doing a project like this, there are a lot of people involved, we may have to dam up certain areas, and there are a lot of things that can go wrong. Especially since we are always trying to have the lowest environmental and social impact possible."*

Stokke mentioned that it is important for SN Power to identify their main risks early on, and then find out how to deal with them accordingly. *"There are different types of risk, and we have people working on what can be done with the various causes of risk, and how to deal with them. Some things are however more difficult to deal with, such as natural disasters, earthquakes and so forth."*

Cultural Distance

Stokke is currently living in Manila, Philippines. According to him, the Indonesian way of doing business is relatively similar to that of the Philippines. There, as in Indonesia, it has been very important to work together with local stakeholders.

On how cultural differences affect choices in the implementation of projects in Indonesia, Stokke stated, *"It can be challenging, as there are many cultural differences. Not only between Norway and Indonesia, but you also have to adapt to many local cultures within Indonesia. People in for instance Jakarta can be very different from people in Sulawesi. Therefore, it is important to use local people, especially in the start-up phase."*

5.4 Gexcon

Gexcon AS is a world-leading company in the field of safety and risk management, advanced dispersion, explosion and fire modelling (Gexcon, 2016). Headquartered in Bergen, Norway, Gexcon now consists of 40 engineers. The first overseas offices were established in 2008, and by 2012 Gexcon had employees in 5 offices around the world: in

Washington DC (USA), Houston (USA), Perth (Australia), Ormskirk (UK), Jakarta (Indonesia), Dubai (UAE), Shanghai (China) and Pune (India). Their "FLACS CFD" software is now used in more than 150 organizations worldwide (Gexcon, 2016).

The competence of the company is built on 35 years of focused research and consultancy in the parent company Christian Michelsen Research (Gexcon, 2016). Gexcon was established as a brand name in 1987, but the gas explosion consultancy services were only formally separated from Christian Michelsen Research until 2000, when Gexcon took over all explosion safety activities (Gexcon, 2016).

5.2.1 Interview with the CEO of Gexcon

In an interview on 10.03.16 with Sturle Harald Pedersen, the CEO of Gexcon, he mentions finding and training experienced staff as the main challenge for the company when operating in Indonesia. He also explains several years of experience with establishing companies in Asia as one of the reasons for the success of their Indonesian establishment.

Establishment

PT Gexcon Indonesia was established in February 2012, and now employs eight Indonesians. The Indonesian subsidiary delivers risk analysis, modelling of explosions and calamity ratings commissioned from all over the world through the Gexcon group.

According to Pedersen, Malaysia was also considered, but after a cost-benefit assessment, they ended up with Indonesia because they saw a greater activity there in the future. *"Indonesia as a market is on the rise, and it is expected to become one of the world's 10 largest economies over the next 15 years. It is important for us to position ourselves in new growth markets"*. This rapid development will, according to Pedersen, result in significant changes in the oil, gas and energy industry.

The implementation process was very quick, only about 3-6 months from the time they decided to enter Indonesia. According to Pedersen, the choice of a subsidiary as the entry mode was easy. *"For us, it was out of the question to partner with an Indonesian company. I have many years of experience with start-up companies in Asia, and I generally have a bad experience with partnerships. They can all too easily become a*

silent partner who just sits there and receives the cash, without actually contributing something. Initially, we were told to find a local partner, but luckily things worked out so that we did not have to."

Gexcon appointed local staff right away, and sent them on an intense training program in Norway for a few months. As according to Pedersen, *"in a consulting business, the most important thing is to have competent employees."* Gexcon has also used the same mode of entry for operations in the other 4 countries they are currently operating in, and *"all the different subsidiaries have their own responsibilities with regards to financial factors, both regarding losses and liabilities."*

Risk and Control

On the issue of risk and control, Pedersen stated that the management's need for control is very high in Indonesia. Pedersen also perceived the risk of operating in Indonesia as higher than that of Norway, but he did not perceive the risk of operating in their sector as very different from other sectors.

According to Pedersen, different legislative, cultural, and political factors contribute to an increased level of risk for them. The perhaps greatest risk is related to the fact that they mainly do consulting. *"Consulting is built on expertise and a strong reputation, and it is therefore important that the quality is perceived as good. Control is incredibly important, to ensure that the quality is the same in all the countries where we operate. We also sell software, and then it's a bit different, since we are not as vulnerable then as we are with the consultations."*

According to Pedersen, it is important to ensure control, but also to have confidence in their employees. *"It is important to prevent distrust, while still ensuring that there is some control. Trust is based on both parties knowing and understanding the procedures and following them, and also having confidence in that everyone works toward a common goal and have common interests. The most important thing is therefore that the organization has good control routines".*

According to Pedersen, challenges with corruption are present, but states that *"we may be a bit naive, but we think we've managed to develop a system of control and procedures that to a large degree helps prevent corruption in our organisation"*.

Cultural Distance

Pedersen himself has never lived full-time in Indonesia, but he has 30 years of experience with doing business in Asian countries. He describes his experience with Indonesian business culture as *"moderate"*, but still states that, *"there is a high cultural distance between Norway and Indonesia, and this has a large impact on Gexcon's business operations in Indonesia."*

One of the main challenges with the establishment in Indonesia was that the Indonesian education system is a bit different than in Norway. *"I would say that they have a pretty good education, but there is still a difference between a Norwegian engineer and an Indonesian engineer"*. Additionally, the definition of a leader is according to Pedersen *"fundamentally different in the various countries where we operate"*. This leads to a higher need for both control and trust.

5.5 AquaOptima

AquaOptima was founded in 1993, based on comprehensive R&D activity in SINTEF 1 in the period of 1985-1993 (AquaOptima, 2016). AquaOptima specializes in recirculation aquaculture systems (RAS), and offer hatcheries and grow-out land-based farms to the world market for a variety of species, based on their own technology (AquaOptima, 2016).

The RAS system is based on patented products and removal of solids directly from fish tanks that ensures better water quality inside tank and better suitability for treatment of water in prior to recirculation (AquaOptima, 2016). AquaOptima has delivered RAS for warm and cold-water species and for fresh and sea water all over the world since 1993. As of now the company has experience in species like Atlantic salmon, Arctic char, Atlantic cod, Halibut, Rainbow trout, Tilapia, Sea bass, Sea bream, Barramundi, Japanese flounder, Turbot, Eel, Tiger puffer fish and Sturgeon (AquaOptima, 2016).

AquaOptima works as an independent company in terms of supply, and often chooses a combination of equipment from Norway, Europe, USA, South East Asia, and local suppliers from the country they operate in (AquaOptima, 2016). They also supervise during installation and perform the commissioning and assistance during the first period of a new operation. AquaOptima have been operating internationally since a project in Japan in 2002 (AquaOptima, 2016).

Their Indonesian project in the Regency of Yapen started in 2014, and is now under construction. The Yapen project is a hatchery for Barramundi that can produce 1 million of 20 grams fingerlings per year, sea cages for grow-out of Barramundi, as well as sea cages for fattening of Tuna (AquaOptima, 2016).

5.5.1 Interview with the COO of AquaOptima

In an interview on 08.03.16 with Børge Søraas, the Chief Operating Officer of AquaOptima, he mentions preservation of biological factors as one of the main causes of risks for the company when operating in Indonesia. AquaOptima has worked on their current project in Indonesia since 2014, but Søraas himself has been involved in the country since 2012, first with state projects between Norway and Indonesia, and then later in AquaOptima.

Establishment

The reason why they decided to enter Indonesia was due to a request from the local Regency of Yapen in Papua. *"We have also studied the Indonesian market, and we see that there is a potential here"*. AquaOptima is now looking for new projects in Indonesia, and if they get into a few more contracts, they are according to Søraas considering establishing a local office in Jakarta.

Risk and Control

The risk for AquaOptima is mainly related to biological factors. AquaOptima is operating in other countries as well, but Indonesia is according to Søraas a bit different from the others. *"As Indonesia is an underdeveloped aquaculture country, industrially speaking, we see that there must be an introductory sale at an earlier stage than in some other countries where aquaculture is more established. In other countries, it is often the*

farmers who come directly to us with a clear idea of what they want to do, while in Indonesia we usually give suggestions on the whole business case."

According to Søraas, it is important for AquaOptima to hold a high level of control when doing business in Indonesia. *"Due to differences in business culture, it is important to have a high level control. Since we are not permanently present, we choose to work with an Indonesian company to increase this control. We spend time on quality control of communication, conducting thorough customer visits and so on."*

Cultural Distance

Søraas describes the cultural distance as *"medium-high"*, stating that, *"openness in communication is a challenge, as well as agreements on time. There is also more uncertainty in the implementation of various tasks."* On how cultural differences affects AquaOptima's choices upon completion of the projects in Indonesia, Søraas stated *"It takes more time with clients and partners. There is a need for the business relationship to almost turn into a personal relationship and hence it is more time-consuming to build up such relationships. But then again, it is also very enjoyable."*

5.5.2 Researcher Observations

As an intern in Innovation Norway in Indonesia, the researcher also helped organize - and attended a seminar on Sustainable Aquaculture on 24.11.15 in Jakarta, where AquaOptima was one of the participating companies. The focus of the seminar was sustainable aquaculture, and Børge Søraas held a presentation about AquaOptima's aquafarming technologies, and about their project in the Regency of Yapen. Representatives from the Regency of Yapen were also present. The researcher's observation was that AquaOptima possesses ground-breaking capabilities and technologies that are highly sought after in Indonesia. Their relationship with the local stakeholders in Yapen also seemed to be very good.

5.6 Ocean Supreme

Ocean Supreme AS is a Norwegian seafood company specialized in serving customers in Asia with fresh airborne "Sashimi-Quality" salmon 52 weeks/year (Ocean Supreme, 2016). The company was established in Ålesund, Norway in July 2003 in cooperation

with Alsaker Fjordbruk AS which is a leading salmon farming company with an annual production of 35.000 metric tons Atlantic Salmon (Ocean Supreme, 2016). The founders and employees of Ocean Supreme AS have long experience in integrating farming, processing and logistics for stable weekly deliveries of fresh high-quality salmon (Ocean Supreme, 2016).

The main market for Ocean Supreme is Japan, where they have sold fresh salmon every week throughout the year for over a decade (Ocean Supreme, 2016). The company's focus on optimized logistic solutions for shipping of salmon have resulted in an annual turnover of more than 100 million USD, and it is now one of the leading export companies in Norway for airborne salmon to Asia (Ocean Supreme, 2016).

5.6.1 Interview with the Managing Director and the Sales Director of Ocean Supreme

In an interview on 30.03.16 with the company's Managing Director, Botolf Stolt-Nielsen and the Sales Director Odd Frode Roaldsnes, they both mention Indonesian import quotas as the greatest challenge for Ocean Supreme when exporting salmon to Indonesia. According to Stolt-Nielsen, Ocean Supreme now has 14 employees and had a turnover of 823 million NOK last year.

Establishment

Ocean Supreme chose to enter the Indonesian market in 2010, after having had a steady growth since their start-up in 2003. According to Stolt-Nielsen, *"We saw that we had increased capacity. We also saw a growing market in Indonesia, and a growing demand for salmon each year."* According to Stolt-Nielsen, Ocean Supreme entered Indonesia largely on their own. *"We did a lot of research beforehand, to find potential distributors. We travelled there, met with potential importers and studied market statistics."*

Ocean Supreme's only office is located in Ålesund, Norway, but according to Stolt-Nielsen, they export to most of the airborne markets in the world. They have not considered opening an office in Indonesia, as they feel things work well as they are today. According to Roaldsnes, *"We buy the salmon directly from local fish farmers here in Norway, which we then re-sell to a variety of importers in Indonesia. They take over all the responsibility for the fish after it has landed at the airport in Jakarta. The*

importers are often restaurant chains, and they are chosen very carefully. Over the years we have been working in Indonesia now, we have found out who we want to work with, and who we don't."

Risk and Control

Stolt-Nielsen and Roaldsnes both agree that the issue with Indonesian import quotas is the greatest source of risk for Ocean Supreme in Indonesia. The problem lies with the fact that it is the importers that get the quotas, not the exporters. The quotas also fluctuate, so they never know quite how large the quotas really are, which creates a high level of uncertainty for the company. According to Stolt-Nielsen, *"The challenge in Indonesia is therefore related to the building of sales channels, with the constant uncertainty of Indonesian import quotas. It is difficult both for our customers and for us to plan ahead of time as long as one does not know how the quota situation will be in the future."*

According to Stolt-Nielsen, the quota problem makes it unfavourable for the market and inhibits growth. He mentions that they have had a similar experience in China, although in that case it has become even more difficult due to political reasons. Their biggest market, Japan is another case entirely. *"If we compare Indonesia with Japan, it's like night and day. In Japan there is a free trade agreement, which is a big deal. Yet, we see that the growth in Japan has stagnated along with a low population growth compared with other Asian countries. We are therefore looking at markets in growth, such as Indonesia."*

On the matter of risk and corruption, Roaldsnes stated *"unlike other industries, we have no problems with corruption, since we have no physical operations in Indonesia, and we give away the responsibility of the fish when it lands at the airport. This is a great advantage for us. However, we still have a higher level of risk in terms of import quotas than many other industries."*

On the matter of control, they both agree that there must be some form of control, but that it is important to also have a certain level of trust. They also mention the importance of being careful when deciding whom to work with. According to Roaldsnes, *"It is important for us that the salmon is treated properly. That the importers have good cooling facilities, strict requirements for the processing of salmon and that they are*

professionals. So far we have not experienced any problems with this." According to Stolt-Nielsen, they also have a credits insurance, to mitigate the financial risk, and *"the importing companies that we work with are mainly large, professional companies, so there have been no problems with the financial settlements so far."*

Cultural Distance

Both Roaldsnes and Stolt-Nielsen agree that the experience of doing business in Indonesia so far has been good. *"We have been on several customer visits to find out more about who we are working with, and we believe that the key is to always be open and humble towards the other culture."* According to Stolt-Nielsen, this applies to all the countries they work with, and he believes that this humbleness may fall easier for Norwegians, coming from such a small country.

Roaldsnes and Stolt-Nielsen both agree that the challenge with cultural distance has been minimal. According to Stolt-Nielsen, *"The people we are in contact with often have long experience in the industry, and use English as a working language. This has obviously made things easier. In addition, many of them have studied abroad in countries such as the US and the UK, which tends to lower the cultural barrier even further."*

6. Analysis and Discussion

6.1 Analysis of Findings

To get a clearer overview of the collected data, and to more effectively analyse the different aspects of the cases, the main findings from will now be presented with regards to the operationalization of the six propositions.

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1. Statoil

Size:	22 000 employees in 37 countries
Sector:	Oil/Gas
Resource Commitment:	High (Exploration and drilling)
International experience:	General: 25 years, Culture Specific: 10 years (Indonesia)
Establishment in Indonesia:	Representative Office
Partnership during Establishment:	Partnership with PT Pertamina
Perceived Need for Control:	Higher than in Norway
Perceived Country Risk:	High (Main issues: corruption)
Perceived Sector Risk:	High (Due to the level of resource commitment)
Perceived Cultural Distance:	Significant (Main issues: dealing with authorities, lack of trust)

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2. Wilhelmsen Ships Service

Size:	4,500 employees in 75 offices worldwide
Sector:	Maritime
Resource Commitment:	Medium (Services)
International experience:	General: 105 years, Culture Specific: 25 years (Indonesia)
Establishment in Indonesia:	Representative Office (Looking for a new partner)
Partnership during Establishment:	PT Tirta Samudera Caraka (Split in 2015)
Perceived Need for Control:	Higher than in Norway
Perceived Country Risk:	High (Main issues: corruption, bribery and facilitations)
Perceived Sector Risk:	Higher than other sectors

Perceived Cultural Distance: High (Main issues: dealing with authorities, lack of trust)

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3. SN Power

Size: 500 employees in 13 countries

Sector: Energy

Resource Commitment: High (Construction of hydropower facilities)

International experience: General: 13 years, Culture Specific: 11 years (Philippines)

Establishment in Indonesia: Partnership with PT Energi Infranusantara (Indonesia) and Aboitiz (Philippines)

Perceived Need for Control: Higher than in Norway, lower than in the Philippines

Perceived Country Risk: High (Main issues: corruption, getting licenses)

Perceived Sector Risk: Same as other sectors (High environmental and social focus)

Perceived Cultural Distance: Significant, similar to Phil. (Main issues: many local cultures)

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4. Gexcon

Size: 40 employees in 5 countries

Sector: Oil/Gas

Resource Commitment: Medium-high (Consulting services/Sales)

International experience: General: 8 years, Culture Specific: 4 years (Indonesia)

Establishment in Indonesia: Subsidiary

Partnerships during Establishment: None – Was never an option

Perceived Need for Control: Higher than in Norway

Perceived Country Risk: Higher than in Norway

Perceived Sector Risk: Same as other sectors

Perceived Cultural Distance: High (Main issues: training of staff)

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5. AquaOptima

Size: 3 employees, 1 office (Trondheim, Norway)

Sector: Aquaculture

Resource Commitment: Medium-Low (Aquafarming projects)

International experience: General: 14 years, Culture Specific: 2 years (Indonesia)

Establishment in Indonesia: Licensing (Sales of technology and equipment)

Partnerships during Establishment: Contract with different partners through projects

Perceived Need for Control: Higher than in Norway

Perceived Country Risk: High (Biological risk)

Perceived Sector Risk: Same as other sectors

Perceived Cultural Distance: Medium-high

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6. Ocean Supreme

Size: 14 employees, 1 office (Ålesund, Norway)

Sector: Aquaculture

Resource Commitment: Low (Exports of Salmon)

International experience: General: 13 years, Culture Specific: 6 years (Indonesia)

Establishment in Indonesia: Exports (Norwegian Salmon)

Partnerships during Establishment: Partnerships with Indonesian Distributors (Importers)

Perceived Need for Control: Somewhat High

Perceived Country Risk: High (Due to import quota issues)

Perceived Sector Risk: High

Perceived Cultural Distance: Medium (Not considered a challenge)

6.2 Discussion of Findings

Looking at the factors presented in the analysis of findings, the general opinion among the respondents seems to indicate a high perceived need for management control, a high level of perceived risk related to operations in Indonesia, and a relatively high perceived cultural distance. The majority of the respondents also favoured local partnerships, either

through close cooperation with a local company, or by the use of local agents and distributors.

In order to get a deeper understanding of the relationships between the different factors that may have an impact on the choice of entry mode, the findings will now be discussed with respect to each of the six propositions. The findings will then also be compared to previous empirical findings, in order to determine which factors that can actually be considered empirically grounded or if more research will be necessary.

6.2.1 Proposition 1
A high perceived need for management control indicates the choice of a subsidiary.

The prominent opinion among all the respondents was that the company management felt the need to have a higher level of control over operations in Indonesia, especially compared to operations back in Norway.

Figure 9: Entry Mode and Perceived Need for Control

Many of the companies described a lack of trust between local and foreign employees as the main reason for this need for control. The Indonesian business culture also seemed to

play a part, since it according to some of the respondents, "lacks incentives for doing a good job", which have created a "do as little as possible-attitude".

The respondent from Gexcon expressed a high need for control in operations, something that matches previous empirical findings with the choice of a wholly owned subsidiary. Being in partnerships with other local companies was never an option for Gexcon, something that also indicates a higher need for control through a sole ownership. Statoil and Wilhelmsen Ships Service, with their representative offices, also stated high needs for management control, although somewhat lower than Gexcon. SN Power expressed that the need for control in Indonesia was "higher than in Norway, but lower than in the Philippines". The fact that the respondent has experience from a seemingly more challenging foreign market, still within the southeast Asian region, may be an advantage that has contributed to decreasing the perceived level of risk for SN Power in Indonesia, and consequently the need for high levels of control.

AquaOptima and Ocean Supreme also expressed certain needs for control, but they did not put as great emphasis on it as the other companies in the case study. They also expressed lower levels of perceived risk with operating in Indonesia. The fact that both companies are using contractual modes, with low levels of resource commitments and relatively limited presences in Indonesia, may be the reasons for this.

As discussed, many of the studied companies that displayed a high need for management control over operations in Indonesia, did indeed have high control modes such as representative offices and wholly owned subsidiaries. And the companies that expressed lower needs for control used contractual modes like licensing and exporting. The findings of Hill, Kim & Hwang (1990), and Brouthers & Hennart (2007), that a high need for control indicates the choice of a wholly owned entry mode, and that a low level of control indicates the choice of exporting or licensing, can therefore be viewed as similar to the empirical findings of this case study.

Another explanatory factor may be found within the Indonesian rule of law. As presented in chapter 2.2.2, a foreign company entering Indonesia with a direct establishment needs to create either a foreign liability company (PT PMA) or a representative office. Looking at the companies in this case study, we know that Gexcon has an Indonesian subsidiary -

or limited liability foreign investment company, called PT Gexcon. Two of the companies in the case study, Wilhelmsen Ships Service and Statoil both have representative offices. As previously mentioned, there are some important restrictions on what representative offices for foreign companies can engage in. Not to mention the fact that the representative office is only valid for a maximum period of 5 years without a local partner. Statoil has a representative office, but they are also in a partnership with the Indonesian state owned company PT Pertamina. As Wilhelmsen Ships Service recently parted with their long time Indonesian partner, this can of course lead to some challenges for them. However, as the respondent mentioned in the interview, they were currently looking for a new Indonesian partner.

The choice of a high-control entry mode can therefore be related both to the perceived need for management control over operations in Indonesia, as well as being a response to the Indonesian rule of law. The findings were also found to be similar to previous empirical findings, and the proposition therefore appears to be empirically grounded.

6.2.2 Proposition 2

The choice of a direct entry mode leads to a high level of perceived cultural distance and risk for the company.

The prevalent perception among the respondents in the case study was high levels of both perceived cultural distance and perceived risk. There was a consistent opinion that particularly corruption, but also issues with the rule of law and import quotas, were the causes of this perceived risk and uncertainty, and that difficulties in communication and lack of trust were the causes of the perceived cultural distance.

Figure 10: The Choice of Entry Mode and Perceived Cultural Distance and Risk.

The respondent from Wilhelmsen Ships Service expressed significant levels of both perceived cultural distance and perceived risk. The respondent mentioned a lack of trustworthiness and transparency as challenges regarding the high levels of perceived cultural distance. Corruption, facilitation and briberies were the main causes of risk for the company, as well as Indonesian legislation and rule of law. The respondent also believed that the maritime sector was more burdened by the level of corruption than other sectors.

The respondent from Statoil also expressed high levels of both cultural distance and risk. The respondent stated that the longer he had lived and worked in Indonesia, the higher the cultural distance seemed to become. Permissions, licenses, and corruption were at the core of the perceived risk. The respondent from SN Power expressed only a medium high cultural distance, specifically regarding interaction with different local cultures. The respondent had several years of experience with working in the Philippines, and expressed a higher cultural distance when doing business there, than in Indonesia. However, the respondent expressed a very high level of risk related to the construction of the hydropower plant in Sulawesi, especially regarding the financial risk of the project. Indonesian legislation with different licenses and permits, as well as a high level of corruption were also important factors contributing to the perceived level of risk. SN

Power also put great emphasis on sustainability and operating in a responsible and sustainable way both with regards to the natural environment and to the local communities.

The respondent from AquaOptima expressed a medium high cultural distance, where openness in communication, agreements on time, and uncertainty regarding operational implementation were the main challenges. The fact that AquaOptima is not permanently present in Indonesia may be a reason for this lower level of perceived distance. Still, the company does engage in business with local cultures that may be even "less western" than other parts of the country, when operating on rural islands such as Yapen. AquaOptima's perception of risk was according to the respondent mainly due to the fact that Indonesia is relatively underdeveloped in the field of aqua farming. The respondent stated that in other countries it was normally the farmers who came to them with a clear idea of what to do, while in Indonesia AquaOptima had to provide suggestions on the whole business case. The respondent also mentioned biological factors as a cause of risk.

The respondents from Ocean Supreme expressed low levels of cultural distance, and relatively low levels of risk. As they are only exporting goods to Indonesia, their response seems logical, since their actual interaction within Indonesia is quite low. The only people they are in contact with are their own distributors, whom they have carefully picked out. Corruption is therefore not a direct problem for them, as they pass on the responsibility of the fish once it lands at the airport in Jakarta, where most of the opportunities for corruption arises. The greatest risk for the company was according to the respondents related to issues with the Indonesian import quotas. These quotas are given from the Indonesian government to the different companies that act as distributors for the foreign goods. These quotas fluctuate, and Ocean Supreme does therefore not know how large the actual quotas are at present, and how large they will be in the future. Planning ahead is therefore a challenge for Ocean Supreme.

The findings discussed above seems to be similar to the findings of Hill, Kim & Hwang (1990), Randøy & Dibrell (2002), and Brouthers & Hennart (2007), that the risk increases for direct entry modes and decreases for contractual modes. Evidently, the companies in this case study with direct entry modes were also the ones that expressed the highest levels of perceived risk and perceived cultural distance, while the contractual companies

expressed the lowest levels of perceived cultural distance and risk. The proposition can therefore be considered empirically grounded, as the findings of the case study is similar to that of the previous empirical findings.

6.2.3 Proposition 3

A high level of perceived risk and uncertainty indicates the choice of a local partner in the establishment stage.

The perhaps most recurrent finding in this research was the call for having a local partner. As all the companies expressed a relatively high perception of risk with operating in Indonesia, and most of them also favoured having a close relationship with an Indonesian company, especially during the establishment phase.

Figure 11: Perceived Risk and Partnerships during the Establishment Phase.

As argued by López-Duarte and Vidal-Suárez (2013), the potential role that a local partner plays in reducing external uncertainty may critically depend on the relationship with the foreign investor. Therefore, when there for example are differences in language, foreign investors may prefer to invest through wholly owned subsidiaries rather than collaborating with a local company. As we can see from the figure above, most of the companies in this case study preferred local partnerships in one way or the other, despite

a language difference. The reason for this may lie in the fact that the majority of Indonesians that the Norwegian companies interact with, have a higher level of education, and therefore speak English very well. This was also pointed out by several of the respondents. Manufacturing firms and companies that operate on a lower operational level, and "out in the field", would doubtless experience the language barrier to a much larger extent.

As can be seen from the figure above, Gexcon was the only company that had no Indonesian partnerships, and also no interest in having one, despite expressing a high perception of risk and uncertainty. AquaOptima and Ocean Supreme did not have one specific partner, but were in close cooperation with different Indonesian companies, distributors and customers. They did also have a lower perception of risk than the other companies. Wilhelmsen Ships Service had a 25 years long partnership with PT Tirta Samudera Caraka before their split, Statoil has been in a partnership with Pertamina since their entry in 2006, and SN Power recently entered a partnership with PT Energi Infranusantara together with their Philippine partner Aboitiz. They all had quite a high perception of risk related to operating in the Indonesian market. According to the respondent from Statoil, Indonesia was a complicated country to do business in, but the fact that they were in partnership with the local company Pertamina from the beginning, mitigated some of the effects of this risk. These findings are similar to that of Barkema, Bell and Pennings (1996) who argued that a native partner - be it through joint ventures or by the use of agents is often required during the early stages of the market entry.

There is also a legislative factor to be considered regarding partnerships. As previously mentioned, some sectors are wholly, or partially closed to foreign investment. If a sector is partially closed to foreign investment, the government states a maximum allowed percentage of foreign ownership. This indicates the need for foreign companies to have a local partner in order to be able to engage in business in that particular sector. Restricted sectors relevant for this thesis were the Oil & Gas sector and the Energy sector, which can be seen through the representation of Statoil and SN Power's partnerships in this thesis. Gexcon managed to avoid this restriction, being a consulting company and not directly engaging in exploration and drilling operations.

The choice of a local partnership can therefore be related both to the perceived level of risk and uncertainty in Indonesia, as well as being a response to the Indonesian legislative regulations. As the companies in the case study that expressed the highest perceived level of risk also were the ones that were engaged in long-term partnerships, the proposition appears to be of a realistic nature.

6.2.4 Proposition 4

There is a reduction in perceived country risk as the firm acquires more culture specific experience.

Based on the responses from the companies, there actually seemed to be a contradictory tendency to the theory that this proposition was based on. In fact, it seemed as if the level of culture specific experience, how long the company had been operating in - or in a similar culture to Indonesia, had the opposite effect on the level of perceived risk with operating in Indonesia than what was proposed by Barkema, Bell and Pennings (1996) and Ekeledo and Sivakumar (2004).

Figure 12: Perceived Country Risk and Culture Specific Experience.

Even though all the companies expressed a relatively high level of perceived risk related to operations in Indonesia, the outlooks on risk among the more experienced companies

seemed to be of a more knowledge based nature than that of the less experienced companies. The causes of risk also varied between the types of business that the company conducted, as well as the level of resource commitment and level of physical presence in Indonesia.

Wilhelmsen Ships Service has been active in Indonesia for 26 year, and the respondent had 14 years of experience with operating in Indonesia. He still expressed a very high level of perceived country risk. A lack of trustworthiness between foreign and local workers, corruption, a difficult bureaucracy and cumbersome legislation were mentioned as challenges. Statoil has 25 years of international experience and 10 years of culture specific experience with operation in Indonesia. The respondent from Statoil lived and worked there for six years, from the beginning of Statoil's establishment in Indonesia. He also expressed high levels of risk regarding Statoil's operations there, and stated that the longer he had lived and worked in Indonesia, the higher the cultural distance seemed to become. He mentioned Statoil's experience with corruption in other countries as a lesson when entering Indonesia, and that this made them more aware of issues related to corruption. The respondent expressed the need to do thorough research about the target market as a key to mitigating risk, basing decisions on knowledge rather than assumptions. Dealing with politicians was also something the company tried to avoid, due to the Indonesian bureaucracy with many opportunities for briberies and corruption. Strict regulations in the oil & gas industry were also expressed as challenging for Statoil.

SN Power has 13 years of international experience on several continents, and 11 years in the somewhat culturally similar Philippines. The respondent from SN Power had several years of experience with working in the Philippines. He stated a lower perceived cultural distance, but a higher level of perceived risk than some of the other companies. This risk was mainly related to Indonesian legislation, financial risks, environmental risks with natural disasters and earthquakes, as well as sustainability for the local communities affected by the project. Trying to avoid all kinds of corruption was of great importance to the company.

These findings are comparable to the findings of Randøy and Dibrell (2002), that Norwegian companies that have extensive international experience, also have a larger abundance of resources and capabilities, which indicates that they will prefer high-

resource entry modes. Less experienced firms will according to the authors be more constrained in their ability to manage large foreign market commitments, and therefore are more inclined to choose contractual modes. Wilhelmsen Ships Service, Statoil and SN Power were the companies with the longest international and culture specific experience, and they all have high-resource establishments in Indonesia.

As previously mentioned, Ocean Supreme and AquaOptima were the companies that expressed the lowest levels of risk with operating in Indonesia. They were also two of the less experienced companies in the case study, along with Gexcon. As was found by Randøy and Dibrell (2002), less experienced companies will often prefer low commitment modes, such as exporting or licensing. Ocean Supreme and AquaOptima both have low-resource entry modes; exporting and licensing. However, Gexcon has had a subsidiary since the start, and must therefore be considered "an exception to the rule" in this case. As have previously been discussed, the reason for this may be that Gexcon had a much higher perceived need for control than Ocean Supreme and AquaOptima.

Similarly to the findings of Ojala (2008), several of the companies entered the Indonesian market by using direct entry modes, even if there were significant levels of risk related to the establishment. As companies acquire more international experience, they will according to Johanson and Vahlne (1977) gradually move more towards direct investments, and higher levels of resource commitment. And a company that possesses both substantial industry experience and geographic experience will, according to Ekeledo and Sivakumar (2004) favour a full ownership entry mode. Looking at some of the more experienced companies in this case study, Statoil, SN Power and Wilhelmsen Ship Service, they have all chosen to enter the Indonesian market with direct investments. Whether these choices were based solely on international experience, or due to some of the other factors such as need for control and Indonesian rule of law, cannot be said for certain. However, with increased international experience follows a larger abundance of capabilities, financial resources and "know-how", which certainly can contribute to mitigating the level of risk for the company. As the respondent from Statoil stated, "The key lies within understanding, rather than assuming."

As mentioned, there seemed to be a contradictory tendency towards the proposition, with the fact that increased culture specific, international experience seemed to indicate an

increasing perception of risk with operating in the country, rather than decreasing. The proposition will therefore need further research. Still, international experience was found to play a part regarding the choice of entry mode, as the more experienced companies chose direct, high resource commitment entry modes, while most of the less experienced companies chose contractual, low resource commitment modes. This is similar to findings of Ojala (2008), Randøy and Dibrell (2002), Ekeledo and Sivakumar (2004) as well as the stages of internationalisation provided by Johanson and Vahlne (1977). International experience evidently has an effect on the choice of entry mode, even though the proposition was not found to be empirically grounded.

6.2.5 Proposition 5

Large companies are more inclined to choose high resource commitment entry modes.

Based on the data collected about the companies in this case study, we can see that there does seem to be a relationship between size and resource commitment, where large companies have chosen high resource commitment modes and smaller companies have chosen low resource commitment modes.

Figure 13: Level of Resource Commitment and Company Size.

SN Power has the highest level of resource commitment, with its hydropower project in Sulawesi, Indonesia. SN Power is also amongst the larger companies in the case study. Statoil is a large company on a global scale, even if their presence in Indonesia is not the most substantial. Their level of resource commitment is high, with exploration and drilling activities "out in the field". Wilhelmsen Ships Service is also a large company, but as their venture is based on service providing, the level of resource commitment is therefore lower than that of Statoil and SN Power.

The smallest company, AquaOptima only has 3 employees, and an office in Trondheim, Norway. They only temporarily travel to the different locations in Indonesia during their projects. However, if the demand continues as expected, they are according to the respondent, considering opening an office in Jakarta, which will then increase their level of resource commitment in the country. Ocean Supreme is the second smallest company, with 14 employees and one office in Ålesund, Norway. They export through Indonesian distributors, whom they visit regularly, but their physical presence and level of resource commitment in Indonesia is still very low.

Gexcon is again the exception of the rule, as they are among the smaller companies with a total of 40 employees of which 8 are in Indonesia, but still has an Indonesian subsidiary. The level of resource commitment is higher than that of Ocean Supreme and AquaOptima, but still lower than Statoil and SN Power. Looking at the type of business they conduct, Gexcon is similar to Wilhelmsen Ships Service, with being a service-based company. In some way, Wilhelmsen may therefore also be a bit of an exception, however they do still have a relatively high level of resource commitment, with a physical presence through their representative office in Jakarta, and by operating in several harbours in Indonesia.

The findings of Ekeledo and Sivakumar (2004), that the size of a company often is an indicator of its competitive advantage in financial, physical, human, technological, or organizational resources, and that large companies therefore will be more inclined to choose a high level of resource commitment in the foreign market, are similar to some of the cases here. Especially looking at high resource commitment companies like SN Power and Statoil. They would not be able to conduct their activities without the necessary of resources and capabilities such as technological and financial resources,

human capital, and industry "know-how". Being in partnerships with local companies is also an advantage for Statoil and SN Power, considering that this further increases their access to local resources, knowledge and capabilities.

The findings of Randøy and Dibrell (2002) that smaller companies or divisions serving the foreign markets may be constrained by their size and lack of resources and capabilities, is also similar to the findings of this case study. However, the fact that the smaller companies have low levels of resource commitment in Indonesia may also be due to other factors than a lack of resources. For instance, the respondents from Ocean Supreme stated that they did not view it as profitable to have a physical presence in Indonesia because things worked very well at present, and that it had therefore never been an option for them to increase their physical commitment in Indonesia.

As the findings appear to be similar to that of Randøy and Dibrell (2002) and Ekeledo and Sivakumar (2004), in that there is a positive relationship between large firm size and a high level of resource commitment, the fifth proposition appears to be empirically grounded.

6.2.6 Proposition 6
There are differences between business sectors when it comes to the choice of entry mode.

This was the proposition that had the weakest theoretical foundation, due to a quite limited amount of previous research. It was still interesting to see that there does appear to be some differences regarding sectors when comparing for the choice of entry mode. Even so, the reason for this may lie in other factors than the actual differences between sectors.

Figure 14: The Choice of Entry Mode and Company Sector.

One reason for these differences may be due to the Indonesian rule of law, as there are differences regarding the issuing of permits and licenses for certain sectors. This is especially relevant when it comes to operations with high levels of resource commitment in sectors such as Oil & Gas and Energy. In order to get the necessary permits and licenses, the foreign company will need to get their licence through a partnership with a local company. This was the case with both Statoil and SN Power in Indonesia.

Similarly to the findings of Sanchez-Peinado and Pla-Barber (2006) that companies in knowledge-intensive industries will prefer entry modes with a higher level of control than that of companies in capital-intensive industries, the most knowledge-intensive company in this case study, Gexcon, did indeed choose the highest control entry mode; a wholly owned subsidiary.

Similarly to the findings of Brouthers, Brouthers and Werner (2002), the choice of entry mode for the case companies seemed in many cases to depend more on capital intensity and level of resource commitment, than on the actual differences between the sectors. If we look at Statoil and Gexcon, which are both operating in the Oil and Gas sector, their types of business differs greatly with Gexcon being a knowledge-intensive provider of consulting-services, and Statoil physically operating out in the field, exploring and

drilling for oil, being a capital-intensive company. While the Aquaculture company AquaOptima goes out in "the field" to supervise and develop the building of aquafarming facilities, Ocean Supreme only freights their products to Indonesian distributors without having to establish any presence there.

Brouthers, Brouthers and Werner (2002) also found statistical evidence that manufacturing companies were more likely to choose joint ventures, while service companies were more likely to choose wholly owned modes. Considering the companies in this case study, Wilhelmsen Ships Service and Gexcon are both service companies. They both have wholly owned modes - a representative office and a subsidiary. SN Power may be regarded as manufacturing company where the product is hydropower energy. And as previously mentioned, SN Power has a joint venture with Aboitiz as well as a split ownership of the Sulawesi project with PT Energi Infranusantara.

Based on this discussion, the empirical findings related to this proposition, seems to be somewhat similar to the findings of Brouthers, Brouthers and Werner (2002) and Sanchez-Peinado and Pla-Barber (2006). The main finding indicates that the type of business, the level of capital-intensity, and the level of resource commitment seems to have a greater impact on the choice of entry mode than the actual differences between business sectors. Additionally, Indonesian rule of law was also found to play a role in the displayed differences between sectors.

7. Conclusion

Evidently, there are many factors that may have an impact on the choice of entry mode. The most prominent finding throughout this research was the inclination of having partnerships with local, well-established companies. Indonesian rule of law also seemed to have a much larger impact on the choice of entry mode than what was first anticipated, especially regarding the establishment of foreign direct investments, and the need for local partnerships in specific sectors.

Comparing the theoretical framework and previous empirical findings with the findings of this research, the main factors to have an impact the choice of entry mode were found to be *perceived need for management control*, *perceived cultural distance and risk*, *level of resource commitment*, and *company size*. The empirical indications of *international experience*, and *company sector* were found to be somewhat unclear. However, they still appeared to have a certain impact on the choice of entry mode. Especially *international experience,* with the finding that the companies with extensive international experience chose to enter Indonesia by using direct entry modes, while many of the less experienced companies entered with contractual modes.

The main challenges for Norwegian companies operating in Indonesia were found to be related to the high level of corruption, a lack of trust between local and foreign employees, and issues with Indonesian import quotas. The keys to successful business in Indonesia were found to derive from the creation of strong, personal relationships with local stakeholders, and basing decisions on knowledge rather than assumptions about the country and its institutions. It will therefore be vital for any company entering Indonesia to conduct thorough market research and build up a good knowledge about the country's formal and informal institutions, before making important decisions, such as the choice of entry mode.

Even though several of the propositions appeared to be empirically grounded in their impact on the choice of entry mode, there are still some limitations of this thesis. The perhaps greatest limitation is that the case study was only able to graze the surface of this topic. To get a more accurate, and perhaps a more generalized picture of Norwegian companies' entry mode choices in the Indonesian market, more companies should have

been included in the study. It would also have increased the credibility and trustworthiness of the thesis if all the interviews had been conducted in person, rather than through skype, phone calls and emails. Going deeper into each company, looking more closely at their actual operations, supply chains, marketing efforts, experience from other countries and so forth could have proven valuable in detecting new and improved aspects of the decision making process. It would also be interesting to look at how companies from other countries than Norway experience operating in Indonesia, and then make comparisons between countries. However, this would require more time and travel money, and must therefore rather be ideas for future research.

Another idea for future research could be to look more closely at the use of Corporate Social Responsibility (CSR) by Norwegian companies in Indonesia. It would be very interesting to investigate whether the use of CSR could contribute to creating stronger, local relationships, and studying how this may affect the efficiency and profitability of the companies, as well as the development of the local communities.

As Herbert Spencer (1864) drew parallels between economic and biological thinking, the statement "the survival of the fittest" is still relevant in the business world today. Only the companies that are able to fit - and to adapt to the rapid changes of society, technology, and the global economy, will be the ones to survive and be successful in the years to come. For Norwegian companies, it is clear that new boundaries needs to be crossed in order to further increase profits, and uphold the sustainability of the Norwegian industry. And innovation, internationalization and sustainable development for the future will undoubtedly be an important part of this.

Indonesia, with its emerging economy, rapidly growing population and increasing purchasing power, harbours an abundance of profitable opportunities for those who are venturesome enough to try. Through decision making built on knowledge, rather than assumptions, with an openness to the local culture, and with the establishment of strong relationships, the entry into the Indonesian market can quickly become a success story for the company, as well as contributing to further growth and development of this up and coming emerging market.

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9. Appendix

9.1 The Interview Guide

Issue 1: The Company's Establishment in Indonesia

Question 1.1: What is the company's current establishment in Indonesia?

Question 1.2: Why did the company choose to enter Indonesia?

Question 1.3: For how long has the company been active in Indonesia?

Question 1.4: Have the company used the same establishment mode since the start-up in Indonesia?

Question 1.5: If the company have operations in other countries, have the same mode of entry been used there?

Issue 2: Risk and Control

Question 2.1: How would you describe the management's need for control in Indonesia? (and as compared to operations in Norway?)

Question 2.2: How do you perceive the risk with operating in Indonesia? (and as compared to operations in Norway?)

Question 2.3: How do you perceive the level of risk in your business sector compared to other sectors?

Question 2.4: In your opinion, what is the most important, having a high level of control or to avoid high levels of risk?

Issue 3: Cultural Distance

Question 3.1: Are you currently or have you previously lived in Indonesia? (or another Asian country?)

(If so, for how long?)

Question 3.2: How would you describe your experience with Indonesian business culture?

Question 3.3: To what degree would you say that cultural distance between Norway and Indonesia has had an impact on the company's business operations?

Question 3.4: What would you say has been the company's main challenge when establishing - and doing business in Indonesia?

9.2 Reflective Note

1. The Thesis Topic and Main Findings

The main topic of my thesis was *the choice of entry mode in emerging markets*, with a focus on Norwegian companies in the Indonesian market. This topic is in my opinion highly relevant today, as Indonesia is predicted to become one of the most important economies in the world within the next 10-15 years. Indonesia has the last few years had an annual GDP growth rate of around 5%, and with a growing middle class and increasing purchasing power, new opportunities for foreign investments are emerging. With the increasing economic uncertainty in Norway today, it is clear that Norwegian companies need to explore new and innovative ways of doing business, both inside and outside of Norway.

International expansion has become a natural step in the development and survival of businesses everywhere. Venturing into emerging markets such as Indonesia, may not only be a vital part of the survival of Norwegian companies in the time to come, but it can also become an important factor in helping the Indonesian people out of poverty by creating employment, helping in the fight against corruption, exchanging technologies, and contributing to lowering the cultural barriers between the two nations.

There has within the last ten years been a great increase in the number of Norwegian companies operating in Indonesia. At present, there are around 60 Norwegian companies directly or indirectly operating in the Indonesian market, either through exports, licensing, partnerships, joint ventures and wholly owned subsidiaries. The research method for this master thesis consisted of a case study of a selection of Norwegian companies that were in some way doing business in Indonesia. The data collection consisted of interviews with people in the relevant managerial positions of each company.

One of the main findings was that local partnerships were preferred by most of the companies, irrespective of company size, sector and international experience. A high level of management control was found to be important, and many of the companies therefore preferred high-control entry modes. The majority of the companies also stated a high level of perceived cultural distance between Indonesia and Norway, and high levels

of perceived risk regarding their operations there. Corruption, lack of trust, irregular import quotas, and a complex bureaucracy were some of the main sources of this perceived risk.

Company size and the level of resource commitment also seemed to play a major role in the choice of entry mode. Small, low resource commitment-companies often preferred more flexible, contractual entry modes, such as exporting and licensing, while large, high resource commitment-companies preferred direct entry modes such as wholly owned subsidiaries and joint ventures. Additionally, Indonesian rule of law was found to have an impact on the choice of entry mode, as there are certain restrictions regarding the establishment of foreign investments in Indonesia, and regarding the acquiring of licenses and permits.

Conclusively, the key factor for successful business in Indonesia was found to reside in the creation of strong, personal relationships with local stakeholders and partners, basing decisions on knowledge and understanding rather than assumptions.

2. The Thesis Topic and International Forces

The business world today is more interconnected and interdependent than ever before, and economic, political and even natural events have consequences that extend far beyond the immediate surroundings in which they take place. An example of this is the dramatic drop in the Oil price last year, mainly due to an oversupply by the OPEC countries and a strong US Dollar, which has led to a butterfly effect that is now hampering the Norwegian economy.

The international forces that are relevant to discuss regarding this thesis will of course vary somewhat between the different companies in the case study, as they are all conducting different types of business in different industries. The companies selected to participate in the case study were Gexcon, Statoil, AquaOptima, Ocean Supreme, SN Power and Wilhelmsen Ships service. And as consistently expressed by the companies, they all chose to enter the Indonesian market due to the fact that they saw advantageous and profitable opportunities there.

The respondents all expressed relatively high levels of perceived cultural distance and risk regarding their operations in Indonesia. The most prominent reported challenge for the companies was the high level of corruption in the country. Corruption is a force that definitely has international implications. For a company to operate internationally, it will always be important to adapt to the local business culture, however a Norwegian company will still have to answer to Norwegian rules and codes of conduct even when they are operating abroad. How a company chooses to deal with challenges such as corruption will therefore have a great impact on its success or failure as a company.

One of the findings of the thesis was that the companies seemed to follow the "stages of internationalization" as was described by Johanson and Vahlne in 1977. According to the authors, companies are likely to internationalize in natural stages, where they first enter nearby markets by exporting through local agents, then by having joint ventures, and finally wholly owned subsidiaries. Even if many of the companies entered Indonesia with direct entry modes, such as wholly owned subsidiaries and representative offices, these were companies that already had extensive international experience from other, similar markets. Similar to the findings of Hill, Kim & Hwang (1990), Randøy & Dibrell (2002), and Brouthers & Hennart (2007), the perception of risk regarding the companies' operations in Indonesia seemed to increase for direct entry modes such as wholly owned subsidiaries, and decreases for contractual modes such as exporting or licensing. This level of perceived risk can be related to political factors in the host country. As previously mentioned, the Indonesian rule of law was found to have an impact on the Norwegian companies entering Indonesia. In order to get the necessary permits and licenses, foreign companies often need to be in partnership with local companies. Acquiring the correct licences can also be time consuming, due to a cumbersome bureaucracy. And then again, corruption becomes an issue, as a higher level of bureaucracy tends to provide more opportunities for corruption, briberies and facilitation fees.

3. The Thesis Topic and Innovation

There are as previously mentioned, many business opportunities for Norwegian companies in the Indonesian market. Being a developing country, there is an abundance of possibilities for improvements than can easily be made through the exchange of technology, know-how and other capabilities that Norwegian companies may possess.

One example lies in the aquafarming industry. Indonesia is a huge archipelago with an abundance of species for fish farming, such as Barramundi and Tuna. Norway has many years of experience with this fish farming technology, and as I discovered while working as an Intern in Innovation Norway in Indonesia, the Indonesian fish farmers and local regencies are very interested in learning more about "the Norwegian way" of doing things. The Indonesian Ministry of Marine Affairs and Fisheries has declared its commitment to becoming the world's leading fish producer by expanding its aquaculture industry and allocate US$ 108 million to upgrade the infrastructure and assist the local aquaculture industry. From the case study, AquaOptima is one of the companies that have discovered the possibilities within this industry, by providing their fish farming technologies and their own RAS system to Indonesian fish farmers.

As expressed by Ibu Susi Pudjiastuti the Minister of Marine Affairs and Fisheries, during a conference I attended in Jakarta, Indonesia has now set an even stronger goal of becoming a leading maritime nation. A large fleet of ships, with estimated investment in container ships of $6.7 billion will therefore be needed by 2030. Consequently, there may be some great opportunities for the Norwegian shipbuilding industry there.

Another opportunity lies within the energy sector. Indonesia is a large country and one of the most populous nations in the world. Still, only a small amount of the population have access to electricity on a daily basis, and the ones who do are often plagued by blackouts. Although the electricity production has increased with around 13% annually the last three years, around 12 million households are still without electricity (Innovation Norway, 2015). Although the electricity sector is a centrally planned economy, private investors will according to Innovation Norway (2015) be able to play an increasingly significant role in the large investments that will take place in the years to come. The annual electricity consumption is expected to increase to 375 TWh in 2020, and the state owned electricity company, PLN, is planning to invest US$ 9.6 billion per year until 2020 (Innovation Norway, 2015). In the thesis, I looked more closely at the Norwegian energy company SN Power, and their on-going establishment in Indonesia with the construction of a hydropower plant in West Sulawesi.

One of the main challenges for large cities such as the capital Jakarta is the increasing level of pollution. In an interview in The New York Times (2015), Dr. Budi Haryanto, chairman of the University of Indonesia's Department of Environmental Health, said that air pollution now causes 2.8 million lost work days a year, along with 1.3 million absences at schools, 9,000 hospitalizations and at least 6,500 premature deaths. And according to data by the Indonesian Ministry of Health, the transportation sector contributes to between 70% and 80% of total outdoor air pollutants, with the number of vehicles increasing by around 10% every year (New York Times, 2015).

Having lived in this immense city myself, I quickly learned that most people do not use any form of public transportation. This is mainly due to the fact there does not actually exist a well functioning transit system there. One solution to mitigating the level of dangerous toxins in the air may therefore be to develop better and more environmentally friendly forms of transportation, similar to the "sky trains" in Bangkok and Vancouver. According to Innovation Norway (2016), Indonesia plans to spend USD 464 billion on infrastructure development in the period 2015 - 2019, and these investments can represent great opportunities for Norwegian businesses with ideas for sustainable transportation systems and infrastructure development.

4. The Thesis Topic and Responsibility

There are many ethical considerations to be made when operating in Indonesia. As previously mentioned, there are several challenges one should be aware of regarding political relationships, the level of bureaucracy, the rule of law, and of course with the high level of corruption in the country. Conducting thorough analyses of both the formal and informal institutions of a country before entering the market, is therefore very important, in order to be well prepared for these challenges.

When dealing with corruption, there are many ethical factors involved. As corruption, briberies and facilitation is so grounded in the country, it is not something that can be easily avoided in a business setting. Many Indonesian employees view facilitation fees as a natural part of doing business, and this will of course become a challenge for Norwegian companies operating in Indonesia, with Norwegian codes of conduct to follow. Fortunately, the fight against corruption is a major case for President Joko Widodo and the Indonesian government, and they are slowly trying to decrease the

opportunities for corruption by minimizing the level of bureaucracy, and increasing the use of web-based solutions.

It is also important for any Norwegian company entering Indonesia to be aware of cultural differences that may have an impact on business culture and business relations. As previously mentioned, personal relationships are very important in Indonesia, and meeting face to face with potential partners, customers and other stakeholders is vital for success. These relationships can in my opinion be improved further by the use of Corporate Social Responsibility (CSR). With an increased focus on ethically creating shared value for the local community, this will not only contribute to improving relationships with the local community, it will also increase the welfare of the local workers, and hence improve the efficiency of operations and increase profits for the company. Such CSR efforts could for example consist of providing fair wages for the local employees, providing education for the children of the employees, and increasing the focus on environmental and social sustainability in the local community where the company operates.