



UNIVERSITETET I AGDER

# **Internationalization Through Networks to Emerging Economies**

Cases of Norwegian Aquaculture Companies Entering  
Indonesia

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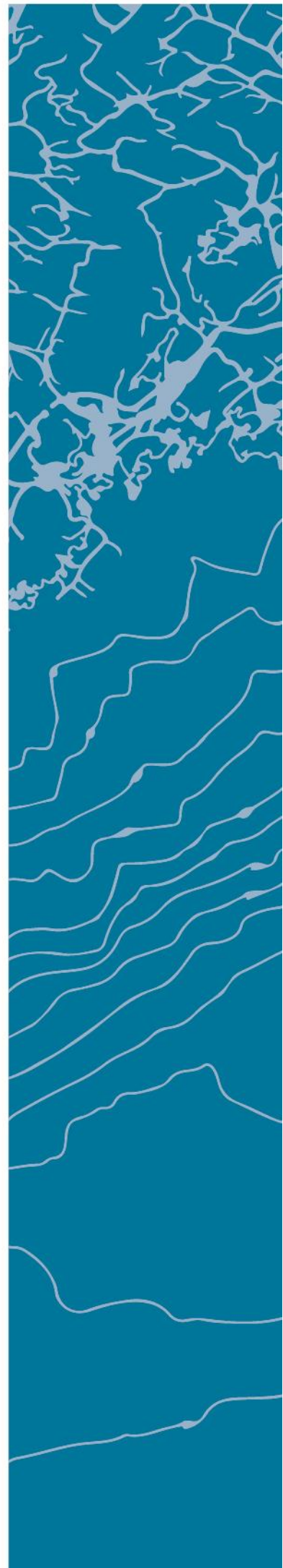
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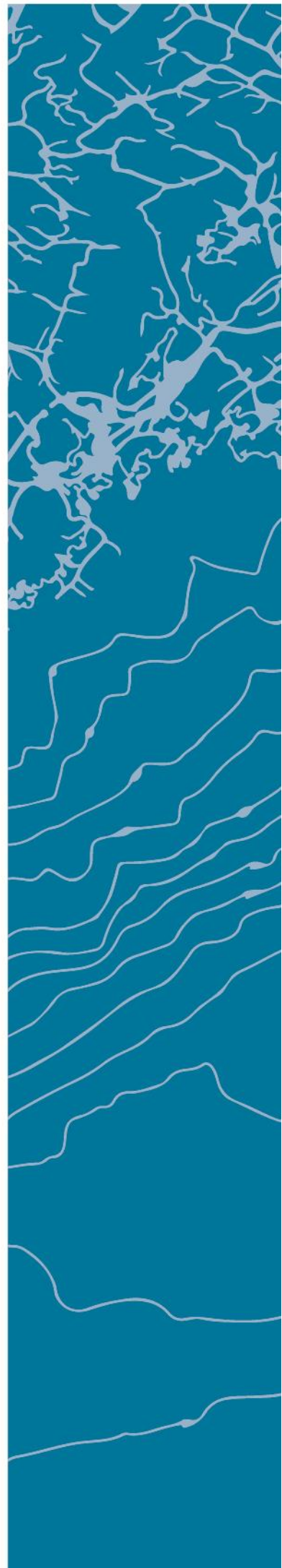
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## Foreword

As researchers of this thesis, we have been fortunate to have a supportive scientific environment at the University of Agder and the School of Business and Law, along with helpful and encouraging people around us. We would like to seize this opportunity to express our deepest gratitude towards those who have supported us along the way. Firstly, we would like to thank the case firms and their respective respondents, together with Innovation Norway, for participating in the study, and providing valuable and insightful information. Secondly, Marianne Strøm, James Cortis and Elisabeth Martha Finnes have made sincerely appreciated efforts. We would like to thank you for providing constructive feedback and proofreading. Last, but not least, we would like to thank our supervisor, Stein Oluf Kristiansen, for providing precious advice, comments and criticism in our writing process. We have been honored to have you as supervisor, and must offer our warmest regards for the guidance.

## Abstract

Thematically, this thesis has been conducted to explore and extend knowledge about international business operations; going in-depth on aspects of internationalization processes, impact of national institutions, networking, and decision-making. With basis in the Uppsala theory of internationalization (Johanson & Vahlne, 2009), these themes are investigated in the context of Norwegian firms entering the Indonesian aquaculture industry. An abduction approach has been used as methodology, and data samples have been gathered through four open-ended interviews with three case firms, and one Norwegian governmental agency, Innovation Norway. Findings from the thesis suggest that firms experiencing institutionally related uncertainties in the host-country adapt their internationalization approach to prioritize building strong networks with host-country actors, overcoming the liability of outsidership.

## Preface

The early phases of selecting specific research topics was characterized by two aspects. Firstly, both researchers were situated in Jakarta, Indonesia, with internship positions for a Norwegian company and at the commercial section of the Norwegian Embassy. This sparked the initial interest for developing a thesis concerning Norwegian enterprises' operations in the Indonesian market. Secondly, a number of theories and prior research about internationalization was collected, and call for research in existing academic literature was carefully reviewed. A draft for research questions and agenda of the thesis was established on this basis, and furthermore laid the foundation for developing the thesis.

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## Chapter 1: Introduction

Today, with theoretical developments over the past decades, internationalization of firms can be considered as an entrepreneurial process (Johanson & Vahlne, 2009). Despite the growth of emerging economies, and the importance of entrepreneurs in emerging economies, International Entrepreneurship in Emerging Economies (IEEE) is mentioned in a review of academic articles by Kiss, Danis, and Cavusgil (2012), as a field of study on which we have quite limited knowledge. These markets are being increasingly integrated in the worldwide economy, comprising more than a third of the 25 largest economies and growing at three times the pace of advanced economies. The review article by Kiss et al. (2012, p. 284) describes many future research directions for Corporate Entrepreneurship, in which the foundation for this thesis is found:

*-Research that focuses on the interplay between individual level variables, social networks and institutional factors*

*-Research that uses case based/qualitative approaches to understand startup phenomena in Africa, Middle East and South Asia*

*-Research that incorporates cultural and institutional differences and more firm level variables (i.e. resources, capabilities, strategies)*

Indonesia anno 2017 is an emerging economy, and is generally accepted among the highly growing BRIICS countries, which also includes Brazil, Russia, India, China and South Africa (OECD, 2016). Indonesia is a vast archipelago with 250 million people spread across more than 17 000 islands, and is today the largest economy in South East Asia (HSBC Indonesia, 2012; The ASEAN Secretariat, 2016). Its business environment is centralized around the capital, Jakarta, where there is a frontier of multinational enterprises (MNEs) seeking to exploit the rapidly economic development. The ease of doing business in Indonesia is ranked by the World Bank as 91 in 2017, a slight upswing from 106 out of 190 nations measured the year before. Still, they are ranked as one the most difficult countries in the categories of “Starting a Business” and “Enforcing Contracts” (World Bank, 2017a).

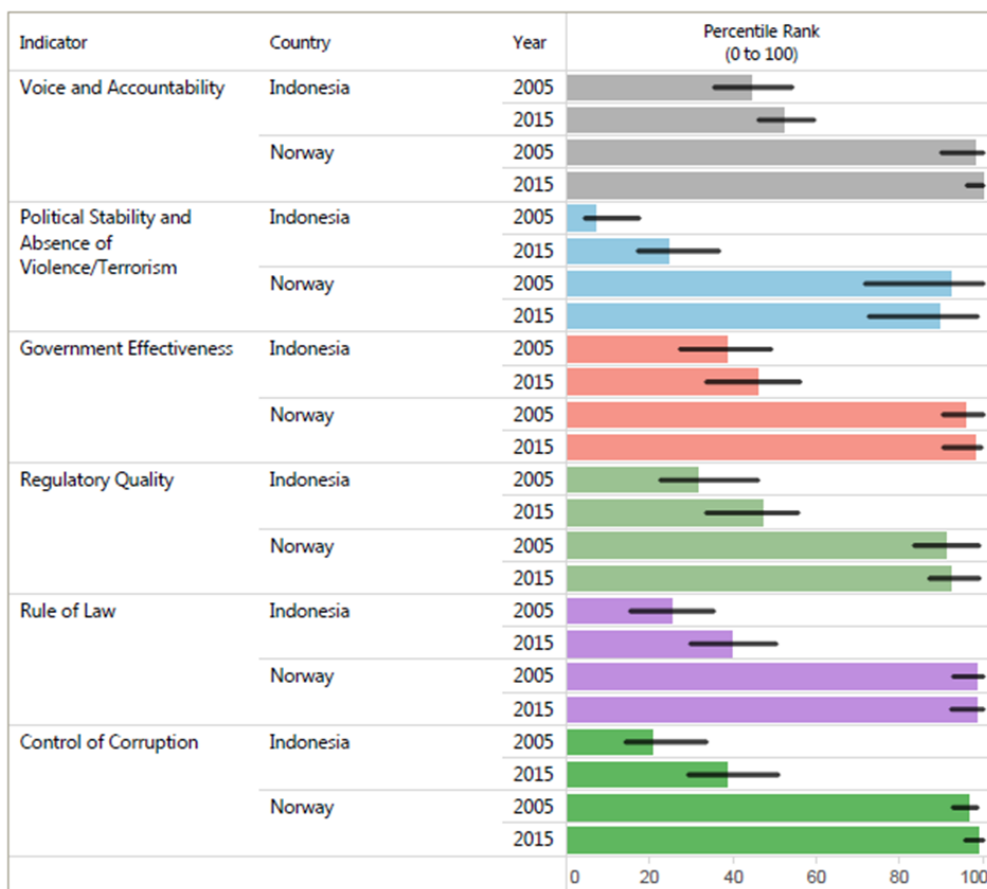
In the World Governance Indicators, which is measuring countries world-wide on six dimensions of governance, Indonesia is found to have a critically different institutional environment compared to Norway, illustrated in Figure 1 (World Bank, 2017c). Higher values in the figure indicates better governance, and grades nations according to how they are



estimated to rank compared to the other 215 measures economies<sup>1</sup>. Compared to Norway, Indonesia scores lower on all indicators, expressing two highly contrasting governance profiles between the nations. For instance, Norway is ranked as leading in “control of corruption”, while Indonesia is estimated to be among the worst 40 per cent, demonstrating how public power is exercised for private gain to a higher degree in Indonesia. Similarly, Norway ranks highly in “rule of law”, while Indonesia are estimated to be among the bottom 40 per cent, illustrating actors in Indonesia to a having less confidence in the rules of society, such as contract enforcement and property rights. However, Indonesia is seen to gain better scores in all categories between 2005 and 2015, indicating that the differences are fading, or at least decreasing (Kaufmann, Kraay, & Mastruzzi, 2010). How the general institutional environment is influencing business operations and internationalization of Norwegian firms entering Indonesia, will be further explored in the thesis.

### Figure 1: World Governance Indicator

Source: World Bank (2017c)



<sup>1</sup> “For instance, a bar of length 75% with the thin black lines extending from 60% to 85% has the following interpretation: an estimated 75% of the countries rate worse and an estimated 25% of the countries rate better than the country of choice.” (World Bank, 2017c)

Considering Hofstede's cultural dimensions, Indonesia has severe differences from Northern European countries. Compared to Norway, it holds a great degree of masculinity (Hofstede, 2017), hence maintaining a strong facade, and being perceived as someone with "status" has significant value. Especially high-ranking officers, government officials, and business leaders gain considerable respect both within organizations and from outside stakeholders. In many cases, this is leading decision-making upstream to top management, and their role and point of view becomes vital for the progress in partnerships, network interactions, and virtually all business operations. For "outsider" market entering firms to become "insider" firms, they often solely depend on finding the right decision-makers, and building the correct relations and networks to be able to succeed (Johanson & Vahlne, 2009). We find these premises encouraging for a further empirical investigation of market entries and corporate entrepreneurship in emerging economies.

This thesis examines the importance of relationships when entering emerging markets, in light of Johanson and Vahlne's (2009) updated Uppsala model. Through a qualitative case-study of three Norwegian companies who made attempts to enter the Indonesian market in the last 10 years, we have empirically tested the role of relationship and network development and its importance for knowledge creation, network positioning, decision-making and further growth of operations. The Johanson and Vahlne (2009) model of internationalization, emphasizes the development of opportunities as of higher importance than overcoming uncertainties, in the process of entering a new market. This is described as contradictory compared to previous models. The authors further believe that the creation of insight, which eventually leads to development of opportunities, is contingent on commitment and learning outcomes as a result of relationships. In the following we will explore the theoretical aspect of commitment, learning and development of opportunities in the empirical setting of foreign companies' entries in emerging markets.

We believe that internationalization processes in the Indonesian market and business environment, as representative for major emerging economies, are largely shaped by organizational ties and the ability to overcome "outsidership" when pursuing market entry. This assumption is further developed by the fact that in many industries, foreign firms are required by law through a negative investment list (BKPM, 2016; Molina & Nugraha, 2016), to create partnerships with a certain percentage of Indonesian ownership to operate in the Indonesian market. These constraints described as entry barriers in traditional theory (Johanson & Vahlne,

2009), can affect the role of relationships and networks regarding market entries to Indonesia. Overcoming barriers of entry is also discussed in alternative approaches, as firms' dynamic capability in developing relationships and networks; "*degree of success from cooperation with both internal and external entities depends very much on the ability of HQ to build and develop relationships and coordination with and between those entities*" (Vahlne & Johanson, 2013, p. 204). Hence our scope of research in this thesis is to explore the updated Uppsala theory of internationalization, observing the aspects of institutions, network and decision-making, and put it in the context of Norwegian companies operating in Indonesia.

In accordance with the discussed topics we developed the following research questions:

1. How are firms adjusting their behavior to differing home- and host-country institutions through their internationalization process?
2. How do firms' network position impact their internationalization process?

## Chapter 2: Emerging Markets' Impact on the Global Economy

### 2.1. Emerging Economies

The term “emerging markets” was coined in 1981 by Antoine W. van Agtmael, the deputy director of the capital markets department of the World Bank’s International Finance Corp. (IFC). Initially the term was introduced to encourage investors to make investments in third-world countries, as van Agtmael believed the term “Third World” sounded distasteful and was looked down upon by people in general (Balliet, 2016; Knowledge@Wharton, 2008). Today, the terms “emerging markets” and “emerging economies” are used interchangeably. The definition, however, of have a wide variety, but are generally used to describe developing countries with rapid economic growth. This point has been made on many occasions, possibly most acknowledged in the article *Strategy in Emerging Economies* (Hoskisson, Eden, Lau, & Wright, 2000, p. 249) which states;

*Emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth. They fall into two groups: developing countries in Asia, Latin America, Africa, and the Middle East and transition economies in the former Soviet Union and China.*

The institutional context varies greatly in the different emerging economies (Hoskisson et al., 2000), and this thesis will target only one developing country in Asia, namely Indonesia.

With accelerated globalization the past decades, the monetary and political events in emerging economies have increasing impacts on the global economy (Balliet, 2016). There are debates on the relevance of the term “emerging markets/economies”. It is argued that the term does not have any clear and generally accepted definition (Balliet, 2016). At the same time, the term is used loosely as more nations in recent years would fall into the category of “emerging economies” (Knowledge@Wharton, 2008). Categorizing a nation as a developed or an emerging economy might be based on subjective opinions, and there is a need to identify the criteria for what an emerging economy is. The strength of national institutions is often used as a determinant. The formal and informal institutions themselves, “the rules of the game”, vastly shape strategies and performance of firms in emerging economies, and Peng, Wang, and Jiang (2008) claim that institutions differ significantly from emerging economies to developed/advanced economies. More recently, Young, Tsai, Wang, Liu, and Ahlstrom (2014), argue that emerging economies suffer from “institutional weakness”, but little is known about

how “institutional weaknesses” translate into competitive disadvantages on the firm level. Research has found that the institutional structure of emerging economies can work as an obstacle for continuing progress, and poses perhaps the biggest challenge to increased productivity and competitiveness in the global market (Young et al., 2014).

### **2.1.1. Global Economic Shift**

Although the definition of emerging economies is debated, there is an almost undisputed curiosity among scholars and journalists towards how and, potentially, when emerging economies are going to become the leading economies of the world. The countries known as the Emerging 7 (E7; China, India, Russia, Brazil, Indonesia, Mexico, and Turkey) had, according to PricewaterhouseCoopers (PwC), half the gross domestic product (GDP) of the Group of 7 (G7) countries (US, UK, France, Germany, Japan, Canada, and Italy) in 1995. By 2015, the E7 and G7 nations were equal, and by 2040 the E7 nations are estimated to obtain twice the GDP of G7 nations, calling for a global economic shift (Hawksworth, Clarry, & Audino, 2017). Business Monitor International Research group (BMI Research group) published an article in 2016 about *Ten Emerging Markets Of The Future*, highlighting a shortlist of countries set to be the drivers of economic growth the next ten years. Among these are Egypt, Nigeria, Pakistan, and Indonesia. The ten countries are expected to add 4.3 trillion US dollars (USD) in annual GDP by 2025, which is about the same size as Japan’s total economy today. They further anticipate that extractive industries will stagnate or decline, while secondary and tertiary industries will be key drivers of economic growth in emerging markets. Another trend will likely be that the largest of these economies, such as Indonesia and Nigeria, will see the growth spread not just to one, but to a range of industries, because they have reached a sustainable level of development together with enjoying large internal markets (BMI Research Group, 2016).

Christine Lagarde, Managing Director of the International Monetary Fund (IMF), has shed light upon the growing importance of emerging market economies in the 21<sup>st</sup> century (Lagarde, 2016). More than ever, does the emerging economies matter to the global economy, because of the strongly developed links with the “western world” through trade, finance, economics, geopolitics, and personal connections. The majority of the world population lives in emerging economies, and according to the IMF, 85 per cent, six billion people, live in these nations. In addition, they now account for almost 60 per cent of the world’s total GDP, and contribute to more than 80 per cent of global economic growth since the financial crisis of 2008 (Lagarde,

2016). Simultaneously, there are major challenges in emerging markets which must be addressed. From 2014 to 2015, emerging markets went from 48 billion USD net *inflows* to 541 billion USD net *outflows* in net capital. Growth rates have also stagnated or declined. The IMF furthermore estimates that the pace for emerging economies to converge into advanced economies income levels has dropped to two-thirds of what the IMF anticipated a decade ago (Lagarde, 2016). Consequently, it will be harder for poor people to get ahead, and the newly established middle classes in these countries will suffer from unfulfilled expectations. Not only is this difficult for emerging economies, but it also creates spillover effects on advanced economies relying on emerging markets for investment and demand. There is also a risk of creating inequality, protectionism, and populism (Lagarde, 2016). From PwC's report of February 2017, emerging markets need to implement structural reforms to support a stable macroeconomy, decrease the dependency on natural resources and diversify their economies, and develop more effective political and economic institutions (Hawksworth et al., 2017). Lagarde (2016) emphasizes further that emerging economies need to remove barriers to competition, cut red tape, enhance the mobility of labor, and invest more in education and research, to be able to foster more and better innovation. Additionally, emerging and advanced economies together need to collaborate and share technology in a better way, i.e. by rethinking patent protection and facilitating more effective foreign direct investments (Lagarde, 2016).

## **2.2. ASEAN and AEC**

The Association of Southeast Asian Nations (ASEAN) region consist of many emerging markets, and of the ten member countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), only Singapore is not classified as an Emerging Economy by the IMF (International Monetary Fund, 2011). Indonesia is the largest, both in terms of population size and GDP. These countries have, in the past decades, had strong economic growth, and GDP growth is expected to be higher in 2016 and 2017, compared to 2015 for six of the ten countries (Asian Development Bank, 2016). The projections are in fact lower than what many anticipated in earlier assessments. Investments in Indonesia have increased at a moderate pace, while Vietnam experienced cuts in agricultural output and contracted mining, and Malaysia and Singapore have been influenced by slow global economic development (Asian Development Bank, 2016). Within the region, a focus on infrastructure expansion has been the key driver for economic growth (Asian Development Bank, 2016; J. Smith, Satar, Wiryawan, & Boothman, 2016). Indonesia has also facilitated a better investment

environment with policy reforms, and has accelerated public investments (Asian Development Bank, 2016; J. Smith et al., 2016). On December 31, 2015, ASEAN established ASEAN Economic Community (AEC) as an ambitious strategy to truly function as a single market in the whole region. With AEC, ASEAN seeks to become “(i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable economic development, and a region fully integrated into the global economy” (HKTDC, 2016). The initiative is expected to ease the movement of goods, services, people, capital and investments inside the region.

In 2017, ASEAN is celebrating its 50<sup>th</sup> anniversary. Since the beginning of the millennium, ASEAN has collectively had one of the world’s fastest growing and at the same time most stable economies (HV, Thompson, & Tonby, 2014). The new Master Plan on ASEAN Connectivity 2025 (MPAC 2025) was adopted by ASEAN leaders in September 2016 (Vineles, 2017). The plan will enforce the development of the region’s infrastructure, innovation, and skilled labor mobility. With 629 million people (The ASEAN Secretariat, 2016), ASEAN is the region in the world with the third highest population, and a combined total of 2.4 trillion USD in GDP (The ASEAN Secretariat, 2016), making it the sixth largest economy. There is a rising number of the consuming class, skills gap, and infrastructure needs, and the MPAC 2025 seeks to strengthen regional development by addressing these trends. More directly, there is a need to enhance physical infrastructure, institutions, and people-to-people relations (Vineles, 2017). Besides improving the movement of people, goods and services, MPAC 2025 seeks to reduce policy and institutional barriers by harmonizing ASEAN regulations and standards (Vineles, 2017).

### **2.3. Indonesia**

Indonesia plays a central role both as a member of ASEAN and as a prospering emerging economy. The annual growth rate has on average been at 5.3 per cent between 2000 and 2014, and is referred to by Nasdaq as a great opportunity for investment, due to a healthy financial sector, manageable inflation, and new policies established to pull foreign investment in to the country (Bajpai, 2015). A report, published by McKinsey Global Institute (2012), has estimated that Indonesia could be the seventh largest economy by 2030, if it is able to meet ambitious growth targets, and attract international investors (Oberman et al., 2012). Many predictions, among them PwC (2017), anticipate the Indonesian economy to be the fourth largest in the

world by 2050 in terms of gross domestic product adjusted for purchasing power parity (Hawksworth et al., 2017). This is based on its major development potential, e.g. in the consumer services, energy, and agriculture and fisheries (Oberman et al., 2012).

Despite this, there are some impactful barriers and struggles in Indonesia. This includes underdeveloped infrastructure, widespread corruption and poverty (Oberman et al., 2012). According to the World Bank's Ease of Doing Business measure, it would take on average 22 days to establish a firm in Indonesia. Doing Business in Indonesia is ranked as 91<sup>st</sup> in 2017, compared to 106<sup>th</sup> in 2016 (World Bank, 2017a). The state's negative investment list, which puts regulations on certain industries, influences foreign direct investment. Some industries are open to foreign investment without any conditions, whilst others require specific conditions to be met. Conditions can include that it is reserved for Small and Medium Enterprises (SMEs) and cooperatives only, requirements towards partnerships, or other conditions, such as capital ownership, specific locations or licensing. A number of industries are also completely closed to foreign direct investment (BKPM, 2016). The consequence of this is that firms in many industries are practically forced into finding an Indonesian partner to operate in the country. The ease of doing business indicator also consist of a measurement regarding the enforcements of contracts. Quality, time and cost in conjunction with judicial processes and in resolving commercial disputes are measured here. Indonesia is ranked as number 166 out of 190 countries according to these criterias (World Bank, 2017a).

### **2.3.1. The Negative Investment List**

The Negative Investment List was revised in 2016 adding 35 sectors open for 100 per cent foreign investment, while 20 other sectors were closed to foreign investment, and reserved for SMEs (Global Business Guide, 2016). Logistics and healthcare-related sectors have been prioritized in attracting foreign investment, and are distinguished for having the most significant opportunities. The logistics sector is challenging, but is brought more sharply into focus on initiative from the AEC. The state's government, led by president Jokowi, has opened for cold storage services and warehousing to stimulate growth in Indonesia's fisheries and aquaculture sectors (Global Business Guide, 2016). Between September 2015 and August 2016, the government introduced 13 policy packages with the goal of improving investment, competitiveness and economic diversity. There are measures taken to *“reduce regulatory bottlenecks, secure the legal rights of investors, facilitate international trade, and promote infrastructure investment”* (Asian Development Bank, 2016). In contrast to the fishing industry,



the aquaculture industry is open to global actors in partnerships with local entities (International Business Publications, 2015).

## Chapter 3: Indonesian and Norwegian Aquaculture Industry

The following chapter will firstly describe the fishing and aquaculture sectors of Indonesia, with special emphasis on development, value chains and involvement of international corporations. Secondly, the Norwegian business environment and its aquaculture industry will be briefly described, followed by a description of public initiatives made between the two marine nations.

### 3.1 Indonesian Aquaculture

Indonesia consists of 62 per cent of marine territory (Spire Research and Consulting, 2014), and the republic was ranked as the largest fish producer in Southeast Asia in 2015 (van de Mehn, 2016). The annual fishery production contributed to around 15 per cent of the agriculture GDP in 2013 (Oxford Business Group, 2016), only surpassed by the production of field crops, making the sector of fisheries an essential contributor to the Indonesian economy (Spire Research and Consulting, 2014). As Indonesia reached its total allowable catches limitations on traditional fisheries in 2005, the opportunities arising from aquaculture have received increased attention from both governmental bodies and international actors (Hermansyah, 2016; Innovation Norway, 2017; van de Mehn, 2016). Between 2010 and 2015, the compound annual growth rate of fish production reached a total of ten per cent, consistent with four per cent growth in captured fish and 25 per cent growth in aquaculture (van de Mehn, 2016).

Indonesia was the nation producing the third most captured fish through aquaculture in 2015 (Innovation Norway, 2017). The total production from aquaculture has grown rapidly over the last decades (Innovation Norway, 2017), from a total of 641 902 tons in 1995 to above 15 million tons in 2015 (FAO Fisheries and Aquaculture Department, 2017b; van de Mehn, 2016). The national growth of fish production is driven by the emergence of aquaculture, as the total share of wild-caught fish has decreased in the mentioned time span, due to regulations and insufficient equipment in the traditional fisheries sector (Spire Research and Consulting, 2014). The total production of aquaculture is further projected to grow with a 21.85 per cent compound annual growth rate through 2018 (Spire Research and Consulting, 2014). The sector has become a national key source both for animal protein and to secure sustainable amounts of species in the natural sea fauna (Spire Research and Consulting, 2014). The Indonesian government is targeting a production of 31 million tons by 2019 (van de Mehn, 2016), emphasizing a clear intention of expansion from the highest political levels (Hermansyah, 2016). The Indonesian

fishery production can be divided into three basic interrelated activities; wild fish for consumption or as input to fish farming, fish farming, and processing of the total amount of fish. Seaweed accounted for 67 per cent of the total aquaculture production in 2012, followed by fish with 26 per cent, and minor amounts of shells, various types of shrimp and other species (Spire Research and Consulting, 2014).

The industry directly employed 3.5 million Indonesians in 2012, divided between 603 856 households and companies. Statistical analyses forecast an upward trend, and the sector was predicted to directly and indirectly employ approximately 13.8 million people in 2014 (Spire Research and Consulting, 2014).

There are a further four main methods of fish farming used in Indonesia. Farming through ponds, and especially in brackish water ponds, has been practiced for 400 years. It can be conducted privately in backyards, or on an industrial scale. Ponds constituted to 78 per cent of the total production units in 2012, followed by paddy field, the net pen culture and floating cage. The floating cage method has experienced the highest growth in number of units since 2009 ending at nine per cent in 2012. The method requires suitable surroundings and is scarcely used compared to its potential in Indonesia (Spire Research and Consulting, 2014). From a volume perspective, the net pen method is predicted to still be the dominant method of fish farming. All methods of production are predicted to enhance growth the coming years, with a dominance of floating cages and net pen facilities (Spire Research and Consulting, 2014).

### **3.1.1 Value Chain Description**

The value chain of aquaculture production can be divided into five key segments, described through table 1. The following paragraphs describe the different segments in detail.

**Table 1: Indonesian Aquaculture Value Chain**

*Source: Spire Research and Consulting (2014, pp. 75-90)*

<b>Segment</b>	<b>Key players</b>	<b>Key challenges</b>
Hatcheries	Research centers / import	Low domestic survival rate Inconsistent distribution Lack of industry knowledge
Nursery / Aquafarming	Farmers / industrial businesses	Diseases Inconsistent supply of juveniles
Feed	Local fishermen / Local producers / Importers	Quality compared to international competitors
Vaccines	International actors	Low domestic production rate and education level
Processing	Smaller operations and industrial businesses	Lack of experience and technology Strict export regulations

The hatchery part of the value chain is the main input for commercial scale farming and a key element to the sector. Fingerling, the output of the hatchery process, is mostly collected from the wild, despite the growing trend of innovation and research concerning hatchery programs, nursery and grow out technology (Spire Research and Consulting, 2014). The main challenge met by the hatcheries are capacity building, described as reliant on staff and management training (Spire Research and Consulting, 2014). The modern hatchery industry is driven by research centers, such as the Main Centre for Mariculture Development in Lampung, together with similar centers in Bali and Situbondo. Despite growing activity, local juveniles suffer from a higher mortality rate than the imported ones (Spire Research and Consulting, 2014). Nursery and aquafarming are described as the “crucial link” of the sector’s value chain (Spire Research and Consulting, 2014), with other segments positioned vertically to this center of production.

Technology wise, the production sector strives to meet certain standards. Net cages, platforming, maintenance and filtration systems need to hold professional standards to secure quality, and to potentially expand operations. Foreign suppliers are used frequently when

investing in technology, along with a few local actors (Spire Research and Consulting, 2014). The main challenges of this value chain segment are the health and supply of juveniles, followed by environmental concerns and lack of disease control. The quality and level of education amongst employees and management are perceived as the root to these challenges (Spire Research and Consulting, 2014).

The segment of vaccination is supplying both hatcheries, research centers, breeders and aquafarmers. Domestic companies are suffering from inconsistency in meeting threshold levels regarding safety and merchantability, and the market is therefore dominated by large foreign actors. Comprising government control from multiple parties contributes to a difficult environment for investments and entry (Spire Research and Consulting, 2014). Fish feed is further seen as crucial in the hatchery and aquafarming process, and both manufactured feed and trash fish are widely common (Spire Research and Consulting, 2014).

Lastly, the processing segment has reached its maturity in terms of competition and number of actors. Challenges faced by the segment is a general lack of education and know-how. Smaller firms dominate the segment. These actors possess the least training and technical expertise, resulting in failure to meet international export standards. Fluctuating catches are also found as a challenge, linked to similar deficiencies on lower levels of the value chain (Spire Research and Consulting, 2014).

### **3.2 Norway: A Good Fit?**

Norway is often characterized by its stable economy which growth has historically relied on rich reserves of natural resources (Central Intelligence Agency, 2017). The oil and gas sector accounts for 15 per cent of the country's gross domestic product and 39 per cent of total exports (Central Intelligence Agency, 2017). The Norwegian government states that the production on the country's continental shelf “appears to have peaked” (Governmental Report no. 26, 2017), and is expecting decreasing cash flows from future petroleum activities. EY (2016) expects investments to shift from petroleum related industries towards technological development in aquaculture, based on interest from financial investors. Other important natural resources are hydropower, fish, forests and minerals (Central Intelligence Agency, 2017). Norway has in general seen a decline in an otherwise steady GDP growth, with a seasonally adjusted growth

in gross domestic product of 0.2 per cent in the first quarter of 2017 (Statistisk Sentralbyrå, 2017).

The kingdom, with its 5.2 million inhabitants, is a part of the European Economic Area (EFTA, 2017; Statistisk Sentralbyrå, 2017). The world bank ranks Norway as sixth on their ease of doing business index (World Bank, 2017b). The calculation behind the score constitutes of different variables, where Norway, amongst other, is ranked at 21st in ease of starting a business (World Bank, 2017b), and as the fourth best concerning the enforcement of contracts (World Bank, 2017b). Norway is further seen as one of the countries in the world with the least corruption, ranking as number six in the international corruption index (Transparency International, 2017). Corruption laws are heavily enforced in Norway, spanning both national and international business activities, with a sentencing of maximum ten years' imprisonment (Transparency International, 2017).

### **3.2.1 The Norwegian Aquaculture Sector**

Historically, fishing and aquaculture have played an essential role in Norway's economic development (FAO Fisheries and Aquaculture Department, 2017a). Commercial aquaculture started developing in the nineteen seventies, after being a "backyard" activity for fishermen since the beginning of the century (FAO Fisheries and Aquaculture Department, 2017a). Norway's archipelago, with deep fjords and cold climate, is highly suitable for fish farming (The Norwegian Ministry of Trade, 2014). Combined with development and innovation toward state of the art technological solutions, the sector's productivity has grown steeply the last decades (The Norwegian Ministry of Trade, 2014). Communities with limited alternatives for sustainable economic growth have especially fostered on the sector's evolvement (The Norwegian Ministry of Trade, 2014). Since the establishment of advanced, commercial fish farming, Norway has slowly become the world's leading producer of salmon, and, the second largest seafood-exporter value wise (The Norwegian Ministry of Trade, 2014).

The Norwegian directorate of fisheries stated in their latest reports a total of 209 companies in aquaculture operations in Norway, widely spread over 160 municipalities along the coastline (Fiskeridirketoret, 2017; The Norwegian Ministry of Trade, 2014). The industry directly employs 6 872 people (Fiskeridirketoret, 2017), and indirectly employs another 21 000, through related activities (The Norwegian Ministry of Trade, 2014). In 2015, the sector

produced a total of 1.39 million tons of fish, at an all-time high first-hand value of 46.7 billion Norwegian krone (NOK) (Fiskeridirketoret, 2017; The Norwegian Ministry of Trade, 2014).

In their report, *The Norwegian Aquaculture Analysis 2016*, EY divides the Norwegian aquaculture value chain into five main categories: technical solutions, biotechnology, production, distributions and processing (EY, 2016). This thesis focuses on companies with operations mainly in the technical solutions segment, which delivers industrial solutions. The sector is characterized as fragmented, with highly differing products and services, and with a high number of smaller actors, operating with turnovers below 100 million NOK. The segment delivers solutions to all parts of the value chain, and EY expresses difficulties in framing the segment, as the operations of their business cases also includes other value-chain activities. The segment has experienced rapid growth in revenue since 2006, and high salmon prices have created an incentive for the production segment to invest in more efficient and modern equipment (EY, 2016).

### **3.2.2 Governmental Relations**

Norway and Indonesia established diplomatic relations on January 25<sup>th</sup>, 1950, and Norway has been represented with an embassy in Jakarta, also accredited to East-Timor and ASEAN, since 1971 (Royal Norwegian Embassy in Jakarta, 2017). In 2009, the two countries signed an agreement of collaboration in the aquaculture sector, specified to the National Aquatic Health Laboratory and Joint Fisheries Management (Rakhmat, 2017). In conjunction with a state visit to Indonesia, from the Norwegian Minister of Fisheries, Elisabeth Aspaker, in November 2015, scientists from the Norwegian Institute of Marine Research conducted an analysis concerning the spread of particles in Indonesian waters (Hauge, 2015). The analysis located areas suitable for aquaculture facilities. The governmental cooperation on aquaculture further included training and education, with a goal of sharing experiences between the two sea nations (Rakhmat, 2017).

## Chapter 4: Theoretical Framework

The research agenda of the thesis is centered on the processes of internationalization. Hereafter, there is a need to explore previous findings of internationalization theory, and supplement with related genres of management and business development regarding networking and decision-making. We have chosen to conduct our analyses of market entries to emerging markets based on the Uppsala internationalization theories Johanson and Vahlne (1977, 2009); Vahlne and Johanson (2013), with its reformulations emphasizing the evolution of the international business enterprise, network theory (Mattsson & Johanson, 1992) and effectuation (Sarasvathy, 2001), together with perspectives on development from the New Institutional Economics (Ménard & Shirley, 2005; North, 2008; Williamson, 2000).

### 4.1. Internationalization and the Uppsala Model

From classic economic theories, such as *An Inquiry into the Nature and Causes of the Wealth of Nations* (A. Smith, 1776) and *On the Principles of Political Economy and Taxation* (Ricardo, 1821) we find the foundations for internationalization. A. Smith (1776) argues that with an *absolute advantage*, when producing with less cost than the trading partner, firms should produce and export commodities. Ricardo (1821) elaborates that an absolute advantage is no necessity, but that production and trade according to nations *comparative advantages* is mutually beneficial. A scenario used to explain this assumption describes; “*a country generates goods and services in which it has an advantage, for consumption indigenously, and subsequently exports the surplus. Consequently, it is sensible for countries to import those goods and services in which they have an economic disadvantage*” (Morgan & Katsikeas, 1997, p. 69). Thus, they are utilizing the comparative advantage, and involved countries will benefit from trading (Morgan & Katsikeas, 1997).

The benefits from international trade and comparative advantages are undisputable, but the process of internationalization is more complex than what the classical theories can describe. With the vastly extended scope of today’s internationalization, actors must take the many aspects about interconnected markets, partners, competition, institutions, technological development, and networks into consideration. Modern theories attempt to explain the patterns of internationalizing firms; in terms of increased expansion in export markets, increased global capital investments, and decisions made by firms in choosing between different entry modes to access international markets (Axinn & Matthyssens, 2002). This thesis, however, seeks to



understand and explain how internationalizing firms' act to discover and exploit international opportunities. Furthermore, a deeper focal point is placed on the case of emerging economies with differently developed institutions than of those in advanced economies, and how firms act towards networks to gain access to markets, enable new opportunities and cope with institutional uncertainty.

#### **4.1.1 Reviewing Internationalization Theories**

Some of the most significant theories have applied the internationalization process to explain the phenomena in regards to multinational corporations, such as industrial organization theory, internalization theory, and transaction cost (Axinn & Matthyssens, 2002). Furthermore, Dunning (1977, 1979) expanded the opportunities for international development by including the use of trade as an alternative to foreign market investment. This theory, named *the Eclectic Paradigm*, included the work and combined elements from industrial organization, internalization and transaction cost theories. When engaging in foreign direct investment, it specifies how firms internally allocate resources through its own control, rather than relying on the market mechanisms (Axinn & Matthyssens, 2002). This resulted in the OLI framework, indicating Ownership, Location and Internationalization advantages of the firm. Other theories have been created by observing the behavior of MNEs such as the Uppsala Model (Johanson & Vahlne, 1977), and network theory (Mattsson & Johanson, 1992). They have widely been recognized to explain the internationalization process, but is additionally able to explain the cases of small and medium sized enterprises (SMEs) international expansion (Axinn & Matthyssens, 2002).

Common to the development of these theories has been to explain developed countries' MNEs taking operations or products abroad. The gradual approach of firms, going from psychological close to psychological distant, a term coined as *psychic distance*, is found as a typical internationalization pattern (Axinn & Matthyssens, 2002). The theories constituting the eclectic paradigm operates under a basic assumption of competitive markets (Whitelock, 2002). Decisions to enter new international markets are made on the basis of transaction cost comparison; rationally evaluating all the costs associated with entering and participating in the market.

Scholars have strived to compare, but also adjust the theories of internationalization. New approaches could be made by either creating theoretical mergers or theoretical innovation

(Axinn & Matthyssens, 2002; Whitelock, 2002). The Uppsala Model has been revised on several occasions since its founding, and Johanson and Vahlne (1990) recognized the need to implement another important variable; *relationship*, to other actors in the foreign market, i.e. customer, suppliers and competitors (Whitelock, 2002). On the contrary, the eclectic paradigm has focused on the theories of monopolistic competition, location and transaction cost, rather than including the behavioral approach to internationalization. Hence, an assumption of rational, optimal choice is made, and the model depends on “perfect” information (Whitelock, 2002).

Vahlne and Johanson (2013) takes an active role in discussing the assumptions of the eclectic paradigm, labeling them as focused on macro-economic interests, unsuited to explain the organization, activities and evolution of the firm at an individual firm level. This is set as the main reason to why the two theories (eclectic paradigm and the Uppsala model) are unsuited for reciprocal integration, and further drives the contribution and strive towards “*a paradigm shift in the Kuhnian sense*” (Vahlne & Johanson, 2013, p. 191). Accordingly, the emphasis is put on how MNEs evolve over time, rather than the stock and structure of aggregate foreign direct investment (Vahlne & Johanson, 2013). On this basis, we have chosen to focus on the Uppsala Model of Internationalization, as its foundation fits to describe the aspects of experiential knowledge, networks and the relevance of relationships.

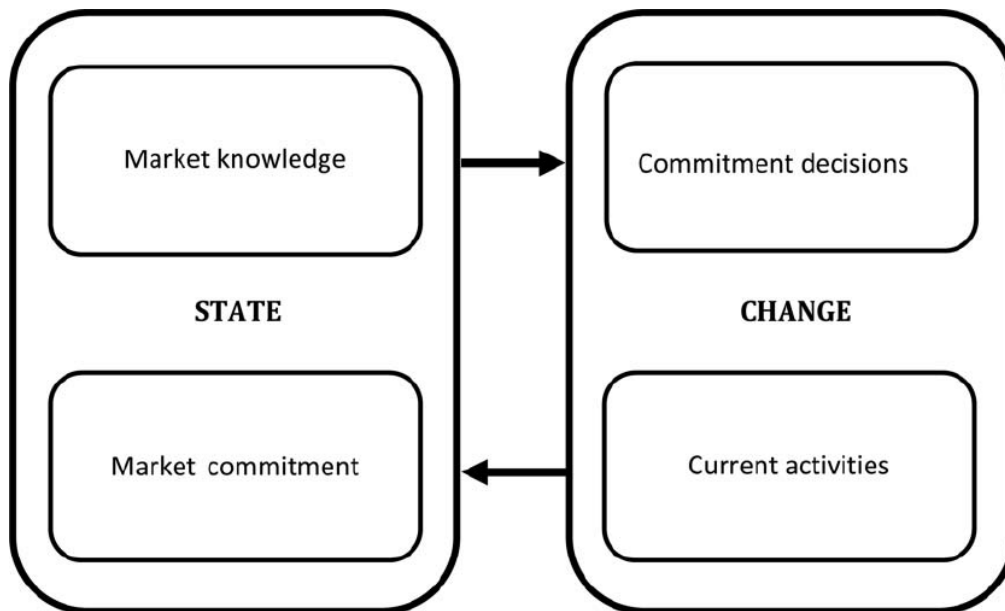
#### **4.1.2 The Foundation of the Uppsala Model**

Although not explicitly stated in the original theory, the Uppsala Model of 1977 has been recognized to rest on the resource-based theory (Andersen, 1997). The model describes how internationalizing firms follow a pattern of development, with variables connected to the aspects of the *state* and *change* in an organization. State variables here describe the resource commitment to foreign markets, known as market commitment, and knowledge about the foreign markets. The change variables consist of the decision to commit resources and performance of current business activities (Johanson & Vahlne, 1977). The model was constructed by observing internationalization patterns of Swedish MNEs. Based on the observations, it seeks to explain how firms typically internationalize in stages, over time. The first stage would be no export or international operation. The second stage is to begin international operations by exporting through a single representative or agent. The third stage consists of establishing a sales subsidiary, and the fourth stage furthermore involves launching production in the host country (Johanson & Vahlne, 1977). Developing into the mentioned

stages involves evolving the state and change aspects illustrated in Figure 2 (Andersen, 1997; Johanson & Vahlne, 1977).

**Figure 2: The Uppsala Model (1977)**

*Source: Johanson and Vahlne (1977, p. 26)*



**4.1.3 The Revised Uppsala Model**

The Uppsala model originates from a European school of internationalization, and has further been justified through modifications, amongst others by the implementation of network theory (Hosseini & Dadfar, 2012; Johanson & Vahlne, 2009), and later with the implementation of dynamic capabilities (Nightingale, 2008), entrepreneurship research and theories of management under uncertainty (Vahlne & Johanson, 2013).

The term *psychic distance* was introduced in accordance to the Uppsala Model of Internationalization, explaining that firms first expand to foreign markets with close cultural ties to their home-market, and continues into to more “distant” markets as their knowledge develop (Johanson & Vahlne, 1977; Whitelock, 2002). With changes in business practice and theoretical advances since 1977, Johanson and Vahlne identified a need to adjust the model. Accordingly, they found *outsidership*, rather than *psychic distance* to be the root of uncertainty in internationalization. In contrast to the neoclassical market with suppliers and customers, they view the business environment as a web of relationships; a network (Johanson & Vahlne, 2009).

The term *outsidership* or *liability of outsidership* was implemented to the revised model, referring to the fact that firms ability to perform through international operations has become less a matter of country-specificity and more one of relationship- and network-specificity (Johanson & Vahlne, 2009).

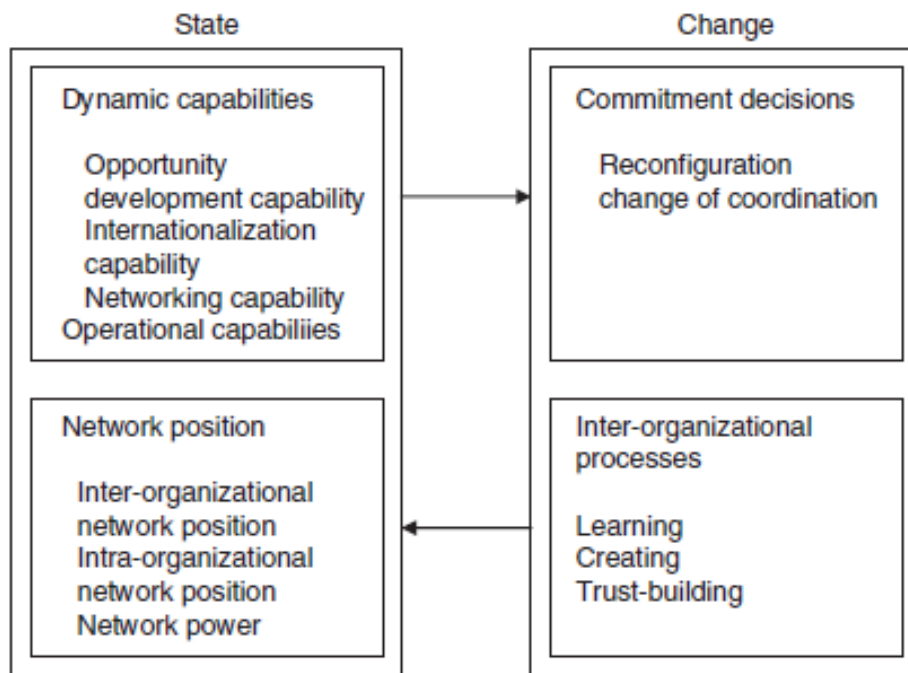
*For example, the problems associated with foreign market entry are largely the same as those associated with entry into any other market. The firm does not know who the business actors are, or how they are related to each other, unless it already enjoys relationships with one or several actors in that market* (Johanson & Vahlne, 2009, p. 1426).

Internationalization theories are in general concerned about entry mode decisions, and the approach firms choose to use while internationalizing. There is no exception in the Uppsala model, where the original model from 1977 describes that less committing entry modes was preferred in early phases, while modes with higher investment, risk, and control was chosen in later stages of internationalization to better exploit market opportunities (Vahlne & Johanson, 2013). The original model from 1977 is characterized by the state variables, *market knowledge* and *market commitment*, and the change variables, *commitment decisions* and *current activities*, illustrated in Figure 2. In the updated version from 2013, illustrated in Figure 3, they have alternated the state and change variables due to implementation of globalization processes, the Multinational Business Enterprise (MBE) network viewpoint, and viewing internationalization as an entrepreneurial process. The state variables now consist of *dynamic capabilities* and *network position*, while the change variables are reformed to *commitment decision* and *inter-organizational processes*. The change in variables consequently put lesser importance on mode of entry, with the implementation of “inter-organizational processes” instead of “current activities” (Johanson & Vahlne, 2009; Vahlne & Johanson, 2013). It is argued that several modes of entry can bring similar results, and further that entry mode is not necessarily a dependable indicator to level of commitment. In many cases, the contextual conditions are a more vital assessment to internationalizing firms. Johanson and Vahlne (2009) clarifies by referring to a study on Swedish firms entering Japan (Hedlund & Kverneland, 1985). These firms were bound to approach with a wholly-owned subsidiary mode, due to the structure of the Japanese industry, which demanded them to engage with a local partner that had a rich local network (Johanson & Vahlne, 2009). Hence, the choice

of entry mode might not entirely be a firm-internal decision, but a consequence of the external environment.

**Figure 3: The Updated Uppsala Model (The Business Network Internationalization Process Model)**

Source: Vahlne and Johanson (2013, p. 201)



The updated Uppsala model is, like its predecessor, dynamic in the sense of that the state and change variables influence and interact with each other; “...when new knowledge is learned or created, it will have an impact on the continued learning and creation as well as on the commitment decisions. Correspondingly, the commitment decisions will have an impact on subsequent knowledge development” (Vahlne & Johanson, 2013, p. 200). The *dynamic capabilities* of the firm refer to the ability companies have to develop their competitive strengths. The other state variable, *network position*, describes on what level a firm has formed relationship with other actors, and the strength of those relationships, together with the roles of the other actors in the wider networks. A strong network position grants firms market power, and they can affect the environment to be advantageous to themselves. *Commitment decisions*, as a change variable, describes the act in which the firm allocates resources to a specific project, product development or relation to an external partner. Typically, it affects the development of specific supplier or customer relationships. The last change variable, *inter-organizational processes*, are central to the evolution of the firm. Ongoing processes within the firm is assumed

to have a wider impact on the organizational capability of the firm, and influence both its operational and dynamic capabilities (Vahlne & Johanson, 2013).

Implementing a network based view in the updated Uppsala model, Johanson and Vahlne (2009) defines the business environment as a network of relations, rather than a neoclassical market with suppliers and customers. A *business network* is classified as a web of connected relationships where exchanges take place (information, goods, contracts), and an exchange in one relationship is linked to exchanges in other relationships. These exchanges lead to learning and knowledge creation, as well as trade-offs including partners, resources, needs, capabilities, strategies and other relationships. Johanson and Vahlne (2009, p. 1414) argue that “*exchange, rather than production, being the distinctive feature of the firm*”.

Further, their premises are stating that the phenomenon of *outsidership* is the root of uncertainty. The patterns in which firms are linked to each other through networks, are often invisible or difficult to see for actors outside the network; coined as outsiders. The complexity of connections makes it hard for outsiders to grasp the impact of each tie and the networks as a whole. To succeed in internationalization, as well as overcoming the *liability of outsidership*, you will need to establish the right network, and further *explore* and *exploit* the opportunities they grant (Johanson & Vahlne, 2009). Networks are essential providers of building trust and commitment, and also offering a potential for learning for the involved parties of a relationship. Even though learning and trust takes time to establish, it is a necessity for successful internationalization. It has been proven empirically that the Uppsala internationalization model has a positive impact on performance (Johanson & Vahlne, 2009)

#### **4.1.4 Empirical Findings Supporting the Uppsala Model**

Lack of institutional market knowledge, not understanding language, rule and law, another way of describing psychic distance, is discussed as a cause for *liability of outsidership* (Johanson & Vahlne, 2009). Cantwell, Dunning, and Lundan (2010) stated that MNEs operating under uncertainty is forced to engage in institutional entrepreneurship, with experimental strategies and decentralization of management. Vahlne and Johanson (2013) further acknowledge this assumption, but believe the unit of analysis should be moved from the Multinational Enterprise (MNE) to the Multinational Business Enterprise (MBE) in its network, and that network development is a key contributor to its development. They define the MBE as “*a firm that has*

*a capability to build, develop and coordinate value-creating multinational business network structures, involving both internal and external actors” (Vahlne & Johanson, 2013, p. 205).*

Through their study on experimental knowledge and cost of internationalization processes, Eriksson, Johanson, Majkgård, and Sharma (1997) analyzed 362 international service firms on hypotheses addressing foreign business, institutions and internationalization. They found correlation unveiling an importance towards knowledge of institutional factors when going international, mostly acquired through experimental learning. The companies also associated knowledge development around institutional factors with high costs, and language barriers. The study is further emphasized by (Vahlne & Ivarsson, 2014), who observed the operations of 17 global Swedish multinational enterprises worldwide. Vahlne and Ivarsson (2014), characterize local business networks and institutions as a “main impediment” to global operations, and the difficulties of overcoming the outsidership and liability of foreignness as key.

Firms which takes part in the social networks in China called *guanxi networks*, has been found to gain positive firm performance from these social networks (Zhou, Wu, & Luo, 2007). There is found strong support between outward internationalization on firm performance, with *guanxi networks* as a mediating variable. Scholars have also pointed to the high costs of maintaining *guanxi networks*, and that it has less impact from inward internationalization compared to outward internationalization. This is a suggestion to that social networks can explain the performance outcome of internationalization, and underscores the importance of personal relationships with external networks. Networks can be a benefit both to initiate export and foreign market entry, and to enhance performance (Zhou et al., 2007).

#### **4.1.5 Proposition 1**

*(P1): A firm's network position develops gradually throughout the internationalization process.*

## **4.2 The Role of Institutions**

The ability of firms to deal with uncertainty has largely been assumed to be influenced by the differences between the culture and institutions of the home country and those of the foreign country (Johanson & Vahlne, 2009). However, Johanson and Vahlne (2009) believes that internationalization processes rely more on developing opportunities than overcoming

uncertainties, such as those concerning institutional conditions in the foreign market. They reckon that research which examines the impact of relationships as drivers for learning about institutional and cultural conditions are necessary. Furthermore, research by Dunning and Lundan (2008) has recognized that including institutional analysis in International Business studies provide tools to confront the complex nature of the current global economy, and are of special interest to understand markets in the transition economies of Central and Eastern Europe, and the emerging economies of Asia.

#### **4.2.1 New Institutional Economics**

In his 1937 article *The Nature of the Firm* Ronald Coase asks a historically famous question to the earlier known theory of the existence of the modern firm; why aren't all transactions done directly through the market? Coase deliberates around the phenomena of a market economy, and argues that the existence of a firm is based amongst other, on the possibility of economizing on transaction cost. Organizing economic activities such as monitoring, search and negotiation of multiple transactions, has the possibility of being the cheaper option compared to a separation of the operations. Coase further evokes a fundamental question when criticizing the neoclassical economic theory for characterizing the firm as a "black box", only producing output for the sake of a given price on the other end (Coase, 1937). *The Nature of the Firm* with the idea of the transaction cost theory, established an inspirational foundation for a modern theory on economic development, the institutional economics and the new institutional economics (Ménard & Shirley, 2005; North, 2008).

Coase (1937) argue that institutions, which the economic actors operate within, set the size of the transaction cost. The transaction will only take place if the exchange generates outcome exceeding the internal cost of the transaction, or the administration cost. In the Handbook of New Institutional Economics (Ménard & Shirley, 2005) Douglas North further defines institutions as not only causing the cost of transactions, but also as the foundation for Coase's organizational creation and interaction. North defines economic institutions as the written and unwritten rules, beliefs and norms enveloping the human society, directing our behavior and development, applied to reduce uncertainty and to control the environment in which we interact. Written rules, such as laws and regulations, are set as an agreement between economic actors as well as human beings. Together with unwritten rules, they govern our behavior. "*Institutions are the products of intentional human efforts to give structure to an uncertain world, and are*



*congruent with society's dominant belief system on how the world operates.*" (Ménard & Shirley, 2005, p. 615).

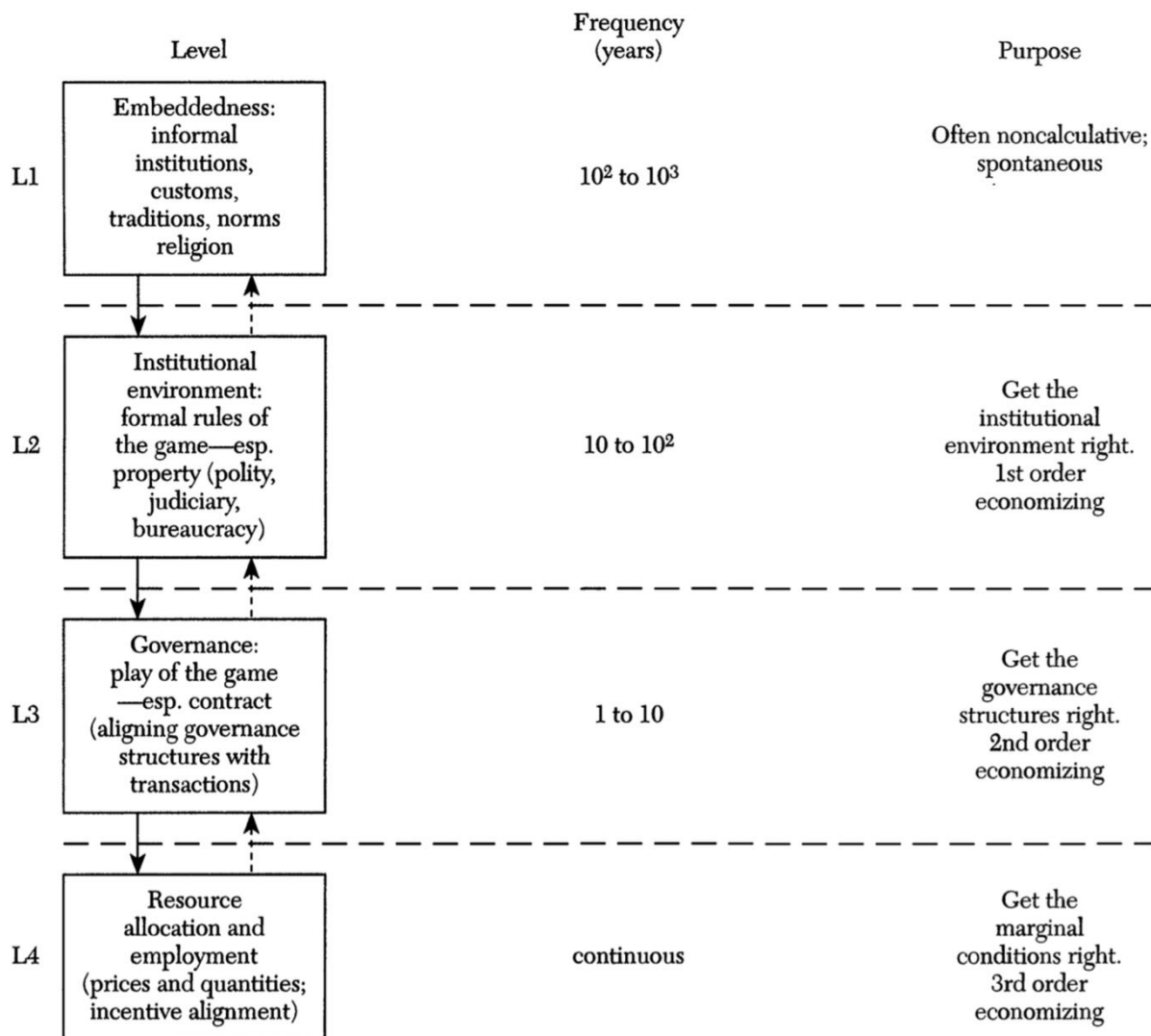
New institutional economics aims at understanding the development of change in human incentives, intentions and beliefs. In contrast to the neoclassical economic theories, new institutional economics focuses on the individual level of human behavior to seek understanding (Ménard & Shirley, 2005). Analysis of development and change in a general economy is not relevant, and so the assumptions of the new institutional economics and neoclassic economic theories are highly differing. New institutional economics assumes information to be incomplete with limited mental capacity amongst economic actors to "evaluate all alternatives". Uncertainty, in regard of the human cognitive understanding of its surroundings, is highlighted as the foundation and main driver for institutional creation. Our need of control, and strive towards comprehension of the future, causes us to create rules and norms. Institutions are thereby a result of our imperfect cognitive understanding of the world around us (Ménard & Shirley, 2005). In an economic perspective, the performance of a market is dependent on the institutions in which it evolves. Different modes of organizations, laws and regulations, culture and religious beliefs are affecting the possible support of transactions and further corporate behavior. The new institutional economics focuses on how such institutions are established, and how they develop over time (Ménard & Shirley, 2005).

#### **4.2.2 The Four Main Levels of Institutions**

Williamson (2000) divides institutions into four main levels, and describes their differences through flexibility and frequency of change. These four levels are illustrated in Figure 4.

**Figure 4: The Four Main Levels of Institutions**

Source: (Williamson, 2000)



The first and most embedded level is described through informal institutions, with origins rather evolutionary and inertia in display. It has been called for more research to understand how these institutions are adopted and maintained in societies (Williamson, 2000). The second level introduces the formal rules, where property rights and contract laws are important features, deciding “the formal rules of the game” (Williamson, 2000). “Once property rights have been defined and their enforcement assured, the government steps aside. Resources are allocated to their highest value as the marvel of the market works its wonders” (Williamson, 2000, p. 598).

The third level of institutions represents the more flexible governance of a society; *the play of the game*. Governance structures and their alignment towards the fostering of contractual

relations are the unit of analysis. Williamson (2000) refers to Barnard (1938) and Hayek (1945) when emphasizing the importance of a governmental focus on ex-post stages of contracts and transactions, highlighting the possible governmental shaping of incentives. The fourth level of institutions is represented by the adjustments of price and output, possibly analyzed by the neoclassical theories of economics. These aspects fluctuate continuously. Williamson (2000) further refers to Pinker (1999) and his publication *How the Mind Works*, when putting forward a level zero of institutions, being the human consciousness as an evolutionary level of institutions “*where the mechanisms of the mind takes shape*” (Pinker, 1999; Williamson, 2000, p. 600).

The multidisciplinary approach of the new institutional economics is hence explained through its width and innovativeness. Theory and methodology from sociology, anthropology, evolutionary biology, political science, amongst others, are combined in the strive towards understanding the development of beliefs, fostering change in human activity (Ménard & Shirley, 2005).

#### **4.2.3 Institutions, Development and Market Entries**

Correlations are found between certain institutional variables and growth and development of countries. In her article “Institutions and Development” Shirley (2005) points out two well-defined sets of institutions correlating with development of and support for modern market economies. Firstly, informal and formal rules contributing to enhancement of trust and exchange are emphasized. This includes beliefs, norms, rules and laws which results in decreased transaction costs and increased trust. These mechanisms are further referred to as enforcement of contracts. Secondly, Shirley (2005) describes the institutions contributing to a strengthening of property rights. Through its influence on state and powerful societal actors, institutions such as constitutions, education and norms leading towards toleration of law and governmental monitoring, might decrease investments for rapid returns and drainage of resources with such motives (Ménard & Shirley, 2005).

Summarized, institutional quality in the sense of contract enforcement, protection of property rights and stability, are found highly correlating with growth and development (Ménard & Shirley, 2005). Further, the entrance of new international firms to an emerging economy is also recognized as an important element for development (Estrin & Prevezer, 2010). The creation, spread and utilization of innovation, improving efficiency, productivity and diversity of

competition, contributes to economic growth and are enhanced by new market entries (Estrin & Prevezer, 2010). Formal and informal institutions described by North (1990) play a critical role in successiveness of this process and are seen as significant factors regarding rate of entry, firm survival, and growth of new entrants (Estrin & Prevezer, 2010).

#### **4.2.4 Institutional Environment Attracting Internationalization**

Numerous studies point to the assumption that the extent of a country's institutional development influences their ability to attract international entrepreneurship, and their dependency on alternatives to an undeveloped institutional environment (Danis, De Clercq, & Petricevic, 2011). Advanced economies, with strong institutions, are naturally suited for flourishing business development.

Emerging economies have been characterized in academic literature to have weak or underdeveloped institutions, leading to limited ease of doing business (Danis et al., 2011; Ellis, 2011). Firms' internationalizing to emerging markets might face difficulties with insufficient and non-transparent information. Hence, there is a need in emerging economies with challenging institutional environment, to substitute for this inconvenience. Danis et al. (2011) found that international entrepreneurs can increase their business activity in new markets by participating in associational activities, e.g. voluntary social activities or networks. Furthermore, they discover that international entrepreneurs in emerging economies have an enhanced effect of participation in such activities, compared to those in developed economies. It has therefore been stated that social networks might substitute for weak institutions in emerging economies (Danis et al., 2011). At the same time, there is an absence of these moderating effects in developed economies. Accordingly, they argue that the mentioned substitution effect might be unique for emerging economies (Danis et al., 2011).

The review article of Kiss et al. (2012) elaborate on the literature about international entrepreneurship and argue for the importance of institutional context in emerging economies. The choice of entry mode, strategy and extent of internationalization is influenced by the institutions within the market, or in another perspective, differences in the institutional framework of home- and host-market (Kiss et al., 2012).

The institutional environment of a country has been described as the country's *institutional profile*. Differences in institutional profile between home- and host-market are in academic literature known by the term *institutional distance* (van Hoorn & Maseland, 2016). van Hoorn and Maseland (2016) argue that existing literature of international business are not able to distinguish between the *effect of institutional distance* and the *effect of institutional profile*, and stresses that these are separate, but related phenomena. This matters in theory, as well as for managerial practice (van Hoorn & Maseland, 2016). For instance;

*Efforts to overcome institutional distance effects such as investing in knowledge about the local environment or cultural sensitivity training of managers are largely pointless if the actual challenge facing the firm is one of low institutional quality rather than unfamiliarity with the institutional surroundings* (van Hoorn & Maseland, 2016, p. 380).

They also refer to Khanna, Palepu, and Sinha (2005), which states that due to challenges depending on the institutional profiles of host countries, MNEs are required to either adapt or stay away from certain countries (van Hoorn & Maseland, 2016).

Furthermore, Kiss et al. (2012) point out the importance of investigating the dynamics of networks, especially the complexity of human behavior and interaction, leading to entrepreneurial adaption of behavior and strategy to rapidly changing environments. Still, an overemphasize on networks alone could create a bias towards the factors contributing to internationalization processes. Entrepreneurs need to be able to discover, develop and utilize different types of social ties, which further require more research on the structural aspects of networks, such as size, density, strength of ties and diversity (Kiss et al., 2012).

#### **4.2.5 Empirical Findings Related to Institutional Impact on Internationalization**

Informal institutions are found by Estrin and Prevezer (2010) to have different effects on formal institutions, based on context. In China and India, there is found that informal institutions can undermine or substitute formal institutions. Entrepreneurs can gain financial support by relying on informal networks, recognized as a substitution effect to weaknesses in the formal institutional environment (Estrin & Prevezer, 2010).

Santangelo and Meyer (2011) performed research based on surveys in Hungary, Lithuania and Poland, assessing how firms' commitment-decisions during internationalization processes, are influenced by institutional void or institutional uncertainty. Support is found to their hypothesis

stating that high institutional void leads to realization of a consistent-commitment strategy. Under such scenarios, they discover firms to increase proactive information search and adaption costs, to reduce the likelihood of early post-entry adjustment. With a situation of institutional uncertainty, they find empirical support to their hypotheses stating firms to be more likely to realize a commitment increasing strategy. When experiencing high institutional uncertainty, investors prefer to approach through modes of low commitment, and high flexibility, which enable later commitment increase (Santangelo & Meyer, 2011).

#### **4.2.6 Proposition 2**

*(P2): Firms adjust their behaviour during market entries to differing home- and host-country institutions.*

### **4.3 Network Theory**

From the early internationalization models, it seemed implicit that internationalization was a firm internal process. The network approach of Johanson and Mattsson (1987) staked out a new path which described that international development activities are dependent on the firm's relationships with other actors (Johanson & Mattsson, 1987). To understand a firm's development, you have to understand the development of international networks (Vahlne & Johanson, 2013). A country's market may to a certain degree be interconnected through network relationships, hence interacting within relationships with actors in the market is important to remain an insider in the relevant networks. From the Uppsala model, the network position determines to the degree a firm is internationalized (Vahlne & Johanson, 2013).

Social ties in networks are informal and subtle in nature. Hence, they cannot be translated to whomever, as they are quite personal, and only those involved can utilize its value. The effect of the liability of foreignness is recognized through the assumption that higher psychic distance makes it more difficult to create such relationships (Johanson & Vahlne, 2009).

Studies on the role of networks in the internationalization process has by N. E. Coviello and Munro (1995), among others, been found to impact both market selection and mode of entry of the internationalizing firm, and was developed into a model combining the process model and the network approach. Observations on the internationalization process of small software firms revealed that their successful growth relied heavily on their international network relationships,

and these relationships in turn facilitated an accelerated internationalization process (N. Coviello & Munro, 1997; N. E. Coviello & Munro, 1995). With these assumptions in place, Johanson and Vahlne decided to update their 1977 Uppsala model, to include the importance of networks. They have also acknowledged that insidership impact internationalization processes even before the foundation of the firm (Johanson & Vahlne, 2009).

#### **4.3.1 Insider Versus Outsider**

The terms insider and outsider provides an assumption on that firms need to be an insider in a relevant network to succeed in the market they pursue. Without insidership, there is no possible growth. It is inside a network firms learn, build trust and commitment, which according to Johanson and Vahlne (2009) is the most essential elements of internationalization. As an outsider, you need to find a way, preferably through an established network, which might grant opportunities to become an insider, and overcome the liability of outsidership. Johanson and Vahlne (2009, p. 1415) exemplifies that *“a potential partner inside the target market requests a service from the focal firm, thus creating an initial insider opportunity”*.

Through the Uppsala model, Johanson and Vahlne (2009, p. 1415) sums up: *“In our view a firm’s environment is made up of networks, and this has implications for the ways in which we think about learning, building trust, and developing commitment, as well as about identifying and exploiting opportunities”*. The business environment is complex, and the choices a firm makes will affect not only themselves, but also actors around them. *“The traditional view of entry – that is, overcoming various barriers – is becoming less important than internationalizing undertaken to strengthen a firm’s position in the network”* (Johanson & Vahlne, 2009, p. 1423). On internationalization, Johanson and Vahlne (2009) are reluctant to the assumptions about decisions of entry mode being the basis for internationalization. They no longer consider mode to be a reliable indicator of level of commitment. Instead, they think building a network position is essential, and should be studied as the real internationalization process. The actions a firm takes to enter a market is what unravels the hidden ties and patterns of other actors, which further can secure insidership (Johanson & Vahlne, 2009).

Building knowledge within and coordinating the relationships is a vital element of the internationalization process. Business networks gains advantages from dynamics and often reciprocal learning. Additionally, the existence and exploitation of relationships in networks

can result in knowledge creation. Johanson and Vahlne (2009, p. 1419) states: “*opportunities are likely to emerge as a consequence of the privileged knowledge that the two partners develop during their interaction*”. Experience from working with partners is knowledge which stems from ongoing business cooperation activities. Firms who seek to know their resources, must take into account the external resources which are available through networks (Johanson & Vahlne, 2009).

Trust, as one of the four elements of the Uppsala model, is crucial for developing relationships. It is a key ingredient for successful learning and generation of new knowledge. In addition, trust can be a substitute for knowledge, for instance if a firm uses an agent to create opportunities in a market they know little about. Trust is especially important in situations of uncertainty (Johanson & Vahlne, 2009).

To wrap up the views of Johanson and Vahlne, and how the Uppsala model has changed:

*Primarily, it has been assumed that reducing uncertainty has to do with the differences between the culture and institutions of the home country and those of the foreign country. We now have reason to believe that learning and commitment are strongly related to identifying and exploiting opportunities* (Johanson & Vahlne, 2009, p. 1423).

Internationalization, according to the Uppsala model, is not about overcoming uncertainties, like the host country’s institutional barriers, but rather exploring and developing opportunities.

#### **4.3.2 Exploiting an Insider Position**

According to observations of Blankenburg Holm, Johanson, and Kao (2015), a firm’s ability to establish direct relationship and commitment to other actors affects their potential to gain an insider position. Through its network position, a firm is able to recognize and exploit opportunities. Blankenburg Holm et al. (2015) argues that outsidership leads to discovery of opportunities, while insidership leads to creation of opportunities. The possibility of combining resources and competences with involved parties lead firms to gain an insider position (Blankenburg Holm et al., 2015).

Although the idea that firms are seeking uncertainty avoidance while internationalizing is widespread, a number of recent scholarly articles make an assumption that firms usually are proactive and opportunity seeking, rather than uncertainty avoiding (Blankenburg Holm et al.,



2015). There has been found indicators that existing opportunities is a driver for internationalizing firms, as exporting can provide growth, market development, or new venture to utilize ownership advantages (Blankenburg Holm et al., 2015).

### **4.3.3 Opportunity Discovery, Creation and Exploitation**

Firms often have little control over opportunity discovery, as it is a result of network ignorance; realized through active, yet not necessarily purposeful, search behavior (Mainela, Puhakka, & Servais, 2014). Opportunity creation, however, is a product of persistent interaction between business partners (Mainela et al., 2014). Blankenburg Holm et al. (2015) states that an opportunity is non-existent if the firm cannot exploit it. Developing opportunities has a path-dependent process, with recognition and exploitation in play simultaneously. Path-dependence means; *“that what has happened at an earlier point in time affects the possible outcome of an event (or a sequence of events) occurring at a later point in time”* (Blankenburg Holm et al., 2015; Schreyögg & Sydow, 2011, p. 341; Schreyögg, Sydow, & Holtmann, 2011).

Firms which are outsiders have a greater chance of discovering opportunities coincidentally through their indirect relationships; they are more likely to recognize opportunities through discovery than by creation (Blankenburg Holm et al., 2015). Information and opportunities might be transmitted through other firms, and could be less reliable if it is received as indirect information through several actors. When firms develop insidership, with more direct and closer relationships in a market, information will become more reliable (Blankenburg Holm et al., 2015). The closer the relationship, the more reliable the information gets, and the likelihood of the relationships developing into an opportunity increase (Blankenburg Holm et al., 2015). Opportunity exploitation further leads to network expansion. As mentioned, outsidership more often gains opportunities from discovery rather than creation. Additionally, when opportunities are gained from discovery, the network position is changed by expanding the network, rather than strengthening the existing network (Blankenburg Holm et al., 2015). An expanded network is likely to increase the number of business opportunities, as well as better access to information. However, some cases imply that strengthening the existing network is the main driver to gain an insider position (Blankenburg Holm et al., 2015).

#### **4.3.4 Empirical Findings on Network Theory in Internationalization**

The case from Blankenburg Holm et al. (2015) express how firms recognize and exploit opportunities, and how insidership or expanded networks generate key information for business development. This case pointed to the fact that a network position sometimes is a prerequisite for certain opportunities, such as where a Swedish firm could display their legitimate long-term commitment in China to be necessary when acquiring a Chinese firm. They propose that increased opportunity creation involves more exploitation of firm's direct and indirect relationships, and further that when opportunity exploitation is a result of opportunity creation, it strengthen and expand the firm's network position. They also argue that the more of an insider position a firm has, the more expansion is needed for strengthening their position. This is because they have to manage several of their relationships simultaneously to exploit opportunities as an insider. For internationalization specifically, it is argued that opportunity discovery, mostly deriving from outsidership, is essential when there is a lack of information availability and established relationships (Blankenburg Holm et al., 2015).

An argument from Blankenburg Holm et al. (2015) is that when building business relationships in a foreign market, firms are developing opportunities through recognition and exploitation, and further developing the position to become an insider. *“Put differently, the firm can only recognize opportunities that are visible from its current network position, which in turn is a result of its exploited opportunities”* (Blankenburg Holm et al., 2015, p. 356).

#### **4.3.5 Proposition 3**

*(P3): The network position affects to which degree the firm is exposed to information and business opportunities.*

#### **4.4 Decision-Making in Internationalization: Effectuation Theory**

The processes of entrepreneurship and internationalization share many aspects, and the theory of *effectuation* (Sarasvathy, 2001) has been described to characterize the entrepreneurial process (Johanson & Vahlne, 2009; Vahlne & Johanson, 2013). Essential elements of the effectuation theory are developing network relations, focusing on what can be controlled, and exploiting contingencies, which by Vahlne and Johanson (2013) is translated to experiential learning. The effectuation approach is labeled as most relevant in a high-uncertainty scenario. In contrast, contexts with lower uncertainty might be more suitable for a *causation* approach,

which is “*similar to a model of rational decision making, useful in the neo-classic context*” (Vahlne & Johanson, 2013, p. 199).

#### **4.4.1 International Entrepreneurship and Effectuation Versus Causation**

The fusion between International Business theories and Entrepreneurship theories has been labeled as International Entrepreneurship, and has been defined as “*a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations*” (McDougall & Oviatt, 2000, p. 903). Implemented in the Uppsala model of 2013, internationalization is seen as an entrepreneurial process (Schweizer, Vahlne, & Johanson, 2010; Vahlne & Johanson, 2013).

The study *Social ties and international entrepreneurship: Opportunities and constraints affecting firm internationalization*, by Paul D Ellis (2011), looks at how entrepreneurs identify opportunities for international exchange. He assumes entrepreneurship to be found not as the creation of a new venture, but in making markets where none previously existed (Ellis, 2011). By observing how entrepreneurs communicate through social ties, he recognized that most of their business opportunities was discovered, rather than sought after.

International Entrepreneurship has been explained through the phenomenon “effectuation” by a number of studies (Laine & Galkina, 2016). Effectuation was originally described by Saras Sarasvathy (2001), to illustrate how entrepreneurs act in decision-making. Based on how decisions on every level (individual, firm, industry, market, and economy) are changing over time, partly because individuals, firms, industries, markets, and economies themselves are in constant change, effectuation enlightens that decision-making often needs to be approached without implementing intentional goals.

*For example, if we knew precisely what type of firm we wished to create, we could use existing theories and principles to create the firm. But usually all the entrepreneur knows when he or she starts out is something very general, such as the desire to make lots of money or to create a valuable legacy like a lasting institution, or, more common, to simply pursue an interesting idea that seems worth pursuing. Similarly, if we clearly knew which particular market to capture, we could presumably use techniques of market research and formulate strategies to penetrate it. In areas such as e-commerce,*

*however, most markets are nascent or simply nonexistent. Marketing to markets that do not yet exist involves understanding how markets come to be* (Sarasvathy, 2001, p. 244).

The opposition to effectuation is *causation*. Processes involving causation takes any effect as given, and try to find the right means to create that effect. Effectuation, on the contrary, takes means as given, and strives to find the effects which could potentially be created by the means (Sarasvathy, 2001). *“The distinguishing characteristic between causation and effectuation is in the set of choices: choosing between means to create a particular effect, versus choosing between many possible effects using a particular set of means”* (Sarasvathy, 2001, p. 245). In practice, there is a fine line between causation and effectuation, despite their opposite nature. They are often used simultaneously (Laine & Galkina, 2016; Sarasvathy, 2001). In the case of Russian SMEs, Laine and Galkina (2016) find that both effectuation and causation are used inside the same firms. However, there is found indications that institutional uncertainty boosts the use of effectuation, while lower institutional uncertainty increase the use of causation (Laine & Galkina, 2016). Prior research has described that the best way for firms to learn about foreign markets is through ongoing operations, by being active and present (Frishammar & Andersson, 2009). Frishammar and Andersson (2009, p. 72) calls for future research that include; *“learning-by-doing aspects, be focused on informal rather than formal activities, and pay attention to individuals and entrepreneurs rather than centering around collective aspects”*.

#### **4.4.2 The Effect of Serendipity and the Principles of Effectuation**

Effectuation take into consideration that serendipitous events or a chain of serendipitous events can be decisive in entrepreneurial establishment (Sarasvathy, 2001). Several recent studies describe that “unintended”, serendipitous decisions are a part of entrepreneurs’ choice to explore and exploit international opportunities effectually. Without any prior knowledge of the foreign market, they can form networks with every interested stakeholder to replace the lack of knowledge (Galkina & Chetty, 2015).

The theory also manifests five principles that distinguish effectuation from causation (Sarasvathy, 2001, 2008; Sarasvathy, Kumar, York, & Bhagavatula, 2014):

- (1) “Bird-in-hand”: Choosing between many possible effects using a particular set of means, versus choosing between means to create a particular effect

- (2) “Affordable loss”: Affordable loss instead of expected return
- (3) “Crazy quilt”: Strategic alliances rather than competitive analyses
- (4) “Lemonade”: Exploitation of contingencies rather than exploitation of expected return
- (5) “Pilot-in-the-plane”: Controlling an unpredictable future rather than predicting an uncertain one

Firstly, the bird-in-hand principle, is based on the previously discussed choice between means to create a particular effect, or designing potential effects using a set of means (Sarasvathy, 2008). With a predictive analysis, using causation, an entrepreneur will strive to figure out what he *should* do. However, when focusing on the means at hand, using effectuation, an entrepreneur will change the approach to what he *can* do. This approach relies on “*identity, knowledge, and networks to generate potential opportunities*” (Sarasvathy et al., 2014, p. 73).

The second principle, affordable loss, experiments on generating as many strategies as possible given a limited set of means. Instead of focusing on how a firm can maximize profits, it predetermines how much loss one is willing to handle (Sarasvathy, 2001). Findings from Kalinic, Sarasvathy, and Forza (2014) suggests that following the effectuation approach during internationalization does not involve making non-logical decisions. Rather, decision-making of international entrepreneurs alters between an effectuation and a causation approach depending on the level of the foreign market uncertainty (Kalinic et al., 2014). When entering a stable market, they would use return on investment calculations as a guide, while basing it on affordable loss when entering less confident markets.

Use of networks is a part of the effectuation theory, through the crazy quilt principle; the use of strategic alliances rather than competitive analyses, supports that entrepreneurs or internationalizing firms can establish themselves more effectively by utilizing networks and relationships (Sarasvathy, 2001, 2008). Prior research has regarded networks as a substitute for the lack of resources in entrepreneurial firms (Galkina & Chetty, 2015).

The lemonade principle is focusing on how one could exploit contingencies, rather than trying to avoid unexpected opportunities or achieving predetermined goals despite the existence of contingencies (Sarasvathy, 2008). This allows for flexible strategies, especially useful under uncertain market conditions, and change uncertainty into a “*resource and a process rather than*

*a disadvantageous state*” (Sarasvathy, 2008, p. 90). Firms can thereof turn something unexpected, such as serendipities and unintended discoveries, into the process of developing opportunities (Sarasvathy, 2008).

Lastly, the pilot-in-the-plane principle, seek to explain how effectual entrepreneurs can emphasize on controlling an unpredictable future, rather than predicting an uncertain one. *“The logic here is: To the extent that we can control the future, we do not need to predict it”* (Sarasvathy, 2008, p. 91). In conditions of high uncertainty, entrepreneurs can seek to learn about the role of human beings rather than trends to intervene with current events, and potentially transform and reshape the conditions, together with other effectual actors (Sarasvathy et al., 2014). *“In other words, effectual entrepreneurs do not see history running on autopilot, but rather consider themselves one of many who copilot the course of history”* (Sarasvathy et al., 2014, p. 75).

#### **4.4.3 Empirical Findings of Effectuation in Internationalization**

Galkina and Chetty (2015) observed Finnish SMEs entering the Russian market, and found networking activities crucial for internationalization. They make some noteworthy remarks on the internationalization process, in which effectual logic influence decision making. Several firms struggle to specify the moment in time and the reason to why they decided to internationalize. This might partly be result of the organic process of the firms’ development. Even the process of networking is not necessarily driven by strategic network planning, but often occurs on an effectual basis (Galkina & Chetty, 2015).

Based on studies of companies internationalizing to Eastern European Countries, Kalinic et al. (2014) have made two propositions about the effectual logic on internationalization processes. Firstly, they propose that *“In conditions of high uncertainty, the switch from causal to effectual logic allows rapidly increasing the level of commitment in the foreign market”* (Kalinic et al., 2014, p. 645). It describes that, from their observation, internationalizing firms whom switch their decision-making approach from causal to effectual, experience the processes of internationalization as accelerated. This switch reduces the level of information required for a firm to act, and allows them to rapidly increase the level of market commitment (Kalinic et al., 2014).

Secondly, they propose that *“In conditions of goal ambiguity and environmental isotropy, the switch from causal to effectual logic allows overcoming liabilities of outsidership and, thus, successfully increasing the level of commitment in the foreign market”* (Kalinic et al., 2014, p. 645). This suggestion is made due to the assumption that effectuation logic assists in overcoming the liability of outsidership. In cases where the firms did not possess a network with the right international connections, they were observed to, through effectuation logic, involve new and unexpected stakeholders, which furthermore generated previously unforeseen opportunities (Kalinic et al., 2014).

#### **4.4.4 Proposition 4**

*Proposition 4 (P4): Effectual decision making is used in markets with institutional uncertainty.*

## Chapter 5: Methodology

### 5.1 Conceptual Framework

This thesis seeks to explain the mechanisms of market entries, specifically how internationalizing firms act upon opportunities, in an emerging market. This is conducted through the experience of companies with backgrounds from internationalization to emerging economies, as we strive to explore and possibly adapt internationalization theory towards their context, acknowledging their experiences. Correspondingly, the objective of this thesis is to investigate how Norwegian aquaculture companies are internationalizing towards emerging markets with institutions differing largely from their home country, and further how their behavior and experienced actions towards networks, relations, and decision-making affects this process. The theoretical framework is summarized through the two following research questions:

1. How are firms adjusting their behavior to differing home- and host-country institutions through their internationalization process?
2. How do firms' network position impact their internationalization process?

Data collection for the thesis has been conducted through multiple case studies consisting of in-depth interviews, with an abductive approach. We will next describe our considerations regarding our methodological approach towards the empirical investigation of the research questions. The aim of this chapter is to secure possible replicability for future research. We seek to maximize the precision and authenticity of our results given the aspect of limited experience, together with scarce time and resources, amongst the researchers conducting this thesis (Ghauri, 2004; Sekaran & Bougie, 2013; Yin, 2014).

#### 5.1.1 Qualitative Research in Emerging Markets

Qualitative data are defined as data in the form of words, gathered through various sources such as interviews, observations, questionnaires with an open-ended approach, and through written sources. In contrast, quantitative data are represented in numbers and gathered through structured questions (Sekaran & Bougie, 2013).

Qualitative research is favorable in complex settings, due to its ability to “*capture phenomena, explore comprehensive insights and develop context-specific theories*” (Plakoyiannaki, Wei,



Hsu, Cassell, & Prashantham, 2017, p. 206). Plakoyiannaki et al. (2017) emphasizes the opportunity and need for qualitative research in management theory, specifically in contexts of emerging markets. They state how “...management theories developed in western countries may not adapt well to the emerging context described by multiple embeddedness” (Plakoyiannaki et al., 2017, p. 206). They suggest a qualitative approach to building and testing theories, mainly to have a better basis for understanding the complex contexts and “uniqueness of management in emerging markets” (Plakoyiannaki et al., 2017, p. 206). Birkinshaw, Brannen, and Tung (2011) emphasize the characteristics of the qualitative method and its importance to international business research. Especially as playing “...a critical role to interpret and understand the complex plurality of contexts – institutional, cultural, organizational and so on, brought about by globalization – and the linkages between them and firms that transact business across international boundaries” (Birkinshaw et al., 2011, p. 574).

### 5.1.2 Multiple Case Study

Ghauri (2004) refers to Yin (1994), explaining that a case study is recognized as favorable when seeking answers to research questions of “how” and “why”. Yin (2014) argues that the case study approach, with such research questions, has a distinct advantage when studying uncontrollable events of behavioral nature. Through “direct observation of the events being studied and interviews of the person involved in the event” (Yin, 2014, p. 12), case study design is described as an appropriate approach. Since the phenomena investigated in the thesis is difficult to study outside its natural setting (Ghauri, 2004), and the focus of the study is a contemporary event (Yin, 2014, p. 9), a case study design is selected.

Yin (2014) further defines case studies with a twofold approach; through its *scope* and *features*. The case study method is described with a *scope* of “investigating contemporary events (the “case”) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident” (Yin, 2014, p. 16). Ghauri (2004, pp. 3-4) describes the scope in a relevant context, as “particularly well suited to international business research, where data is collected from cross-border and cross-cultural settings” and when the aim for the study are “the impact of different national contexts”.

The case study *features* are described as the inquiry of the case study methodology which “copes with the technically distinctive situation in which there will be many more variables of interests than data points (...) and as another result benefits from the prior development of

*theoretical propositions to guide data collection and analysis*” (Yin, 2014, p. 17). These definitions clarify the “all-encompassing” character of the case study methodology (Yin, 2014, p. 17), which we find suitable in the undertheorized context of management in emerging markets with its high complexity setting (Plakoyiannaki et al., 2017).

It is described that *“interaction between a phenomenon and its context is best understood through in-depth case studies”* (Dubois & Gadde, 2002, p. 554). In this study, the phenomena chosen for examination is the internationalization process, and the context is the institutional surroundings of the firm. Institutions will therefore not be analyzed directly, but considered with the purpose of describing comparable differences between home- and host-country market, experienced by the actors, with plausible effect on their internationalization process. Yin (2014, p. 202) continues; *“clear attention to boundaries between the phenomenon and its context”* is an important ingredient to a complete case study, which have been emphasized throughout this thesis, and is an essential factor for the analysis and discussion in Chapter 7.

An abductive approach for data collection is chosen, based on a described gap in the adaption of western management theory in the context of emerging markets (Kiss et al., 2012; Plakoyiannaki et al., 2017). Dubois and Gadde (2002, p. 555) refers to Peirce (1931) and Kirkeby (1994) when depicting abduction as a method of *“investigating the relationship between everyday language and concepts”*. Through a research process of *“... ‘back and forth’ from one type of research activity to another and between empirical observations and theory”*, Dubois and Gadde (2002, p. 555) claims the researcher is able to *“expand his understanding of both theory and empirical phenomena”*. The framework consistent of the abductive approach, coined “systematic combining”, involves the usage of articulated theoretical “preconceptions” and further developing these through empirical fieldwork, analysis and interpretation, in a simultaneous process. This thesis has chosen propositions founded in earlier theory and descriptive cases as “preconceptions” (Dubois & Gadde, 2002). The propositions are closely connected to the research questions, and are described in the perspective of its corresponding theory in Chapter 4.

The propositions have been developed ‘back and forth’ according to emergence of empirical findings, and new theoretical approaches, as the study has given the researcher new perspectives on the phenomena and its context. The researchers have used the systematic combining approach to *“confront theory with the empirical world (...) continuously through the research*

*process*” (Dubois & Gadde, 2002, p. 555). Propositions are hence developed with respect to conceived data, combined with a focus throughout on the previous empirical findings, theory and descriptive sources. This process is further described by Eisenhardt (1989, p. 546), and as quoted by Dubois and Gadde (2002, p. 556); “*Creative insights often arise from the juxtaposition of contradictory or paradoxical evidence (...) the process of reconciling these contradictions forces individuals to reframe perceptions into a new gestalt*”.

Yin (2014) explains the importance of triangulation of data when building arguments for conclusions in case research. Dubois and Gadde (2002) partly adapt the relevance of triangulation, emphasizing the combination of evidence in abduction, but revises it as “*the emphasis on verification, i.e., checking the accuracy of data, is not the main issue. Rather, multiple sources may contribute to revealing aspects unknown to the researcher, i.e., to discover new dimensions of the research problem*” (Dubois & Gadde, 2002, p. 556). The aim is to discover, rather than place focus on triangulation to prove the current theoretical frameworks of analysis. Obtaining generalization of theory are not an objective in this study as the “*abductive approach is fruitful if the researcher’s objective is to discover new things — other variables and other relationships*” (Dubois & Gadde, 2002, p. 559).

## **5.2 Data Collection**

As earlier described, the phenomena of analyses are the market entry of Norwegian firms to Indonesia. The unit of analysis are chosen as the specific firm, while the unit for data collection are individual people holding relevant positions in each unit of analysis (Yin, 2014). The commercial section of the Norwegian Embassy in Jakarta has been interviewed as a secondary source. Because of the relevance of their input, together with the organization being mentioned by the interviewed firms as an important part of their processes, their views and experiences have been included in the study on the same basis as the firms. Due to a desire for anonymity, information which could lead to recognition or identification of the participating firms or employees has been omitted from the thesis. Secondary data have been collected from Brønnøysundregistrene (2017), Proff (2017), the companies’ websites, reports from the World Bank and other international organizations collected through the web, and news articles.

### 5.2.1 In-Depth Interviews with Key People

Non-structured or open ended interviews “*can offer richer and more extensive material than data from surveys or even the open ended portions of survey instruments*” (Yin, 2012, p. 12). The open ended interview can additionally “*reveal how case study participants construct reality and think about situations, not just provide the answers to a researcher's specific questions and own implicit construction of reality*” (Yin, 2012, p. 12). The case study approach with in-depth interviews are highlighted by Ghauri (2004, p. 4) as particularly suitable when the researcher “*wants to understand the behavior of decision-makers in different cultures*”. In contrast to questionnaires, a mutual understanding between researcher and respondent might be established, as follow up questions of clarification, and avoiding misinterpretation is possible (Ghauri, 2004). These arguments towards the prospect of gathering extensive insight to personal beliefs, behavior in decision-making and organizational strategizing in a complex cultural setting, are the basis for choosing in-depth interviews as the main source of data collection in this thesis.

### 5.2.2 Analytical Framework

Yin (2012, p. 142) describes that “*The purpose of the analytic strategy is to link your case study data to some concepts of interest, then have the concepts give you a sense of direction in analyzing the data*”. (Dubois & Gadde, 2002, p. 558) further concludes “*In systematic combining, the evolving framework is a cornerstone*”. Through a possible development of theoretical propositions, in line with empirical findings, the researchers are seeking to systematically combine evidence to investigate the internationalization process (Dubois & Gadde, 2002; Yin, 2012, p. 136). The following section will describe the analytical framework chosen for the thesis.

Coding of data is an effective way of organizing input from in-depth interviews (Sekaran & Bougie, 2013). For the purpose of organizing, counteract a mix of evidence and interpretation and further picture the study's key findings clearly, notes from interviews have firstly been organized systematically through a coding array displaying the themes and propositions connected to key findings (Ghauri, 2004; Yin, 2012). The coding has been conducted to withdraw essence, and with an adaptational approach, the theoretical content, proposition and findings have been compared throughout the data gathering. Close interconnection between, and continuous change of, research question, theoretical framework and propositions, are described by Ghauri (2004) as the best policy for data analyses of qualitative studies. A focus

throughout on adaption has been used when coding and further categorizing data, in line with earlier described “systematic combining” (Dubois & Gadde, 2002), together with an overall awareness of the risk of eliminating relevant data or change its scarce meaning (Sekaran & Bougie, 2013).

The chosen categories have been composed through theory described in Chapter 4, with respective propositions relying on evaluation of existing theory and earlier descriptive studies with similar context or phenomena of scope (Sekaran & Bougie, 2013). Yin (2012, p. 9) refers to Sutton and Staw (1995) when defining theoretical propositions as a simple set of relationship such as “*a (hypothetical) story of why acts, events, structures and thoughts occur*”. The importance of parsimony in working with theories and conducting research in the field of business are emphasized by multiple authors (Dubois & Gadde, 2002; Eisenhardt, 1989; Sekaran & Bougie, 2013, pp. 22-23). Highlighting the potentially complex context (Plakoyiannaki et al., 2017), development of propositions and concluding remarks has been carried out with a strive towards theoretical parsimony.

The interview guide functions as the link between theory and empirical findings (Yin, 2012, 2014). In this thesis, the propositions have been used as a framework when developing the interview guide. Themes and questions were formulated to clarify “how” and “why” the unit of analyses adjusts and acts when internationalizing. The interview guide where continuously developed in accordance to previous empirical findings and theory as support to in-depth interviews, as new perspectives arrived.

In Chapter 7, data collected from the interviews, together with secondary sources, have been analyzed in accordance to theory and context. The analyses are organized after the propositions, and arguments throughout are built with an aim of developing propositions to concrete recommendations for further research.

### **5.2.3 Case Selection**

The systematic combining approach suggests a continuous process of sampling, data gathering and analyzes (Dubois & Gadde, 2002). As mentioned below, the process of choosing the units of analysis and further units for data collection has been conducted with a view of sampling “*as a continuous process*” (Dubois & Gadde, 2002, p. 559). Ghauri (2004, p. 10) describes “*interweaving data collection and data analyses right from the first case/interview*” as the best

policy. The foundation of sampling is described through attributes selected with the objective of appropriate “*matching between reality and theoretical construct*” (Dubois & Gadde, 2002, p. 559). The target population of the thesis are hence chosen through the following criteria:

- The firm is registered in Norway
- The firm is a part of the industrialized aquaculture sector in Norway
- The firm is delivering components for aquaculture facilities
- The firm has completed, or is in the process of a market entry to Indonesia
- Unit for data collection needs to hold a key position with responsibility for the market entry of the case firm

Through correspondence with the Commercial Section of the Norwegian Embassy in Jakarta (Innovation Norway), and the NCE Aquaculture Cluster of Norway, together with a wide search of company websites and media articles, the target population was found consistent of ten firms. The selection of a data sample and units for data collection was further conducted with pragmatic considerations (Ghauri, 2004). All ten firms were contacted via telephone and e-mail, which revealed only five of the selected firms had sufficient experience or were in the adequate progress of internationalization. Further, two of the firms declined due to time-limitations. Hence, three firms accepted to participate in the study. Yin (2012) emphasizes the importance of interviewing key persons, through “elite” interview, as the position and responsibility of the interview object will determine his or her ability to give valuable information. All units considered for data collection had positions with direct responsibility for market entry.

Ghauri (2004) refers to Mintzberg (1979) regarding the number of cases to study, claiming that the research problem and objective is what influences the number and choice of cases. A premise for this thesis is to investigate a singular industry. This is found as essential to avoid other factors interfering with the analysis, originating from industry-specific variations. Despite a limited number of available cases in the aquaculture sector, three main cases were found to be satisfactory, allowing the researchers to compare different perspectives and develop the propositions (Ghauri, 2004).

Due to personal work experience from an internship position at the Commercial Section of the Norwegian Embassy in Indonesia and in a Norwegian firm operating in Jakarta, held by the researchers, extensive information was retrieved prior to this project. The role played by Innovation Norway in regard to market entries by Norwegian firms was noticed as affecting

opportunities, information and network development. The firms described the role of the trade organization as important to their processes. The researchers hence decided to include Innovation Norway as a secondary case. The retrieved data from Innovation Norway was given equal influence in the analyses as the case firms.

Further the companies and governmental bodies are described technically, and presented with their respective findings, both through quotations and paraphrases, organized after the interview guide, propositions and thematic framework (Yin, 2012).

### 5.3 Credibility

According to Ghauri (2004), the main issue of qualitative research is not its reliability, but the “authenticity” of the study; the ability to present authentic views of the individuals at study, understood and analyzed in regard to the contexts of the phenomena. Dubois and Gadde (2002) presents three main problems regarding credibility of the systematic combining approach in case studies, which partly coincides with Ghauri’s (2004) recommendation towards obtaining authenticity. Firstly, emphasize is put on the reliance on analytical inference; “*case studies cannot build on statistical inference*” (Dubois & Gadde, 2002, p. 559), as generalization is not an objective. This leads to “*a very particular demand on the sampling procedure*” (Dubois & Gadde, 2002, p. 559), described further in chapter 5.2.3 Case Selection.

Secondly, Dubois and Gadde (2002) states that “*relationships and patterns in complex structures cannot be tested*” through the use of “*quasi-deductive theory testing*”. Instead, logic coherence, dependent on sufficient display of procedures and gathered data, is specified as an “*important criterion for quality in case reseach*” (Dubois & Gadde, 2002, p. 559).

Thirdly, Dubois and Gadde (2002, p. 559) explains the disadvantage of trying to “*explain everything, and as a result describe nothing*”. Linked to logic coherence, parsimony is discribed as outmost important. Dubois and Gadde (2002, p. 559) further refers to Eisenhardt (1989), when characterising that “*parsimony is the hallmark of case research quality*”. Deleting and choosing amongst possible gathered data and findings is an important yet “comersome” task (Dubois & Gadde, 2002). Ghauri (2004, p. 11) describes some of the same objectives as climbing the “ladder of abstraction”, developing chategories and transforming data into easy

understandable theory. All the above mentioned aspects have been taking in to consideration, and will be discussed in Chapter 8 Conclusion.



## Chapter 6: Findings

Chapter 6 will present findings from interviews from the three participating firms, together with supplementary aspects provided by the commercial part of the Norwegians Embassy in Jakarta, Innovation Norway. Each firm is presented in Table 2, with brief information about the companies, and some aspects about their activities in Indonesia. The cases from each firm will one by one be presented in detail, to put their specific operations and experience into context.

### 6.1 Company Profiles

**Table 2: Overview of Case Firms**

*Source: All information are provided either through Brønnøysundregistrene (2017), Proff (2017), the companies' website and annual report, or through interviews.*

<b>FIRM 1</b>	<p><b>Company Profile</b></p> <p>Established: 1993</p> <p># of employees: 8</p> <p>Annual turnover: NOK 83 million (2015)</p> <p>Experience in Indonesia</p> <ul style="list-style-type: none"> <li>- <i>Phase of internationalization: Post entry, early establishment</i></li> <li>- <i>Initiating Internationalization: Foreign Agent</i></li> </ul>
<b>FIRM 2</b>	<p><b>Company Profile</b></p> <p>Established: 1994</p> <p># of employees: 24</p> <p>Annual turnover: NOK 48 million (2015)</p> <p>Experience in Indonesia</p> <ul style="list-style-type: none"> <li>- <i>Phase of internationalization: Pre-entry</i></li> <li>- <i>Initiating Internationalization: Another Norwegian actor</i></li> </ul>
<b>FIRM 3</b>	<p><b>Company Profile</b></p> <p>Established: 1974</p> <p># of employees: 140</p> <p>Annual turnover: NOK 671 million (2015)</p> <p>Experience in Indonesia</p> <ul style="list-style-type: none"> <li>- <i>Phase of internationalization: Established</i></li> <li>- <i>Initiating Internationalization: Global reputation</i></li> </ul>

In the following subchapters, we will present each firm in extended detail, along with the interview procedure and comprehensive findings. The interviews are divided by headings with the topics of the conversation, similar to topics from the interview guide reflecting the questions asked.

## **6.2 Firm 1 (F1)**

This general information is based on a combination of publicly available information from F1's website and the conducted interview with their chief executive officer. F1 was founded in 1993, as a result of inventions and comprehensive R&D from a Norwegian independent research organization (SINTEF), in preceding years. The firm is specialized on a certain type of aquaculture systems, and has delivered these systems all over the world since its foundation. They deliver both water-based and land-based systems. Hence, they provide a one-step solution, together with training and management supervision. Every project F1 delivers is tailored made, and suited in regard to the specific project environment. F1 conduct all the required engineering for clients to implement the solution together with local contractors for construction and installation, and use a range of suppliers from various parts of the world to obtain equipment suitable to each project.

F1 was introduced to Indonesia in 2015, as a part of an exploration made on the potential of fish farming, which further resulted in a proposal on a delivery of technology. This delivery laid the foundation for further engagement in Indonesia, and was the reason to some of the perspectives gained on the scope of opportunities which exists in the market. Their current Chief Executive Officer (CEO) has been especially involved in the South East Asian and Indonesian markets. He worked within these markets previous to his engagement in F1, and gained insight in projects between Norway and Indonesia through the Norwegian Agency for Development Cooperation (NORAD), a directorate under the Norwegian Ministry of Foreign Affairs. CEO: *"I visited fishery facilities in places such as Lombok and Batang. This provided a general network and awareness about the culture"*.

F1 has delivered solutions to Indonesian aquaculture industry, but categorizes themselves as in an early phase of the internationalization towards the Indonesian market. They see great potential for future operation, but consider the current Indonesian market as immature. F1

recognize the potential as interesting on a long-term perspective, and are prepared to commit operations within a premature market.

### 6.2.1 Interview – F1

The interview with F1 was conducted by phone with their CEO on May 3<sup>rd</sup>, 2017.

#### *Entering Indonesia*

When comparing the business environment in Norway and Indonesia, F1 expresses:

*The laws and regulations are hard to grasp, and unpredictable, in Indonesia. We have, for instance, been in negotiations with Indonesian authorities, and it is occasionally difficult to understand how the mechanisms work. We are currently in a public tender bidding process, and it is different from Norway. There are few procedures in place and the bidding process is often settled preliminary, without being publicly available. This is unconventional compared to what we are used to.*

Currently, F1 perceives the market as premature, which might offer challenges.

*We are, however, prepared for this challenge. It is a demanding process. The schedule is interesting in a long-term perspective. Thus, it is alright for us to operate in a premature market, which demands more from us to understand.*

Their choice of entering Indonesia was based on one specific project they were able to pursue. This led to F1 identifying opportunities and potential for operations in the Indonesian aquaculture industry. They find it necessary to enter on a long-term basis and commit to the market.

*We have clear, long-term goals. An interim objective is to establish an office. It is important to be present and have a physical appearance in the market and country to enable business. We have a goal of entering on a long-term basis, and establish multiple operations in the country.*

Entering the Indonesian market is by F1 described as different compared to entering western markets.

*Yes, it is different from western countries. There is less competition in Indonesia, and if you play your cards right, the possible long-term potential on taking a large market*

*share is existent to a higher degree. In the long-run, we wish to become a leading supplier of technology towards the aquaculture industry in Indonesia.*

They see a clear potential to reach this goal due to minor competition, together with great conditions for fish farming operations.

F1 also elaborates on the burden of corruption. Although they have not directly experienced corruption in their own projects, their CEO has insight to the high probability of corruption in certain situations, also in projects they could be interested in, such as those coming from the government.

*You can see in certain governmental projects, that they are rigged for corruption. You do not get any chance to deliver a tender directly to the government, but only through middlemen of local companies. What is happening in the further processes we cannot know for sure, but there is potential for corruption.*

F1's CEO states that if they get suspicious, or directly experiences corruption, they have to leave the project. *"We communicate clearly to partners that we cannot get involved in any sort of corruption. But we do not have any way to control what happens between the middlemen, agents and the government"*.

#### *Networks and relationships*

F1's choice to enter Indonesia was initiated by an agent the CEO knew from prior operations. The agent reached out to F1 about a new project; *"The agent actually reached out to us. We had previously been in touch through a common assignment, and the agent later initiated contact to collaborate with us"*. The CEO, previous to joining F1, worked a while in Indonesia on aquaculture research, and gained insight to projects between Norway and Indonesia. F1's previous operations in other Asian markets, such as China, shows similarities to the Indonesian business culture.

*F1 also operates in China, and experiences a lot of the same aspects between China and other Asian countries towards how relations are formed. To build a personal relationship is first and foremost a prerequisite, and business development is possible only after such relationships are formed. Building such relationships are pleasant, but it demands a lot of time and resources to create a personal relation, which further converts into a business relation, and potential business opportunities.*

He experiences these relationships as beneficial.

Information is by F1 gathered from several origins. F1 gain insight on certain business opportunities in Indonesia, and specific projects they can partake in through this information. *“We use our agent to gather as much information, or opportunities, as possible. We also use the Norwegian Embassy and their commercial sector, Innovation Norway. These three has been important sources of information”*. While entering, F1 quickly contacted Innovation Norway to notify their arrival, and to gain support.

*Innovation Norway follows up and provide a lot of information in general about Indonesia, and specific details about potential projects. They also act as some kind of door opener. They have a credibility, and it displays status to have Innovation Norway and the Norwegian embassy on your side. This is clearly perceived as positive in Indonesia.*

F1’s CEO emphasizes the importance of having business relationship and networks. *“To have connections and to be present is especially important. Besides, the company can enjoy benefits from operating with lobbyism and such connections. It is essential to nurture and develop the established relationships”*. The CEO now experience F1 to have an insider-position in the market.

*I absolutely consider us having an insider-position. Especially towards the government with KKP (Ministry of Maritime Affairs and Fisheries) and the directory of fishery. Through this, we are able to acquire information earlier about the opportunities which might occur, and projects that can be of interest to us, together with information about current events.*

### *Decision-making*

The CEO of F1 confirms that they in fact have experienced some coincidences influencing their opportunities. *“I have personally worked in Indonesia in the past, and was responsible for investigation into certain areas. It is a bit coincidental that I had this experience from earlier. Serendipitous events have accordingly had a bit of influence”*. Since opportunities often appear as a consequence of personal relations, this has led to some of F1’s access to projects. *“The relations I enjoy might be the reason to why such serendipitous events have arisen through my appearance. Opportunities and information about opportunities becomes visible through relations within the country”*.

### **6.3 Firm 2 (F2)**

This general information is based on a combination of publicly available information from F2's website and the conducted interview with their sales manager. F2 was founded in 1994, and is a producer of aluminum vessels used in the fishery and aquaculture industry. They produce both workboats and high velocity boats. Their vessels are well established in the Norwegian aquaculture sector, and F2 cooperate closely with local actors; suppliers, as well as clients. Closeness with customers are of high importance to F2, as they collaborate together throughout the construction process to develop optimal and sufficient solutions.

Their interest towards Indonesia was provoked by an actor in their Norwegian aquaculture network. Currently, they have not partaken in any specific project, nor exported products to the Indonesian market. However, they find the market as promising and with great potential, yet regarding it as immature. Their Norwegian contact has opened the door for partaking in future deliveries, which further will be acted upon if there are opportunity for a legitimate project. F2's sales manager (SM), which is also a major shareholder and former general manager, has, together with their Norwegian contact, visited aquaculture facilities in Papua. Here, they also met with representatives from the Indonesian aquaculture industry. In the initial stage of delivery, F2 rely on their contact and business partner from Norway to handle the majority of operations, with F2 as a subcontractor.

#### **6.3.1 Interview – Firm 2**

The interview with F2 was conducted by phone with their SM on May 4<sup>th</sup>, 2017.

##### *Entering Indonesia*

The SM of F2 describes the business culture in Indonesia as vastly different compared to the Norwegian, and the aquaculture market as yet to mature.

*The market is a bit suspicious, and built on trust; there are minor trustfulness in early stages. I do not want make deals directly with the actors in the Indonesian market, as we still are a subcontractor for another Norwegian firm. Yet, I experience them trying to “get under my skin” and gain information about what kind of offer and prices we take on deliveries.*

Furthermore, he sees a great potential for future growth, but expresses a need for sustainable development.

*They are concerned about growing as quickly as possible, and want to upgrade the industry from smaller boats to something of a bigger scale. I have told them directly to do go step by step. You need to learn the elementary and gain knowledge about how the industry and technology operates. Even though they are skilled seamen, they need to learn this. I am still impressed on how the boys in the small village I visited handled a lot with little resources.*

### *Networks and relationships*

Interest towards Indonesia was spurred through another Norwegian firm in the aquaculture industry. F2's SM was contacted by the CEO of a firm which was already in the process of entering Indonesia.

*Their CEO was looking for a business partner, and thought of us as a supplier of the right size. We have bigger competitors, but he thought we were ideal as business partners, especially when entering Indonesia. These proposals were made in August/September 2016.*

Through this relation, F2 has managed to develop a network with Indonesian actors. *"It is thanks to our partner's CEO we have been able to gain a network position"*. Regarding the security towards entering the Indonesian market, the SM seems to be ambiguous. *"When discussing proposals, it seems like something is going to happen right away. But if we come back within a month, nothing has happened. This might be due to an uncertainty the Indonesian actors experience themselves"*. Unlike the other firms, F2 has yet to involve the Norwegian embassy or Innovation Norway.

*We have spoken with representatives in Innovation Norway, but do not know whether there is anything to gain until we have something specific. There are only minor expenses for now. We need to have something specific first; a deal on a vessel etc.*

Besides, the SM expresses a reliance on the relationship with their partner's CEO.

*They are open-minded and friendly people; our partner describes that you can walk right in and do business. He has opened many of the doors for us, and seems to possess*

*a lot of respect down there. It might be play from their side, but he has a firm grip down there, and has also delivered projects there, which you seem to earn a status from.*

### *Decision-making*

F2 believes there could be interesting opportunities in the market, but needs to adjust to another business environment.

*We build vessels which needs to handle winter storms and rough sea, there are completely different conditions down there. We need to adapt, but use a lot of the same technology as we use in Norway regardless. It could be beneficial to establish production on a shipyard in Indonesia. But firstly, we need to see results on the projects we take part in and rather discuss when 4-5 clients are ready.*

SM elaborates that Indonesian shipyards holds a technical level likewise to their own facilities, and when the aquaculture sector gains technological development it is going to boom. F2 wants to be a part of this development. SM also expresses a lack of certainty.

*There is more certainty in Norway, I believe. If you agree on a term, you will honor it. Indonesia is more fluctuating, and what they say themselves is possibly not 100 per cent right. Maybe this is due to context; that they do not completely know themselves, together with an uncertain political environment. They could be a bit on the fence in terms of decision making.*

Additionally, F2 has invited actors in the Indonesian market to visit F2's facilities in Norway. The SM has invited other firms in the Norwegian aquaculture industry to participate, and has gotten a positive response.

*It would be brilliant to get to show off our facilities, and discuss proposals for boats, service, etc. If they cover the travel expenses, I will cover the stay and put together a program where they can meet actors and learn practicalities on how you employ the technology, clean merds, run the facility and so on. So yes, we have invited them to our facilities. This is something we would otherwise not have done, but I believe it is crucial to achieve something good down there.*



## **6.4 Firm 3 (F3)**

This general information is based on a combination of publicly available information from F2's website and the conducted interview with their Asian sales manager. The foundation of F3 was based on the invention of plastic cages applied in fish farming in 1974. F3 have since supplied both cages and boats in the thousands towards the aquaculture industry. Their range of products consists of a number of components involved in the aquaculture cage farming solution, together with land based farming. F3 is present in all markets, with offices in several countries, spread out to all continents. Inventing many of today's aquaculture solutions, F3 has a globally established brand name.

According to F3's Asian Sales Manager (ASM), they have worked sporadically in Indonesia for some years. F3 has had customers in Indonesia, and other countries in the South East Asian region for about 10 years, and has delivered their own products, as well as service on deliveries, to Indonesia. He elaborates that actors in those markets recognizes their brand, and have contacted F3 to a higher degree than F3 has marketed themselves. Recently, their approach has changed, as F3 recognize Indonesia as the market with most growth potential in the global aquaculture industry, in upcoming years. The current Asian sales manager's experience in Indonesia is brief compared to the company as a whole, as he entered the position only three and a half years ago. From his experience, Norwegian governmental instruments, such as the Embassy and Innovation Norway serves as door-openers towards gaining key contacts and information, i.e. at seminars and conferences, together with information obtained from relational ties along the way.

### **6.4.1 Interview – Firm 3**

The interview with F3 was conducted by phone with their ASM on May 8<sup>th</sup>, 2017.

#### *Entering Indonesia*

The company has been present in the South East Asian region for about 10 years, and delivered merds, cages, soldering, and moorings. Today they put more attention towards Indonesia, as they see the potential for growth as rising. While F3 on previous occasions has been contacted by Indonesian actors to be involved in projects, they now more actively seek opportunities. This focus was initiated when the current ASM entered the position. He reviews the Indonesian

fishery and aquaculture industry to have long standing traditions, but with little experience towards the industrial mindset. He believes the industry needs the government and strong actors to facilitate for growth.

*It has been this way in Indonesia; no one dares to do anything, as long as the government does not pave the way. I believe this is about culture, and that there is an expectation towards the government to take the lead. It does not matter whether the government succeed, as long as the market actors see the necessary transformations.*

In addition, he thinks that they need to start out small scale, and gradually implement the industry with technological advancement and industrial solutions.

There is currently a governmental tender on aquaculture, which the ASM describes as illustrating the government taking actions. In his opinion, this could be a precursor to an industrial development in the Indonesian market. To be considered in a governmental-announced tender process, however, your firm is required to make the list of prequalified firms.

*This is not industry-specific. But any tender related to the government goes to firms that are on the prequalified list. Are you not on the list, you will not get any opportunity. You also need to send such a proposal through an Indonesian intermediary, or register as an Indonesian company yourself.*

ASM describes this process as challenging and time consuming.

#### *Networks and relationships*

According to ASM, it is pleasant to interact with Indonesian actors, as they are friendly and accommodating. Still, he experiences it as challenging to advance:

*It might be harder to build good relationships. It might be a result of our differing cultures. When you arrive as a Christian, you are treated differently than if you are from a Muslim country. But when you start talking, and they see that you have a real contribution to make, it gets easier.*

ASM elaborates that the business here is all about making relations. “As a newcomer, the business is very trust-based, and you need to create close relations with other actors. This goes both ways. The relations you build definitely leads to the access you get to opportunities”.

He also describes F3's relations to Innovation Norway.

*We find support in information gained from relations along the way, but also a bit from Innovation Norway. Innovation Norway and the Norwegian Embassy serves as door openers to us. They are our first contact in new markets. At conferences or seminars, they are present, and help out with gaining contacts, information, and not least guiding us towards decision-makers. This also helps as a basis for decisions.*

### *Decision-making*

F3 have long-term goals for Indonesia, as they believe projects and growth will develop over many years. ASM explains since the world's population is rapidly rising, there is a need for alternative sources of nutrition; fish being the most sustainable alternative. On the question to whether coincidences have been existent in their market entry, he describes:

*To succeed you need a good combination of hard work and coincidences. Being present as the market develops is crucial. Serendipities can lead to opportunities in Indonesia. For instance, in a conference to which we attended, someone in the room "clicked" on our presentation. They thought we were spot on matching their need, and made contact at our stand.*

ASM states that since the Indonesian aquaculture market is not as developed as western countries, there is a difference to how opportunities develop. Other markets with a longer industrial past works more determinedly, and knows which actors to approach. "They do not know international actors in the same way, and do not obtain the same information. There are many small suppliers, and only a few which operates on a somewhat industrial level".

To be able to access opportunities, ASM describes several processes.

*Since we are among the biggest supplier, we get many referrals. Still, we do not get anything for free, and need to prove our competence. You also need to knock on a few doors, especially by advertising yourself, which means going to seminars and conferences. In the first phase, you need to be present, and get referrals. For later phases, you can make direct contact, and exchange ideas on projects.*

ASM believes relations within networks to be valuable, as they grant you with free advertising, and information about opportunities. *“This is more valuable than advertising in magazines, etc.”*.

## **6.5 Innovation Norway (IN)**

Innovation Norway is the official governmental trade representative abroad, and its main mission it to support Norwegian *“companies in developing their competitive advantage and to enhance innovation”*. This includes developing and supporting Norwegian enterprises and industries with market entries, through local presence in 30 countries, collocated with many embassies and consulates (**Innovation Norway, 2017**).

### **6.5.1 Interview - The Commercial Section of the Norwegian Embassy**

The interview of The Commercial Section of the Norwegian Embassy, Innovation Norway, was conducted through Skype (voice) with the Counselor of the Commercial Section, 28th of April.

#### *Entering Indonesia*

The office in Jakarta, Indonesia, was opened in 2012, and now holds four full-time employees, of which three are Indonesian citizens. Their office’s focus lays in the sectors of energy and environment, oil and gas, maritime, seafood and aquaculture, where the employees have in-depth knowledge in one or more areas of opportunity. In detail, the IN office offers market-analysis and consultation, practical guidance regarding legal and trade rules for Indonesia, support regarding networking and relations, planning and execution of events and delegations together with, and with the aim of development through collaboration through governmental bodies in the host country.

One of the office’s key activities in 2016 is mentioned as a Danish / Norwegian business delegation to Indonesia, aiming for exchange of knowledge and ideas regarding innovative maritime solutions. A delegation of twenty Norwegian and Danish firms participated at the event together with Indonesian stakeholders, the Indonesian Minister of Maritime Affairs and Fisheries Susi Pudjiastuti and Minister of Transportation Budi Karya Sumadi together with the ambassadors of Norway and Denmark. Secondly, a larger seminar on sustainable aquaculture, with participants from Norway and Indonesia. And thirdly, several delegations between the two sea-nations have been carried out.

The Commercial Counselor commenced his work at the Embassy in July 2016. He holds international experience from 4 continents and multiple sectors, both through public, private and military bodies.

When asked to describe his experience of possible differences in business environment between Indonesia and western countries, the Counselor focuses on legal practices; *“laws and rules are functioning on demand for the actors paying the highest price, or in an international setting, if the outcome is positive for the Indonesian part”*. This may result, in his view, in a time-consuming establishment compared to London, or many other developed countries. Despite this aspect *“we are experiencing positive outcomes”*. The Counselor explains how their procedures towards entries and business opportunities are handled, as *“To avoid corruption, we are building strong and embedded relations to the Indonesian actors. Norwegian companies and Innovation Norway are hence tied up in more time-consuming processes, like building strong relations and networks”*. The Counselor further emphasizes that close relational ties, friendship, on many occasions trumps corruption in business settings, and that you need to be preferred on “a high” personal level to achieve this attribute.

The biggest challenge for Norwegian companies entering Indonesia are in his perspective The Negative Investment List of the Indonesian Government.

*It is tough to let go of ownership in that manner. Some companies choose to establish joint ventures with Indonesian actors and sadly, some of these choose to exit operations because of trust-issues with agents or Indonesian owners. I am also aware of usage of other methods, for example establishing holding companies in Singapore, to keep the ownership, though there is uncertainty around the legality of this practice.*

#### *Networks and relationships*

When asked how to establish relations in Indonesia, the Counselor states *“Face to face meetings are a must in establishing the necessary relation for future business interaction. It is also extremely important to be introduced, by a common relation, when engaging in networking”*. Information is in his eyes unreachable without the proper relations and its attributes; *“It is time consuming to establish and maintain. You will not be successful without the correct relations, and close relations”*.

The Counselor has experienced multiple firm entries in different sectors, and exemplifies his experience on opportunity creations as follows;

*Through high political contacts, Innovation Norway gets to know the need and demand for aquaculture technology. The Norwegian Embassy and IN are asked to advise and support the Indonesian government in establishing a fair and open procurement process. Norwegian companies in this sector delivers top-notch quality and are more likely than not to win the bid.*

He emphasizes IN's role in the development of such processes together with the Indonesian Government, to help on fighting corruption and friendship deals. *"The Norwegian embassy has education as an important element in its approach to Indonesian authorities"*. But this is in an early stage; *"Prequalification of local firms in procurement processes are the biggest problem. "The word" about Norwegian government supporting Indonesian politicians are not spread and hence not affecting the actual decision-making"*.

The Counselor further explains creation of business opportunities as follows; *"the relations and network generates entrance to events and arenas where business can be made. Norwegian companies give us regular feedback that participation at these events have generated business opportunities"*. He further gives concrete example of this kind of business creations during one of the earlier described events.

On questions regarding their sources of information in decision processes, the Norwegian diplomat states that he is getting information from high-level contacts, "bosses", on their plans and preferred actions. He further explains that *"information about what is in fact happening, are gathered from lower levels of the organizations, by the locals, which are unavailable to me"*. He further explains that as a result, event and opportunities:

*It might come across as serendipitous events by western actors. But Indonesians gets information fast, and it is hard to tell where it comes from. The locals working at the office gets information extremely fast. I have not completely understood the mechanics of this information flow, nor been able to take part in it.*

When asking further on this information, the Counselor explains;

*All the important information is sent in Bahasa Indonesia. Jakarta is a large city, but still with a word of mouth, village culture. Local networks play an extremely important*

*role in business. Physical presence, close contact trustworthiness in relations is crucial.*

*The locals at the office are very important in all our operations.*

On questions on the importance of insidership to such networks, the Counselor explains that it is crucial to conduct business, unless the product or service at offer is unique. He further deliberates; “*you need a reliable product or service of quality as a basis, but without the proper relations and network you will most likely fail. Relations and network are Alpha Omega to be able to establish a business and generate opportunities.*”

### *Decision-making*

When asked about his impression of why Norwegian firms chose Indonesia as a suitable location for business, he specifies three reasons: “*Firstly, many companies get information from, and are successful, mainly because of personal relations, family, work experience or professional network.*” These relations are explained as giving insight to culture and understanding of business behavior. “*Secondly, some companies look at figures; population of 250 million, five to six percent growth. Thirdly, some of the Norwegian companies are sector specific*”.

On the aquaculture sector, the Counselor explains a perceived interest from the Indonesian government, communicated at top level, as a demand for fish and aquaculture. “*They look to Norway as the leading expertise on the area. We, as the Norwegian government, forward this information to the relevant sectors in Norway.*”

Regarding goals and time perspective of Norwegian companies, the Counselor explains:

*Many of the firms entering Indonesia arrives with a single project at hand. Those who are contacting IN in Jakarta, have often put more thought into the internationalization process, compared to those who are entering closer markets i.e London. The threshold for an entry attempt towards Indonesia is higher than towards Europe.*

The Counselor’s experience of serendipitous events in opportunity creation are twofold, a combination of experience and luck is described as success factors. “*But I believe it is less serendipity in Indonesia, as the sectors are more traditional, and as most of the firms are experienced*”. He further brings up the example of a Norwegian e-commerce firm which might have experienced luck as an important factor to success. The Aquaculture sector are described otherwise; “*The ambassador’s relations to the president and the minister of fisheries might be*

*a coincidence, but then we would also underestimate his social and networking skills.”* Here referring to a meeting held between the two officials.

On an ending note, he describes “*Local networks play a crucial role. Physical presence and contact with individual people and having relationships of trust is decisive. Most importantly, you need to be present in Indonesia. Not in Norway or Singapore. It is important to be represented locally*”.



## Chapter 7 – Analysis and Discussion

The following chapter analyzes and discusses findings from chapter 6 based on theory and previous empirical findings (chapter 4) and contextual information (chapter 2 and 3). We present remarks of interest provided by the firms and Innovation Norway (IN) in regard to the propositions.

### 7.1 Proposition 1

*(P1): A firm's network position develops gradually throughout the internationalization process.*

In accordance with findings, the observed firms all recognize themselves in a network position. Their level of commitment and presence in the market are, however, of varying fashion. Firstly, their number of years of operating experience in the Indonesian market span from one year (F2), to ten years (F3). The network position describes on what level they have formed relationships with other actors, in line with the Uppsala model of Internationalization (Johanson & Vahlne, 2009; Vahlne & Johanson, 2013).

The number of years might be an indicator of how well established the network position is (Johanson & Vahlne, 2009), and can possibly relate to how many actors they are exposed to and have interacted with. There is a consensus among the observed firms on that being present in the Indonesian market and country is a necessity to connect with actors and establish relationships, which further is a driver for the development of business opportunities. *“It is important to be present and have a physical appearance in the market and country to enable business”* (F1). *“In the first phase, you need to be present, and get referrals. For later phases, you can make direct contact, and exchange ideas on projects”* (F3). These statements are also supporting previous empirical findings on that relationships and networks can be a benefit to initiate export and foreign market entry (Johanson & Vahlne, 1990; Whitelock, 2002; Zhou et al., 2007).

Secondly, the level of commitment and trust towards host-country actors can be observed by considering the firms' existing network. This might also, though not fundamentally, be a result of the number of years of experience in the Indonesian market. We can see indications towards that F1 and F3, compared with F2, having longer duration of activities in Indonesia, regarding themselves to have a somewhat mutual reliance with their Indonesian counterparts. F3 states, *“As a newcomer, the business is very trust-based, and you need to create close relations with*

*other actors. This goes both ways. The relations you build definitely leads to the access you get to opportunities*". This is perceived to a higher degree than F2, which explicitly elaborate the challenge of developing trustworthy relationships. Even though F1 has operated for two years only, their CEO has worked in the Indonesian market for a longer period. His personal network position might therefore be converted into the firm's network position; accelerating their internationalization process and possible benefits from market commitment.

Thirdly, the observed firms seem to seize different types of relations as drivers for their internationalization process and market position development. F1 has been introduced to the market by an agent from their CEO's existing network, whom they still employ to gain access to opportunities and information. On the other hand, F2 is mostly driven by another Norwegian actor, whom serves as their partner in their current state of operations towards Indonesia. F3 has, especially in the past, relied on their globally known brand, but also developed beneficial relational ties in the market throughout their activities: *"Since we are among the biggest supplier, we get many referrals. Still, we do not get anything for free, and need to prove our competence"*.

Still, we seek an understanding of what might be described as "levels of insidership". The Counselor of IN describes "bosses" as his main sources of information, interpreted as political leaders and private-business CEOs. He further states that *"information about what is in fact happening, are gathered from lower levels of the organizations, by the locals, which are unavailable to me"*. The Counselor of IN might be experiencing benefits from a "deeper" level of insidership, through the Indonesians employed at the office. An important observation is his notion: *"...what is in fact happening..."*. It implies a higher perceived truthfulness towards information gathered from local coworker's networks, compared to information gathered from the Counselor's network of "bosses". The Counselor express a slight understanding of the network of the local employees: *"The locals working at the office gets information extremely fast. I have not completely understood the mechanics of this information flow, nor been able to take part in it"*. It might be implied that the Counselor possesses both an insider and an outsider position, or that different levels of insidership are observed through his statements. Detailed analyses of the possible development towards insidership, and the structural aspects of networks including depth, density, strength of ties and diversity, should be further discussed in line with earlier suggestions (Kiss et al., 2012).

Lastly, the development of the observed firms' market position seems to be a result of the level of commitment and exploiting their existing network. F1 describes, *"To build a personal relationship is first and foremost a prerequisite, and business development is possible only after such relationships are formed"*. The CEO of F1 continues, *"Building such relationships are pleasant, but it demands a lot of time and resources to create a personal relation, which further converts into a business relation"*, which might be found rendering to theory by Blankenburg Holm et al. (2015) and Johanson and Vahlne (2009). F2 are in the process of making a commitment which can enhance their market position. They have been visiting Indonesian facilities, and invited Indonesian actors to visit their own facilities in Norway. From this, we might indicate a pattern on that F2 believes developing mutual knowledge with host-country actors can improve their market position. Towards maintaining a sustainable network position, F3 describes that even though their brand is renowned, they need be present in the market and prove their competence when interacting with Indonesian clients.

In summary, we see several aspects as drivers for developing the case firms' network position towards insidership, and that these aspects might grow gradually throughout the internationalization process; in line with P1 and the Uppsala model (Johanson & Vahlne, 2009). The drivers are besides seen to promote the access the firms are getting to business opportunities. These drivers include, but should not be considered as limited to: Relations to actors operating in the local market, time spent within the market, and presence, learning, commitment and trust-building towards local players. Learning and trust-building seem especially influential in the context of our findings, as the observed firms find it crucial to develop close relationships and mutual knowledge to pursue further opportunities and market positions. We believe that drivers for insidership should not be limited to the described aspects, as there might be other conditions we, as researcher, and the selected case firms, have not taken into account.

## **7.2 Proposition 2**

*(P2): Firms adjust their behavior during market entries to differing home- and host-country institutions.*

The interviewed firms, as well as IN, express experience of widely differing formal and informal rules of business games in Norway and Indonesia. Differing institutions might be experienced through market entries (Danis et al., 2011; Hedlund & Kverneland, 1985; Johanson

& Vahlne, 2009). How and why the case firms eventually adapt to experienced institutional differences will be discussed in the following paragraphs (van Hoorn & Maseland, 2016).

IN describes corruption as an experienced difference between home- and host-country institutions: *“laws and rules are functioning on demand for the actors paying the highest price, or in an international setting, if the outcome is positive for the Indonesian part”*. Indonesia is by multiple sources described with widespread corruption (Oberman et al., 2012; Transparency International, 2017). F1 elaborates that corruption is existing: *“You can see in certain governmental projects, that they are rigged for corruption”*. To handle this issue, they need to have a clear agenda: *“We communicate clearly to partners that we cannot get involved in any sort of corruption. But we do not have any way to control what happens between the middlemen, agents and the government”*. Both IN and F3 describe an impression of corruption and “friendship deals”, where trust-based relations are seen as a necessity when conducting business. *“To avoid corruption, we are building strong and embedded relations to the Indonesian actors”* (IN). This might be seen in perspective of substitution effects in markets with differing market institutions, described by Danis et al. (2011), and as an alternative to governmental enforcement of contracts (Shirley, 2005).

The Counselor of IN describes the embassy’s goal towards development of host country institutions as, *“The Norwegian embassy has education as an important element in its approach to Indonesian authorities”*. Their initiative to support Indonesian government in establishing an aquaculture tender process, has not gone by without problems: *“Prequalification of local firms in procurement processes are the biggest problem. “The word” about Norwegian government supporting Indonesian politicians are not spread and hence not affecting the actual decision-making”*. Both F1 and F3 has experienced tender-processes, and as F1 states, *“...it is different from Norway. There are few procedures in place and the bidding process is often settled preliminary without being publicly available.”* Hence differences in formal institutional is overserved.

F2 explains a differing attitude towards compliance with agreements, as *“Indonesia is more fluctuating, and what they say themselves is possibly not 100 per cent right. Maybe this is due to context; that they do not completely know themselves, together with an uncertain political environment”*. Laws and regulations are further described as differing from developed economies, both through the mentioned corruption, as an informal regulation or institution, and

through the negative investment list put to action by the Indonesian government. These conditions might be seen in line with views that cutting constraints such as red tape, and facilitation for accelerated foreign direct investment is needed in emerging economies (Estrin & Prevezer, 2010; Lagarde, 2016). IN sees this formal institution, the negative investment list, as the most pressing challenge against doing business in the Republic. As the Counselor states, *“It is tough to let go of ownership in that manner”*, regarding regulations requiring Indonesian ownership in ventures established in the host country.

F2 expresses an uncertainty founded in unknown motives of the Indonesian actors, exemplified through a bidding process, in which the Indonesian actors are seeking information on prices of a smaller part of larger delivery, outside planned negotiations: *“I experience them trying to “get under my skin” and gain information about what kind of offer and prices we take on deliveries”*. From the perspective of the Norwegian actors, the strict anti-corruption laws of the Norwegian government might affect their choices of affiliations and possible business contracts. The motives of the Indonesian actors are mentioned as suspicious by F2. A change of behavior, founded on uncertainty regarding the Indonesian actor’s motives, might hence be suggested based on F2s statements. What could be described as proclaimed religious stereotypes are further mentioned by F3, creating difficulties when interacting in business:

*When you arrive as a Christian, you are treated differently than if you are from a Muslim country (...) But when you start talking, and they see that you have a real contribution to make, it gets easier.*

These difficulties seem to create uncertainty, and an adjustment of behavior and interactions might be asserted. Experienced uncertainty might be enlightening a perceived need to establish a cautious and flexible strategy, following prior empirical findings (Santangelo & Meyer, 2011).

F2’s general reaction is to invite the Indonesian actors to Norway, with an aim of giving them experience, knowledge and understanding of the differences in technological development between the two country markets, together with a possible enhancement in relations: *“It would be brilliant to get to show off our facilities, and discuss proposals for boats, service, etc.”*. F2 characterizes this as unfamiliar behavior compared to how the firm would have operated in other markets, and elaborates on the level of development and knowledge in the Indonesian market as the trigger for such behavior. This can be seen as reflecting existing literature,

together with the reported lack of understanding the technology (Eriksson et al., 1997; Spire Research and Consulting, 2014). The SM of F2 states: “...they can meet actors and learn practicalities on how you employ the technology, clean merds, run the facility and so on” and furthermore “You need to learn the elementary and gain knowledge about how the industry and technology operates”.

Implicitly from the former paragraph, there is found a need to facilitate for transfer of knowledge, which in the literature is a process of relationship development (Johanson & Vahlne, 2009). The importance of relationships in the process of engaging in business activities, are emphasized as vital by all firms, and as differing from their home-country experiences (Vahlne & Ivarsson, 2014). This is clarified by IN as, “Relations and network are Alpha Omega to be able to establish a business and generate opportunities”. The time-consuming process of building and maintaining relationships is seen as pleasant by all firms, but also highlighted as a costly process. This might be seen in regard to theory on transaction costs, as costs related to transactions in Indonesia, are perceived as higher than those of the home country (Menard and Shirley 2005).

The observed firms have experienced differing institutions, on what could be analyzed as multiple institutional levels (Williamson, 2000). Corruption, complex laws and regulations, differing religion and beliefs, and attitudes of the local actors are analyzed as causes for uncertainty, further fostering adjustments in operations and behavior of the Norwegian firms. Overall, a higher perceived degree of trust-building and close relations may be seen as the general adjustment to institutional distance or differing institutional profile (van Hoorn & Maseland, 2016). The use of a government entity to enhance network creation towards the foreign market is also observed, though not specifically included in internationalization theories covered by this thesis.

### **7.3 Proposition 3**

*(P3): The network position affects to which degree firms are exposed to information and business opportunities.*

As mentioned in the discussion of P1, all the firms regard themselves to have an insider network position. Does this imply that they experience what former research (Blankenburg Holm et al., 2015; Johanson & Vahlne, 2009) describes as insidership? It is essential to remember that

although all the observed firms experience some sort of network position, each position is on a different level and generates various benefits. The Counselor of Innovation Norway claims that, “...*You will not be successful without the correct relations, and close relations*”. The succeeding questions then are: How is certain relationship contributing to developing insidership, and how does insidership generate special types of opportunities to each firm?

From our findings, we can identify 5 different types of relationships which the observed firms use to obtain insidership: actors in the host-country industry and actors in the home-country industry; serves both in partnerships and as clients, private intermediary actors; i.e. agents, host-country and home-country governmental entities; i.e. Indonesian ministry of fisheries and aquaculture, the Norwegian embassy, and Innovation Norway. F1 states, “*We use our agent to gather as much information, or opportunities, as possible*”. F2 has on the other side discovered opportunities through cooperation with their Norwegian partner: “*He has opened many of the doors for us, and seems to possess a lot of respect down there*”. These observations could suggest that firms can substitute for lack of local network through a partner with insidership, moreover growing their own insidership through operations in the host-country (Johanson & Vahlne, 2009). In the case of F3, their insidership has potentially developed through a decade of activities in the market. The ASM of F3 highlight relations as developing through ongoing engagement, which provides opportunities and convenient orientation. The above-mentioned observations might confirm aspects of the path-dependency process, as development of opportunities are relying on earlier events (Blankenburg Holm et al., 2015; Schreyögg & Sydow, 2011; Schreyögg et al., 2011).

From the observed cases, it seems that F1 and F3 have more of an independent insider-position, while F2 are for the moment more contingent to their partner to enable insidership. F1 and F3 can through insidership co-create new projects together with Indonesian actors, due to a presence and perceived trust in the market. F1 clarifies; “*It is essential to nurture and develop the established relationships*” and continuous, “*it demands a lot of time and resources to create a personal relation, which further converts into a business relation, and potential business opportunities.*” On the other hand, F2 has only discovered an opportunity a bit coincidentally, initiated by another Norwegian actor, while F2 being an outsider to the local network. F2 emphasizes; “*It is thanks to our partner’s CEO we have been able to gain a network position*”. These observations provide support to assumptions on that insidership leads to opportunity creation, while outsidership is more likely to spur opportunity discovery (Blankenburg Holm et

al., 2015; Mainela et al., 2014). It can also be seen in the light of earlier descriptive cases on success factors in internationalization of small software firms (N. Coviello & Munro, 1997; N. E. Coviello & Munro, 1995).

The process of obtaining a sustainable market position or insidership does not go without complications. F2 especially has conveyed a concern on insecurity towards i.e. contract enforcement, possibly due to their own limited insidership. F3 experience difficulties in building relationships, and states business to be very trust-based as a newcomer, reflecting upon how information and opportunities are less reliable in early stages, as described in the theoretical chapter (Blankenburg Holm et al., 2015). In the end, obtaining insidership seems invaluable, as F1 describes: *“Building relationships is more decisive here than what we are used to in the West. It is not always the best product or the solutions which win through, but the best relation; those with the best relation gets the project”*.

The benefits from insidership, such as enhanced access to opportunities and information, are evident through some of our observations, for instance considering F1’s position towards the Indonesian Ministry of Maritime Affairs and Fisheries: *“Through this, we are able to acquire information earlier about the opportunities which might occur, and projects that can be of interest to us, together with information about current events”*. F3 reinforces the experience of F1 on that creation of an insider position develops over time: *“The relations you build definitely leads to the access you get to opportunities”*. Additionally, insidership allows firms to engage in exchanges of ideas and cooperatively develop new business opportunities with local players, as discussed in P1.

All firms have experienced IN as a facilitator for information and opportunities. F3 states *“They have a credibility, and it displays status to have Innovation Norway and the Norwegian embassy on your side. This is clearly perceived as positive in Indonesia.”* As a government entity, IN is not directly covered by the theories of internationalization discussed in this thesis. On the other hand, their operations could be considered as an external resource to the case firms (Johanson & Vahlne, 2009). When described as a “door-opener”, interpreted as a third part granting access to contacts or opportunities, by F1 and F3, the importance of IN’s role should be further discussed. F3 emphasize: *“They are our first contact in new markets. At conferences or seminars, they are present, and help out with gaining contacts, information, and not least*



*guiding us towards decision-makers. This also helps as a basis for decisions*". The Counselor of IN describes the process of granting opportunities to Norwegian companies as a result of networks: *"Through high political contacts, Innovation Norway gets to know the need and demand for aquaculture technology"*. From this perspective, it could be argued that IN possesses an important network position, in regard to opportunities generated to Norwegian companies: *"the relations and network generates entrance to events and arenas where business can be made. Norwegian companies give us regular feedback that participation at these events have generated business opportunities"*.

From our observations, the case firms have been introduced to the market in different ways, and furthermore developed unique types of networks, as none of them are entirely identical to the others. Early stages of internationalization are experienced as less reliable, and dependent on opportunity discovery, while the case firms are noticed to enact in opportunity creation in later stages, as they are strengthening the network position and insidership. Development of opportunities within the network can be seen to follow path-dependence, since ongoing engagement and effects of past events, in one of the cases, are experienced to influence current opportunities and orientation. Additionally, the case firms have experienced support from Innovation Norway as valuable, and influencing local player's perceived credibility of the firms. Innovation Norway is viewed as a "door-opener" to establish a network position, and guides the observed firms to gain contacts, information and access to decision-makers. Innovation Norway states themselves that their contribution has generated business opportunities for Norwegian firms.

#### **7.4 Proposition 4**

*(P4): Effectual decision making is used in markets with institutional uncertainty*

Perceived uncertainty is observed as existent in the cases of Norwegian aquaculture firms entering Indonesia, as all the sample firms interpret the institutional environment in Norway and Indonesia as differing. Consensus is also reached on the technological underdevelopment of the local aquaculture industry: *"...it is alright for us to operate in a premature market, which demands more from us to understand"* (F1). Concerning the formal institutions, F1 states: *"The laws and regulations is hard to grasp, and are unpredictable, in Indonesia"*. In theory, the uncertain business environment should facilitate so that market-entering firms interacts with

effectual logic (Galkina & Chetty, 2015; Kalinic et al., 2014; Laine & Galkina, 2016). This assumption will be further examined in the following paragraphs.

All cases express long-term perspectives on operations in the Indonesian aquaculture market, however only F1 specifies an explicit goal:

*An interim objective is to establish an office. It is important to be present and have a physical appearance in the market and country to enable business. We have a goal of entering on a long-term basis, and establish multiple operations in the country.*

They prioritize being present in the market, without mentioning any particular time schedule or detailed plan of execution. This might underscore a focus on developing quantity of potential outcomes, rather than committing to a solitary outcome, described as the “lemonade” principle in effectuation theory (Sarasvathy, 2008). F3 is seen to have a similar approach, and find themselves required to be in the market: *“Being present as the market develops is crucial. Serendipities can lead to opportunities in Indonesia”*. These observations substantiate an obligation to be physically present in the market as it develops. However, the degree of experienced uncertainty might as well be a result of a premature local industry, as of differing institutional environment (Oberman et al., 2012; Spire Research and Consulting, 2014). From the perspective of effectuation theories, the idea of being present as the market develops, as a driver for development, might be considered as following the “pilot-in-the-plan” principle (Sarasvathy et al., 2014). As F1 concludes, *“In the long-run, we wish to become a leading supplier of technology towards the aquaculture industry in Indonesia”*. Whether F1 sees themselves as piloting the technological development of Indonesian aquaculture, is not found evident in the observed case.

F2, with less experience in the market, might be obligated to make an experiential approach, recognizing that they must include Indonesian actors in their network by inviting them to their facilities: *“This is something we would otherwise not have done, but I believe it is crucial to achieve something good down there”*. Considering F2 experiencing small costs until feasible projects are developed, *“There are only minor expenses for now. We need to have something specific first; a deal on a vessel etc.”*, lines can be drawn between F2’s approach and the principle of affordable loss from effectuation theory (Sarasvathy, 2001). By taking the minor costs involved in interacting with Indonesian actors, there is potential for developing future projects and business operations.

From our observations, F1 and F2 has been involved in the Indonesian aquaculture industry through opportunities which was not anticipated. Their presence has been triggered by other actors proposing certain opportunities, on which they chose to act, and F1 states that they did not initiate this activity, but; *“The agent actually reached out to us. We had previously been in touch through a common assignment, and the agent later initiated contact to collaborate with us”*. F1 explains that acting on this opportunity further lead to new opportunity discovery and grasp of the potential in a new market: *“(…) such serendipitous events have arisen through my appearance. Opportunities and information about opportunities becomes visible through relations within the country”*. This attitude of openness towards cooperation might be seen as fulfillment of the “crazy quilt” principle of Sarasvathy (2001, 2008). Other theories also explain the connection between opportunities and network. As F1 further elaborates *“I have personally worked in Indonesia in the past, and was responsible for investigation into certain areas. It is a bit coincidental that I had this experience from earlier. Serendipitous events have accordingly had a bit of influence”*. In line with earlier academic literature findings; the opportunities you seamlessly discover through your network position, is a product of prior exploited opportunities (Blankenburg Holm et al., 2015).

F3 experience that there is a combination of hard work and serendipities which results in business development, which also characterizes F3’s market entry. They rely on that their presence in the market eventually offers results: *“Being present as the market develops is crucial (...) For instance, in a conference to which we attended, someone in the room “clicked” on our presentation. They thought we were spot on matching their need, and made contact at our stand”*. This attitude towards the creation of opportunities through resources at hand could be seen as corresponding to the “bird-in-hand” principle of effectuation theories (Sarasvathy, 2001, 2008; Sarasvathy et al., 2014) Innovation Norway in Jakarta further sense that networking arenas allows firms to discover opportunities: *“the relations and network generates entrance to events and arenas where business can be made. Norwegian companies give us regular feedback that participation at these events have generated business opportunities”*. To summarize, the Asian Sales Manager of F3 stated: *“When you have a relationship in a network it provides marketing for you, and grant information about opportunities (...) You yourself are partaking in creating this network by being present, by speaking with people and being present”*.

All observed firms regard the Indonesian aquaculture industry to be somewhat immature, yet persistently express that being present in the market is absolutely necessary. As Innovation Norway points out, “*Local networks play a crucial role. Physical presence and contact with individual people and having relationships of trust is decisive. Most importantly, you need to be present in Indonesia. Not in Norway or Singapore. It is important to be represented locally*”, consistent with prior research, where “*the best way to learn about a market, is to be present and active and learn by ongoing activities*” (Frishammar & Andersson, 2009). From the case studies, we find indications that the observed firms at least partially follow the principles of effectuation (Sarasvathy, 2001, 2008; Sarasvathy et al., 2014), and F1 and F3 regard being present in the market as an overarching priority. For example, F3 explicitly underscores that ongoing activities provides information and knowledge, and their ASM states: “*To succeed you need a good combination of hard work and coincidences. Being present as the market develops is crucial*”. On this note, it seems that the observed firms find it as absolutely necessary to actively participate in the local, Indonesian market, to be able to succeed under the uncertain conditions.

## Chapter 8: Summing-Up and Conclusion

In this thesis, we have observed how firms internationalize from an advanced economy to an emerging economy. An assumption we make, but also seek answers to, is whether market-entering companies experience uncertainty during the internationalization process, due to differing institutional conditions in host- and home-market. Moreover, what kind of conditions that trigger perceived uncertainty, and how firms respond and behave to overcome the liability of outsidership. From our cases, we identify Norwegian firms entering the Indonesian aquaculture market to struggle with different types of concerns; ownership related regulations, corruption, religion, governmental restraints, and motives of local actors being unclear, possibly because of an unpredictable political environment. We find that the case firms adjust their behavior, stemming from their concerns and perceived uncertainty, by prioritizing development of close relations and building trust towards actors operating in the local industry, which furthermore can enable them a strong market-position and insidership. One case firm states: *“Building relationships is more decisive here than what we are used to in the West. It is not always the best product or the solutions which win through, but the best relation”*. Supplementary findings support this statement, and we see indication of that firms enjoy information and business opportunities of higher quality and quantity as they develop a strong network position.

The gradual development of firms' network position in the foreign market is explored, along with how the network position serves as a facilitator to access crucial information and feasible business opportunities. Firstly, the findings show that there are several aspects driving the case firms' internationalization process, such as establishing mutual knowledge and trust with local players. Increased commitment and presence in the market, and exploiting opportunities emerging from the firms' existing network, develops their network position and insidership. This is experienced as a time- and resource-consuming, yet necessary process. Secondly, uncertainties perceived through the institutional context seems to force the case firms to adjust their approach compared to how they would have acted towards a closer institutional environment. Taking clear distance from corruption is identified as obligatory in regard to Norwegian laws, and otherwise building close and trusted relationships, rather than relying solely on other competitive advantages, is found as necessary to cope with elements of institutional differences.

Thirdly, the case firms are identified to initiate market entry based on varying forms of relationships towards the local industry, and further develops unique sets of networks. This process is contingent to context, and has path-dependency; former events shapes the future access to business opportunities. Outsidership tend to be reliant on opportunity discovery, while insidership seem to increase the chances of opportunity creation; enabling firms to develop new business operations through engagement with local actors. Lastly, the observed firms are found to, at least to some degree, follow the principles of effectuation in decision-making; applying means at hand to potentially develop opportunities, utilizing contingencies rather than relying on a solitary outcome, and basing commitment of resources according to what they can afford to lose instead of analyzing expected return. These are all discussed findings which support the case firm's effectual logic, moreover emphasizing an importance of adapting flexible strategies in a market with a somewhat unpredictable future. In the end, it seems like the internationalization process of these Norwegian firms towards Indonesia are highly dependent on building trustworthy relationships and networks to trump uncertain conditions, and establishing an ability to act on unforeseen opportunities.

In line with the conclusive statements, we suggest that by building close ties with host-country actors and utilizing emerging opportunities, firms can overcome the liability of outsidership; an important step to attain a sustainable international venture in the context of high institutional uncertainty. As for this specific context, and potentially other scenarios with Norway as home-country, we propose that including Innovation Norway in the process of internationalization can accelerate the development of insidership and sustainable business activities abroad.

Systematic combining relies on the process of going "back and forth". To what degree the researchers of this theses has managed to combine data and theory in a sufficient manner throughout the research process is difficult to measure. Judging by their lack of practical experience from research projects of this size, it is likely that the general methodological process could have been conducted in a more optimal manner. The degree of analytic inference, defined as a satisfactory match between reality and theoretical construct, can also be criticized. Parsimony has further been an important factor in the conduction of the thesis. Still, critique might be raised towards the number of theories at scope, making an impact on the amount of attention raised towards each. A lack of parsimony also impacts the logic coherence in arguments, analyses, and in the thesis as a whole.

The researchers have strived towards authenticity in the presentation of interviews, and further in the analysis of the phenomena in its contexts. Despite these efforts, lack of experience, possible biases, limited time and restricted resources influences the authenticity of the thesis. In spite of mentioned limitations, the research project has generated a degree of insight, which are found sufficient to give recommendations towards further research on particular topics.

Innovation Norway, as a governmental entity that promotes growth of Norwegian enterprises, has to our knowledge not been explored in academic literature in the context of internationalization to emerging economies. Their ability to generate information, opportunities and development, towards both host- and home-country actors, are found present through observations discussed in this thesis. The role of Innovation Norway, and similar governmental bodies towards internationalization of firms, could be a fruitful topic for further research

The topic of insidership, and in particular the possible levels of networks, generating information and opportunities of differing nature, is recommended for future studies. Insidership is discussed as a necessity to discover and create opportunities. Besides, there are no clear criteria to determine on which point a firm attains insidership. Understanding the uniqueness of relationships, and to which degree different relations and network positions generates different opportunities, could be of great importance to better understand the ingredients behind successful internationalization of firms. Comparative studies including differing institutional contexts are recommended, as the role of relations are found to be perceived differently in the two institutional contexts of this thesis.

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## Appendix

### **Reflective Note**

Through networks and relations, opportunities can emerge. Interaction between human beings has since the beginning of time been our main advantage to other species. Today, relationships are developing to digital platforms, in a global scope and with a pace which is difficult to grasp. Still, certain areas of the globe have not reached this level of development. Companies' ability to internationalize, and bring prosperity and innovation to undeveloped parts of the world, is important for a common enhancement of wealth. As this thesis describes to some extent, networks, and their function towards a decrease in uncertainty caused by differing institutions, is in this important to further develop international cooperation and knowledge sharing across borders.

Regardless of country of origin, the success of firms is vastly shaped by its network. In domestic operations, as well as international. Networks and interactions between people are some of the basic functions in society, and economics. Human interaction is a driver for new technology, and cooperation. Moreover, successful collaboration relies on building relationships and networks that leads to trust. A primary reason to why people in the first place choose to collaborate, is to innovate. Bright ideas which revolutionize the world we live in, are rarely a result of one single individual struggling to solve a puzzle. It is a melting pot of ideas coming together to form new ways of living harder, better, faster, stronger.

The specific industry investigated in the thesis, aquaculture, is anticipated to rapidly grow in upcoming years. Global challenges of overpopulation, starvation and nutrition deficiency can find realizable solutions through aquaculture development. A few advanced countries, such as Norway and Canada, are market-leaders regarding technology, research and development. Enabling knowledge transfer to nutritional challenged countries, and supporting local development of fish farming, could certainly take steps towards solving one of the world's biggest challenges of tomorrow. Accordingly, research uncovering sustainable aquaculture growth can benefit countries world-wide. Accountability, in the creation of our future, depends upon research and development towards these goals.

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*01.06.2017*

In a globally connected world, relations and networks are accounting for development and prosperity between major parts of the world. National borders have in the past decades faded, but recent political events have drawn the lines, once again, in several parts of the world. Brexit, fear of terror and political unrest in the western world are only some of the aspects which seem to shape our society in 2017. There is no clear answer to how we can remain a united species. But something needs to be done to decrease prejudice towards other cultures, religion and races. Networking and creating strong social ties between human beings, which is brought up in this thesis, might be a step towards this. Through such, uncertainty might be reduced as trust are enhanced among citizens across the world. Networks and the development of such, have the potential of playing a major role in the further development of internationalization.

Growing up in the 21<sup>st</sup> century is, you need to be able to adapt to a constantly surrounding world. The endless growth of technology and new innovations constantly change the way we live. Unfortunately, the environment on planet earth has suffered from the overusing of resources. Accountability towards sustainable and ethical usage of resources are hence important. In today's world, only a minority can reap from the total wealth created. Lack of sufficient food sources, especially with an increasing population, are one of the major problems faced by future generations. Aquaculture, are one of the more sustainable solutions for food production compared to output versus input. Innovation, globalization and a spread of knowledge and technology on areas of sustainable aquaculture production could hence be a problem-solver for one of the greatest challenges of the future.

Internationalization is happening on many levels. In the business-world internationalization it is supporting transfer of knowledge, skills, goods and services. A potential challenge arising through internationalization is that well-established countries can take advantage of poor ones. Through this thesis, we have been seeking to address the elements of mutual learning and commitment, and that this is a benefit for all parties involved. To decrease the lines of poverty and nationalism, more people need to be educated on such issues, to the advantage of all.

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*01.06.2017*