FACTORS IMPACTING THE CHOICE OF ENTRY MODES FOR BUSINESSES INTERNATIONALIZING TO EMERGING MARKETS

CASE STUDY OF BECKMANN INTERNATIONALIZING TO CHINA AND SOUTH KOREA

ALEKSANDER MØLLER-HANSEN
JOSTEIN SUNDE BJØRNSEN

SUPERVISOR
Trond Randøy

University of Agder, [2020]
Faculty of [School of Business and Law]

PREFACE

Foremost, we would like to start by showing our most profound appreciation for the contributions that Beckmann and their CEO Ole Falk Hansen has made by participating as the case study for this thesis, as well as thank for the participation of Innovation Norway and Kibos CO Ltd. We are amazed by the friendliness and optimism shown by the participating companies in these challenging times as a result of COVID-19 affecting companies and economies worldwide.

We want to show our appreciation for the University of Agder, for offering a Master of Science with the opportunity to specialize in subjects regarding international management, which has heavily influenced the deep interest in this thesis topic.

Lastly, we would also like to show our deepest appreciation and give a very special thanks to our supervisor, Trond Randøy, who has shown great support and guided us through completing this thesis during the restrictions offered by COVID-19. We want to thank Randøy for challenging us and helping us achieve and perform way above our expectations.

Kristiansand,14.06.2020

Aleksander Møller-Hansen & Jostein Sunde Bjørnsen

ABSTRACT

The overall topic of this master thesis is to create new insight into factors that impact the entry mode choices of internationalizing firms, focusing on the choices and experiences made by an SME in emerging markets. The title and research problem of this thesis are, therefore: *Factors impacting the choice of entry modes for businesses internationalizing to emerging markets*.

The authors found that the entry mode topic is a well-researched area. However, there seemed to be a lack of studies researching the thought process and outcomes of the entry mode choices made by SMEs in emerging markets. The goal of this thesis has therefore been to add findings and new insight to this topic, as well as offer findings that could be of interest to SMEs that are considering internationalizing to emerging markets or to those SMEs who are already established in such markets.

This thesis was based on a qualitative research method, with a single case study of Beckmann AS's endeavors in the Chinese and South Korean markets. Data collected for this thesis originated from interviews with the CEO of Beckmann AS, the firm's local partner in South Korea, and Innovation Norway in South Korea.

The findings that were continuous throughout the thesis showed that having local partners with sufficient market and cultural knowledge could overcome most barriers and even tap into the potential benefits offered by informal institutions in the market. Findings were also somewhat contradicting existing research and theories concerning the aspects of what level of control should be chosen for entry modes in uncertain and risky markets. The firm size and resource availability also seemed to impact the choice of entry mode, resource commitment, and level of control in the emerging markets. Additionally, findings also seemed to indicate that it is crucial for SMEs to acknowledge and assess the risks associated with cultural differences and informal institutions. The firm has to evaluate the potential risks and benefits of transferring these to a local partner.

Drawing to a close, the main factors impacting the choice of entry modes for businesses internationalizing to emerging markets were based on the *cultural distance in the emerging market*, *knowledge and international experience*, *resource availability*, and *business network relationships*.

Table of content

1. INTRODUCTION

As the topic for this master thesis revolves around the importance of choosing the right entry modes for internationalizing firms in emerging markets, it is crucial to acknowledge that markets and economies have never been more dynamic nor more cross-cultural, forcing domestic firms to internationalize to keep up with the competition (Kotler, 2003).
In 2011, Hollensen argued that this trend has been in constant growth over the last decades, which results in an opportunity that provides businesses with new and growing markets with the potential of increased profits, as well as increased competitiveness that results in access to new manufacturers, technology and product developments (Hollensen, 2011). However, recent research indicates that the previous rise in capital flows and strong growth prospects in emerging markets tanked as a result of the global financial crisis, and further led to high volatility in these markets (Hannan, 2017). Furthermore, a 2019 report from the IMF forecasts a stabilized growth rate just below 5% in emerging markets for 2020 and the years to come (IMF, 2019). The report further states that the emerging markets of Asia will continue to remain as favorable markets regarding stabilized growth, even though China has experienced a decrease in import and spending on especially durable consumer goods because of the US tariff actions which have found to have impacted trading relations to Asian and European partners (IMF, 2019). These previous forecasts are, however, no longer reliable, as the global pandemic of COVID-19 has struck the world and profoundly affected the global economy. In a report from April 2020, IMF addresses the global economic situation and the expected effects that the virus will have on the global economy. The report states that IMF expects the global economy to experience a recession surpassing the one seen during the last financial crisis over ten years ago, with a projected 3% decrease in the global economy for the year of 2020 compared to the projected growth of 3,3% in the 2019 report (IMF, 2020). The 2020 IMF report further states that emerging markets are projected to suffer from a 1% decline as opposed to the earlier projected growth of just below 5%, and additionally states that worse growth outcomes are likely to occur, which will have severe impacts on emerging markets (IMF, 2020). The recent reports from the IMF, therefore, indicates that we in the time to come will see new risk and uncertainties emerge in foreign markets, and additionally the increased relevancy of earlier literature presented by Hollensen and Kolter, who argued that companies who choose to enter new international markets, are constantly faced with various degrees of

risk (Kolter, 2003)(Hollensen, 2011), therefore, choosing the right entry modes is crucial in order to face these new challenges head-on (Nolan & Zhang, 2003) and reduce the level of risk by choosing the right entry mode with the appropriate level of control as proposed by Anderson and Gatignon in their 1986 publication (Anderson & Gatignon, 1986).

Furthermore, Caves (1981) suggests that partnering up with local companies offer a range of dangers for the internationalizing firm, as the local partner will not have much to lose from degrading the entrants brand, which is why high control is needed to overcome these dangers. However, authors like Helleiner and Lavergne (1979) and Lall (1978) propose that low-control entry modes can market valuable brands efficiently, and therefore contradicting the arguments of Caves (1981) as well as Anderson and Gatignon (1986). In their 1986 publication, Anderson and Gatignon assume that the business entrants in question can make a free choice of entry modes as well as have the sufficient funds and goal of entering a market with a volume of business that is sufficient to carry out the high-control entry modes, which is also the case for a great deal of recent research. For this reason, this thesis aspires to investigate and create new insight in the challenges that Norwegian SMEs with limited resources face when entering emerging markets, with the intentions that other Norwegian firms who wish to enter, or are already established in, emerging markets will find the results of this thesis of interest and apply it in their approach.

As Kolter and Hollensen have argued, it is essential to understand the wide range of risks and challenges that firms will face when seeking out to enter foreign emerging markets (Kolter, 2003) (Hollensen, 2011). For the most parts, these risks and challenges are highly related to external factors, such as tax and trade barriers, cases of corruption, unstable governments, bureaucratic red tape and technological/infrastructural differences (Kolter, 2003) (Hollensen, 2011), as well as the size and growth of the market (Alon & Bunai, 2000). Internal factors also play a significant role in the possible risks that a company will face in seeking out to enter foreign markets, especially regarding internal uncertainty (Anderson & Gatignon, 1986). Anderson and Gatignon proposed that entrants to new international settings are unlikely to know how to deal with and overcome high levels of uncertainty. In these cases, there is a need for high levels of control (Anderson & Gatignon, 1986). They also add those entry modes that offer a higher rate and degree of control rise in efficiency along with the rising value of a brand. For a firm to face and overcome these risks and challenges that they face when entering new foreign emerging markets and eminently deciding the firm's success or failure, choosing the right entry mode can be considered to be one of the most important and crucial strategic decisions, along with adapting to the specific markets' business cultural conditions as well as institutions, regulations and social environment (Tian, 2007).

Authors like Bruneel and De Cock (2016) argue that while entry mode research has been known to focus on MNEs mainly, there has been a notable increase in studies focusing on SME entry mode choices during recent years (Bruneel & De Cock, 2016). Bruneel and De Cock further argue that even though there has been an increase in SME studies, there is a lack in studies that offers a comprehensive insight into the entry mode choices, processes, and outcomes of SMEs (Bruneel & De Cock, 2016), an insight that this thesis aims at adding to. This master thesis will be heavily focused on a qualitative research method, with the basis in a case study of Beckmann's endeavors in the emerging markets of South Korea and China. The choice of method fell on qualitative research because the qualitative research method is designed to create a thorough understanding of the cultural and social contexts that impact decisions and actions (Myers, 2013). The qualitative design method chosen for this thesis helped us understand the choices Beckmann made when entering China and South Korea, as well as the value they gained from their actions. The method, therefore, helped us answer our research question as the qualitative method helps in getting a complete understanding of the meaning of words, as is crucial for this research (Bryman & Bell, 2011).

2. OPPORTUNITIES AND BARRIERS FOR BECKMANN IN CHINA AND SOUTH-KOREA

This chapter will introduce the topic of emerging markets, as well as present the development in the mentioned markets and the potential barriers that are specific to the markets. This chapter aims at forming an understanding of the situation in the market and the industry, as well as laying the foundation to understand Beckmann's endeavors in these markets.

2.1 EMERGING MARKET

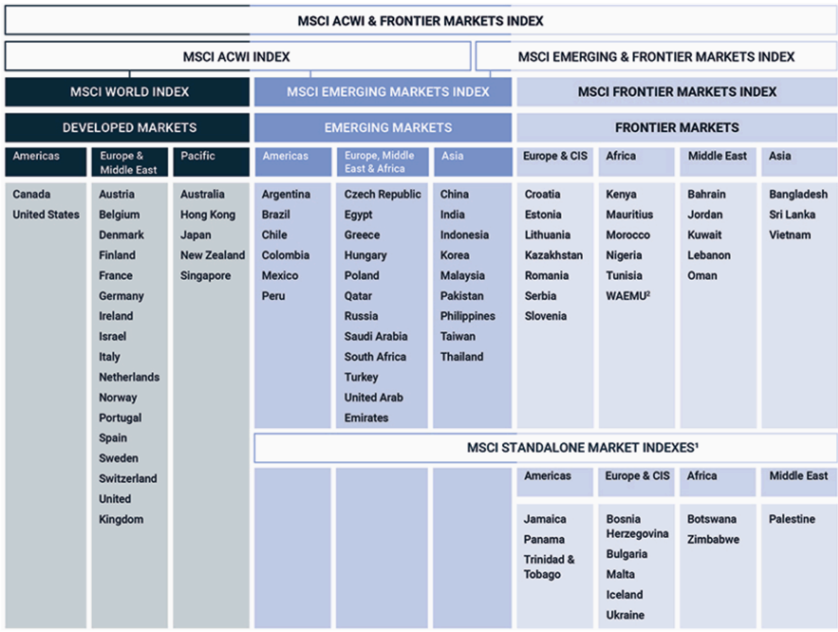
In today's global economy, we hear the term emerging market regularly, to get a perception of what the term implies we need to recognize what defines an emerging market. We need to create an understanding of which countries that fall into the category of emerging markets. The term was presented by the World Bank economist Antoine W. Van Agtmael in 1981. He defined an emerging market economy as an economy with low to middle income per capita, and as a nation with an economy which mimics that of a developed nation but does not fully meet the requirements to be classified as one (Barry, Goldreyer, Lockwood & Rodriguez, 2002). Further, The Economist defines an emerging market as an economy that is not too rich, not too poor, or not too close to foreign capital (The Economist, 2020). The definition provided in the article from the economist comes from Antoine W. Van Agtmael as well. However, the two definitions mentioned above are quite different from each other, and the last one is far broader than the first one. We can see that for an economy to be categorized as emerging, they need to have a level of income that surpasses the most impoverished nations. They also need to be open to foreign capital, which indicates that they facilitate foreign direct investment. Emerging markets can also be viewed as volatile both when it comes to capital and commodity prices, meaning that fluctuation in prices and currency are not uncommon. (Mody, 2004, p. 4)

Considering that there are several views on what defines an emerging market, it is essential to understand how an emerging market is identified.

To form a basis for the identification of emerging markets, this thesis will present a framework based on the MSCI Classification framework (MSCI, 2016) and the work published by Gaeta (2012). In today's global economy, a wide range of classification indexes is used to identify emerging markets, such as FTSE International Country Index, MSCI Emerging market index, Bloomberg Emerging Market Ranking, and HSBC Emerging Markets Index (Gaeta, 2012). However, this thesis will focus on the Morgan Stanley Capital International Emerging Market Index (MSCI), as this is one of the most commonly used index providers to this date (Gaeta, 2012).

The Morgan Stanley Capital International Emerging Market Index was first incepted in the late 1980s and has since been used to measure and oversee the equity performance in global emerging markets. The index is heavily based on the MSCI GIMI (Global Investable Market Indexes) Methodology (MSCI, 2020), a thoroughly constructed index with an approach that makes way for meaningful and insightful views across global, regional comparisons, across all global markets capitalization sizes, their style, sectors, combinations, and segments (MSCI, 2020). The MSCI Emerging market Index has the aim to provide insightful and thorough coverage of the relevant investment opportunities that heavily focuses on the liquidity of the index, as well as investability and replicability (MSCI, 2020). The index is reviewed and updated four times a year, to ensure that the index keeps up with the rapid development of global emerging markets. Over the years, the MSCI Emerging market index has grown to acknowledge 26 emerging market countries (as shown in Table 1, the table below), and noticeably the markets of China and South Korea. This thesis acknowledges that the MSCI Emerging market index is mainly oriented around portfolio investments and not corporate investments, which is the focus of this thesis. However, the index aids in the aspect that it acknowledges the Chinese and South Korean markets to be emerging, which is the basis of this thesis.

Table 1: MSCI ACWI & Frontier Market index (MSCI, 2020).



2.2 Emerging markets in transformation

Traditional research, as presented by Kotler (2003), argues that the major challenges met by internationalizing firms to emerging markets revolve around the topics of cultural differences, tax and trade barriers, governmental instabilities, technological and infrastructural differences, as well as bureaucratic red tape. The challenges presented by Kotler are still relevant today. However, arguments have also been made that the previous differences between developed countries and emerging markets are diminishing, as increased living standards and income levels have resulted in higher rates of materialism, consumerism (Sharma, 2011), overlapping of cultures as well as a noticeable rise in the number of middle-class consumers (Jeon, Meiseberg, Dant, & Grünhagen, 2016) (Kravets & Sandikci, 2014). Furthermore, a McKinsey publication from (2019) argues that emerging markets are transforming, where local players are growing to become strong competitors to foreign entrants as well as grasping a more significant piece of the market share, making the process of internationalizing to these markets a greater challenge (McKinsey, 2019).

Gaur, Lu, and Pattnaik (2018) states that the business and industrial landscape of emerging markets are mostly dominated by business groups controlled by families, also called conglomerates, or “Chaebols” in South Korea. These family business groups are diversified and consists of a wide range of unrelated industries that are continually increasing, which has amongst resulted in that the top ten business groups in South Korea, currently owns more than twenty-seven percent of the countries business assets (Pae, 2018) in (Gaur, Lu & Pattnaik, 2018). Gaur et al. further argues that the large and growing assembly of businesses under the same owners will act as new barriers to internationalizing firms, as there are forces in place in these markets that have full control.

The issues presented by Sharma, Joen, Meiseberg, Dant, Grünhagen, Mckinsey, Gaur, Lu, and Pattnaik illustrate the forces and changes that are in place in emerging markets, changes that lead to new challenges and enforcing the importance of selecting the right entry modes.

3. THE CHINESE CONTEXT

3.1 CHINA AS AN EMERGING MARKET

In recent decades China has established itself as an economic powerhouse by being the leading country in exporting in the world (The World Bank, 2020) and by their innovations in technology, which makes it virtually impossible to ignore them in the global market. Though China can be viewed as one of the world's largest markets, they still have a lot of potential, and growth is imminent in the country (Bajpai, 2020). If we compare China to the definitions presented in the chapter on emerging markets, then we can identify that a lot of the Chinese population belongs in the low to middle-income category. We can also notice that the economy mimics developed countries' economies, but they don't fully meet the requirements to be one. According to Investopedia, these requirements are "Income per capita or per capita gross domestic products, the level of industrialization, the general standard of living, and the amount of technological infrastructure."(Majaski, 2019). Recent data from the world bank shows that China has a GDP per capita of $ 9 770. (The World Bank, 2020). To be considered a developed country, the lowest threshold for GDP per capita is assumed to be $ 12 000, which means that China is far below on one of the most common criteria for being a developed country. (Majaski, 2019). Since China is the world-leading country in exporting, we can understand that industrialization is present. However, the level of industrialization is quite low, poor working conditions and low salaries for factory workers have been well-known challenges for many years. This indicates that there is a lot to be done in those regards before we can categorize China as a nation with a high level of industrialization. Some factories and industries use advanced technology, which will indicate that they have come further in the industrialization process, but for most Chinese companies, these technologies are far too expensive to incorporate into their business. The most commonly used measurement for the standard of living is also GDP per capita. With a GDP per capita of $9 770, the average Chinese person should have an acceptable way of living, but waste differences in equality paint a bit of a misleading picture. (Lei, Shen, Smith and Zhou, 2017, p. 1). The wealthiest Chinese people are extremely rich, but the number of poor people compared to the rich is considerable, so the standard of living isn't at the same level as for people in developed countries. It should be mentioned that the standard of living has improved a lot over the last decade, the focus now is to see if they can escape "the middle-income trap." It is difficult to define the GDP per capita for a country facing “the middle-income trap. Aiyar, Duval, Puy, Wu, and Zhang argue that the trap can be defined as “the phenomenon of hitherto rapidly growing economies stagnating at middle-income levels and failing to graduate into the ranks of high-income countries”. (Aiyar, Duval, Puy, Wu and Zhang, 2018). The last requirement and measurement for being a developed country is the amount of technological infrastructure a country has. Huawei is a perfect example of the technologically developed country which China is. They have software and equipment which is among the best in the business world, making their technological infrastructure very competent and competitive.

To summarize, we can identify that China can still be characterized as an emerging country based on the requirements that explain the factors that characterize a developed country. Challenges to overcome to become a developed country include further economic development and an improvement in the standard of living. The government needs to handle institutional challenges and infrastructural issues to facilitate further foreign investment development of smaller cities that wish to urbanize. Having identified which issues China faces as an emerging market, we can investigate how this impacts the choice of entry mode. The challenges indicate that China is a complex country but, at the same time, a country with enormous economic potential. Therefore, companies need to evaluate whether they want to enter the market with a less risky mode with little control or a riskier mode with more control. Seeing that technological infrastructure is improving with development from Chinese businesses, it could be smart for a small player to use an entry mode with low risk where they conduct business through local partners with a large business network in China. Historically the use of economic reforms in China has been prevalent, having a deep understanding of these reforms will also give a foreign company an advantage.

3.2 CHINA'S INSTITUTIONS

Economic institutions can be described as formal organizations created by members of society to initiate a particular type of activity. Douglass North defined institutions as "the rules of the game." They are humanly devised constraints that structure political, economic, and social interactions. (North, 1991, p. 97).

In Du Julan, Lu Yi, and Tao Zihgang´s (2008) paper called Economic institutions and FDI location choice: Evidence from US multinationals in China, they argue that China is a unitary state with uniform de jure laws across the country, which means a state of affairs that is in accordance with the law. Even though China is viewed as a unitary state, it is also characterized by substantial regional disparity in economic institutions. An example is the de facto property rights protection and contract enforcement, which exhibit wide variations across regions. (Julan, Yi & Zihgang, 2008). De facto means a state of affairs that is true in fact, but that is not officially sanctioned. Due to regional disparity in economic institutions, the level of FDI differs a lot within China. (Julan et al., 2008). Li and Alon (2019) also argue that intellectual property rights violations create an economic conflict in China, and further argue that China has benefited from a rule of law overseas and a rule through law in their own market. With disparity comes uncertainty, which indicates a higher factor of risk in these regions. It is, therefore, of importance for firms to have an understanding of the institutional differences within China. Julan et al. (2008) argue that there is a significant difference in government intervention in business operations in China. Regions with high levels of intervention run the risk of government corruption, and foreign firms do not get the same treatment as Chinese firms do, indicating that foreign firms should focus on regions with less government intervention. (Julan et al., 2008). Moreover, government corruption is viewed as a problem in China due to extensive state control and state intervention in the national economy. Due to a weak rule of law, lack of democracy, and a low level of freedom of media, China struggles to climb on the corruption index, which is presented by Transparency International. China received a score of 41/100 in 2019, meaning that they rank as 80 out of

180 countries (Transparency International, 2020), in comparison, South Korea received a score of 59 and ranked as number 39. (Transparency International, 2020). A recurring factor in the variables is again the regional disparity within China. Contract enforcement relies more on legal institutions and law enforcement instead of economic institutions. Even though China has commercial laws on paper, the enforcement of such laws vary, making institutions unreliable. With unstable and unreliable legal institutions, it can be difficult for foreign firms to enter a market, and they can encounter unforeseen obstacles where law enforcers encourage corruption and bribing. Julan et al. (2008) argue that the limited use of courts to solve business disputes indicates the situation described above. Due to these challenges with formal institutions, the choice of entry mode becomes significantly more important. Challenging institutions correlates to higher perceived country risk. Therefore, it is necessary to consider this risk when choosing which entry mode to internationalize with.

3.3 OPPORTUNITIES IN THE CHINESE MARKET

China plays a central role in the world economy as one of the largest world economies. China plays a central role in the production of goods as well as innovation. The Chinese market has developed from a centrally oriented system to an increasingly market-oriented economy, resulting in GDP growth averaging at about 6% over the last 30 years (The World Bank, 2020). According to the World Bank, China only had 69 cities close to the end of the 1940s, which increased to 670 cities by 2007 (World Bank, 2008). At the same time, the urban population of China increased from 191 million in 1980 to 594 million by 2007, and by 2018 the urban population of China has reached 59,152% of its total population, i.e., 824 million (The World Bank, 2020).

This clearly shows that there has been a drastic increase in the urban population of China. This trend worried the World Bank, and as they addressed in their 2008 article, this considerable increase of urban population and the anticipated inflow of people, will lead to significant challenges in providing jobs and infrastructure (The World Bank, 2008). As the population grows in China, the government has worked hard to keep up with the increased needs of its population, and as a part of these needs, the National Congress introduced a 9-year compulsory elementary school system in 1986, with the goal that this new reform would be introduced to the whole nation within 2000 (Store Norske Leksikon, 2013). As of 2005, this has not yet been completed. However, the focus on implanting this law is greater than ever (SNL, 2013).

The challenges that arose as a result of the increasing population and the increasing urban population has resulted in a range of studies related to these challenges. For this thesis, we will take a closer look at the studies performed about the school children of China, and some of the challenges and issues that these children face during their studies. A study conducted by Weiguang Yao, Xiaodan Mai, Chenling Luo, Fuzhi Ai, and Qing Chen from 2011 researched the reason for lower back pain among 2083 Chinese schoolchildren (Yao et al., 2011). The study confirmed that lower back pain is prevalent among Chinese schoolchildren and that the study further confirmed the results of previous studies, that lower back pain among Chinese schoolchildren has been getting worse over time (Yao et al., 2011). Yao et al. found that one of the main reasons for prevalent lower back pain among Chinese schoolchildren is that there has been a steep increase in children who attend school, and among the effects of this increase is increased study time and increased backpack load. (Yao et al., 2011). A similar study conducted in Sri Lanka by Kapila Jayaratne in 2019 further supports the findings of Yao et al., by emphasizing that one of the reasons for back pain in Sri Lankan schoolchildren is heavy backpack loads in poor ergonomically produced backpacks as well as that the cheapest and most effective short term fix is to invest in proper backpacks/bags for schoolchildren (Jayaratne, 2019). It is safe to conclude that these studies show the need for Beckmann's products.

Furthermore, a study conducted on the spending patterns of Chinese parents on children's backpacks will construct a view of Beckmann's current market potential in China. The study conducted by Shige Song was published in 2018 and focused on the spending patterns that are apparent among various families from different economic backgrounds (Song, 2018). Song based his results on the transaction data of the largest Chinese retailer and found that the Trivers-Willard Hypothesis supports the actual spending patterns of Chinese parents on their children's backpacks. The Trivers-Willard hypothesis suggests that parents who are biased in their investments in favor of the gender with the best reproductive perspectives are favorable by natural selection (Song, 2018). As the reproductive prospect of males is much more varied and status-sensitive than of females, the optimal strategy, according to this hypothesis, is for the high-status/High-income parents to invest heavily in their sons, and the opposite for low-status/low-income parents who are to invest more heavily in their daughters (Song, 2018). Using the 2015 transaction data from the retailer JD, Song included the color, model, size, quality, price, and quantity of all backpacks sold in the period. Song assumed from decades of literature on sex-specific color preference, that blue backpacks are mainly sold and favored by boys and their parents, and that pink is most commonly favored by girls and their parents. From the dataset, Song identified that the online retailer sold 2324 backpacks to households with a girl, and 2528 to households with a boy, he also emphasizes that there has been an average annual growth rate in active online users of over 90% between the years of 2011 and 2015. Therefore, JD might not have the full information on all their customers, which could mean that the number of backpacks sold to the various households might be even higher (Song, 2018). From the dataset, Song also found that after eliminating all cases that do not reflect the parental sex preferences, that a strong economic status gradient emerges. The study showed that son preference was only present amongst people with high economic status, and that daughter preference was only present among people with low economic status (Song, 2018).

As the price of the Beckmann backpacks is considered to be premium within the ergonomic market, Beckmann would be able to take advantage of the sex preferences found in Song's article, by pricing the products to meet the sex preferences. A point that could be further supported by the findings of PwC China is that Chinese consumers are continuously expecting more in product quality and customer service (PwC China, 2017). Michael Cheng from PwC China further explains that the new consumers of China are much more willing to pay for a brand online and are even more concerned about the quality and authenticity of the product. Furthermore, face and social status are crucial parts of the Chinese culture, where quality brands help to give the perception of high economic status (PwC China, 2017). The findings of PwC China (2017) is further confirmed by a 2019 report about spending on luxury goods in China from Mckinsey. The report stated that from 2012 to 2018, China was responsible for over 50% of the global growth of luxury goods sales, and is further expected to be responsible for over 65% of all additional global spending on luxury goods by 2025 (Mckinsey, 2019). The report also stated that up until 2018, the spending on high end and luxury goods by the Chinese, mostly happened overseas, but as moves are being made to cut taxes on import of luxury goods to China, the domestic spendings are expected to grow significantly (Mckinsey, 2019).

As the Beckmann backpack is mainly sold with premium prices and is considered to be a high-end product focusing heavily on quality and ergonomics, China's market potential is massive. Furthermore, as Song stated in his research, the majority of backpacks sold through JD in China is within the price range of 1 to 8998 CNY with a mean of 167 CNY (Song, 2018). The research also showed that each day in the year of 2015, there were 10-40 thousand backpacks listed for sale (Song, 2018).

3.4 Cultural Implications of business in China

Cultural differences play a significant role when a business seeks to enter a foreign market. If the person in charge of the internationalization process has little to no information about how the business culture in the foreign market works, or if the knowledge about cultural differences is non-existence in the marketing department, then it can prove challenging to succeed. In this paper's theoretical framework, Hofstede's theory on cultural dimensions, which amounts to six factors scoring countries to determine how their culture can be viewed, will be presented. (Hofstede Insights, 2020). In this chapter, we will analyze cultural implications in China based on those cultural dimensions. Norway will be used as a comparing country as it is considered to be Beckmann's home market.

China scores very high on power distance, with a total score of 80, indicating that people accept inequalities. Related to business purposes, it tells us that there is a hierarchical structure in Chinese business, and the distance between a regular employee and management is high. Norway belongs to the opposite end of the scale with a score of 31. Norwegian society cares about equal rights and independents. The Norwegian business model reflects these values. The distances between employees and management are low, and leaders often take a coaching role where the staff's opinions are valued. Communication between staff and leaders are often informal compared to a formal approach in China (Hofstede Insights, 2020).

China is considered to be a society with a highly collectivist culture. They score only 20 on the individualism indicator. This means that people act in the interest of the group and not themselves. Employees often have a low level of commitment to organizations, even though they may have a higher level of commitment to the people within the organization. Personal relationships within a group of employees are strong, and groups in the firm that are not related to specific tasks are often not considered (Hofstede Insights, 2020). This can lead to a hostile environment between groups in an organization, and company tasks which doesn't concern the group are shown little attention. Norway is considered to be an individualist society where people concentrate on themselves. Private life and work are considered to be split, and privacy is valued. People also care about their careers, and if they see it fitting to change jobs, they do not hesitate to do so. (Hofstede Insights, 2020).

Moving on to masculinity, China scores again very high on this factor. People want to achieve success, and if that means sacrificing family time, then they do so. People in society need to achieve success at all costs (Hofstede Insights, 2020). This is also reflected in Chinese businesses, and it is not unusual for people to work late hours all week. The contrast between China and Norway is quite significant in this dimension. Norway is considered to be a feminine society where characteristics such as caring for the environment, leveling with others, consensus, and sympathy for the "underdogs" are highly rated. Further, societal solidarity is essential, free time is valuable, and focus on well-being is favored. In business, managers are supportive, and decision making is made through involvement (Hofstede Insights, 2020).

China scores a low 30 on uncertainty avoidance. *"Truth may be relative though, in the immediate social circles, there is a concern Truth with a capital T and rules abound"*. (Hofstede Insights, 2020). Rules may also be flexible, which was discussed earlier in the chapter regarding institutions in China. Chinese are also comfortable with ambiguity. This can be challenging when doing business in the country since a Chinese person might interpret something differently than a Western person. In Beckmann's home market Norway, they score 50 on the mentioned dimension, meaning that it does not indicate a preference. (Hofstede Insights, 2020).

When it comes to long term orientation, China delivers a high score, meaning it is a pragmatic culture. Truth is dependent on situations, context, and time. They also show the ability to adapt traditions quickly to changed conditions. (Hofstede Insights, 2020). The Norwegian culture is more normative. People in society are normative in their thinking and have a strong concern with establishing the absolute truth. They focus on achieving quick results and have great respect for traditions. (Hofstede Insights, 2020). Chinese businesses might, therefore, have a more long-term oriented focus, while Norwegian businesses might have a more short-term oriented focus.

Lastly, there is a need to analyze whether the Chinese culture is indulgent or restrained. With a low score on the dimension, the Chinese society is viewed as restrained. Indicating that society tends cynicism and pessimism. They have a perception that social norms restrain their actions. In China, this can be related to strict schools and society under surveillance. (Hofstede Insights, 2020). Norway, however, has an average score on this dimension, which means that they are either characterized as indulgence or restraint. (Hofstede Insights, 2020).

A study published in 2019 researched the performance impact of informal and formal institutional differences in cross-border alliances and found support for the notion that differences in informal institutions can have marginal positive effects as well as adverse effects on the possible access to value-adding resources or complementarities, as well as be a direct source of disturbance (S. Golesorkhi, R. Mersland, T. Randøy, O. Shenkar, 2019). The findings of the study would, therefore, indicate that the informal institutions of China could have a positive effect on the internationalization process of foreign firms.

4. THE SOUTH-KOREAN CONTEXT

4.1 SOUTH-KOREA AS AN EMERGING MARKET

South Korea is considered to be one of the most technologically advanced countries in Asia. Some investors argue that they should be considered as a developed market, while others argue that they can still be considered an emerging market. The underlying index which indicates whether or not a country can be classified as an emerging market in this paper is the MSCI emerging markets index. Their latest report claims that South Korea should be classified as an emerging market. (MSCI, 2020). According to the World Bank, South Korea has a GDP per capita of $31 362, which means that they are far above the threshold discussed in the paragraph regarding China (The World Bank, 2020). The high level of GDP per capita can indicate that more of the South Korean population belongs to the middle or high-income class, instead of the low-income class. During the last 30 or so years, South Korea has had a rapid increase in GDP due to its industrialization policy, meaning that the industrialization level in South Korea is also quite high. Car manufacturers such as Kia and Hyundai, alongside electronic giants like Samsung and LG, have played a significant part in the country's rapid growth and high level of industrialization. Since the standard of living is based on the GDP per capita, the standard can be considered high in South Korea. However, according to OECD's better life index, the country scores below average on measurements such as income and wealth, subjective well-being, environmental quality, health status, social connection, and work-life balance (OECD, 2020). Due to inequality and a large gap between the poorest and the richest where the top 20% of the population earns five times as much as the bottom 20% South Korea scores relatively low on this dimension. (OECD, 2020). When Koreans were asked by OECD to rate their general satisfaction in life on a scale from 0-10, the score became 5,9, which is 0,6 below OECD's average of 6,5. (OECD, 2020). Lastly, there is a need to consider the amount of technological infrastructure in South Korea. Due to substantial investment from the government and private tech companies, the country's technological infrastructure is considered reliable. South Korea scores well on most of the requirements for it to be considered a developed country, this might be why investors argue about whether or not they should be labeled as emerging or developed. One of the definitions mentioned earlier in this thesis emphasizes that an emerging country is not too rich nor too poor. The inequality in South Korean society reflects that the nation fits that description well. For companies wishing to enter the South Korean market, it is useful to understand how technologically advanced the country is despite being an emerging market. In the next chapter, we take a closer look at institutions in South Korea as well. By doing so, we get a clearer picture of the general risk a company needs to consider when analyzing the market. Based on the information on South Korea as an emerging market, it is fitting to categorize them as a low-risk market.

4.2 SOUTH-KOREA'S INSTITUTIONS

South Korea has transformed from being one of the poorest countries in Asia to become one of the biggest economies in the region during the past 70 years. Politically they have gone from authoritarian leadership to democracy, and they have become a country which many in Asia try to replicate.

The economic success of South Korea, which started in the early 1960s makes it interesting to investigate economic institutions in the country and to discover if such institutions have provided a robust framework for a prospering economy in development. A factor for economic development is often reliable economic institutions. South Korea has made attempts to strengthen institutions, and they have, in many ways, succeeded. However, there are still challenges to overcome when it comes to trust in South Korean institutions. Na Young Park's (2020) article on trust and trusting behavior in financial institutions: evidence from South Korean shines a light on this challenge. He argued that "*[...]despite the seemingly rapid financial development in South Korea over the recent decades, financial institutions and markets have not earned enough trust from financial consumers*." (Park, 2020, p. 409). The argument is supported by the IMF's ranking, which indicates that the country ranks high on financial development and low on financial competitiveness, which reflects consumers' satisfaction towards financial institutions. (Park, 2020).

The Park government, which came to power in 1961, brought a sense of purpose, discipline, and rationalism to the bureaucracy and created an economic planning board. Financial institutions such as banks were led by civilian experts rather than military personnel, and the government had a clear goal for economic development. (Park, 2020). By setting clear goals and using institutions in a clear and meaningful way, they started to establish a framework for economic growth. A sense of discipline was also present in the private sector. The government set standards that had to be met to get funding, acting in such a way that they could "handpick" winners. With a credit-based financial system, private firms and especially Chaebols were heavily dependent on banks that were controlled or owned by the government. Before the financial crisis in Asia and South Korea in the late 1990s, military governments had control over institutions and used economic plans to generate economic development. After the financial crisis, democracy prevailed, and new standards were set.

Hong-Bum Kim and Chung H. Lee (2006) argue in their article: Financial reform, institutional interdependence, and supervisory failure in postcrisis Korea that Korea has established several public agencies that are supposed to function as independent, specialized institutions. (Kim & Lee, 2006, p. 410). However, they argue that there are doubts about the independence of the institutions and Korea's success in reforming its financial supervisory system. The institutions FSC/FSS and BOK have not functioned as independent due to constraints imposed on them by other formal and informal institutions in South Korea. (Kim & Lee, 2006, p. 410).

It is not easy to evaluate whether economic development in South Korea comes as a result of a solid structure in economic and financial institutions. However, it is made clear that institutions are in place, making the Korean market accessible to foreign businesses. To further strengthen investment by foreigners, either in the form of FDI or FPI's the South Korean government needs to make the market more transparent, and a way to do so is by making the institutions more interdependent. The case becomes more complex when we add together the information regarding South Korea as an emerging market and how institutions work. With a lack of trust in institutions from people within South Korea, the risk element becomes stronger. Knowing the market and how the institutions within works will benefit a foreign company. Opting for entry modes with less risk and less control, for example, partners could be beneficial for companies with limited resources.

4.3 CULTURAL IMPLICATIONS OF BUSINESS IN SOUTH-KOREA

Earlier in the paper, an analysis of cultural dimensions was done on the Chinese society. The same analysis will be performed for the South Korean society to compare it to Beckmann's home market. Since Norway's scores were presented in the chapter regarding cultural implications in China, they will not be presented again here.

South Korea scores 60 on the dimension related to power distance, which indicates that there is a slight hierarchical society in place. Subordinates in companies expect to be told what to do, and there is no room for discussions regarding business-related decisions (Hofstede Insights, 2020).

On the dimension regarding individualism, South Korea scores 18, meaning that they are a collectivistic society. The commitment and focus are on groups (family and friends), and loyalty is compelling in society. This includes taking responsibility for others and not only individuals. An employer/employee relationship in this culture is quite distinct, and the relationship is perceived in moral terms (Hofstede Insights, 2020).

South Korea is considered to be a feminine society with a score of 39 on masculinity. Already stated earlier, Norway is also considered a feminine society, which implies that the same traits will apply to the South Korean society. These values include consensus, the value of equality, solidarity, quality in working lives, and free time. An effective manager in society makes decisions through discussion and involvement (Hofstede Insights, 2020).

When it comes to uncertainty avoidance, South Korea scores exceptionally high. They have one of the highest scores on this dimension. They maintain rigid codes of belief and behavior, and are intolerant of unorthodox behavior and ideas. There is an emotional need for rules in South Korean culture, and people also have an inner urge to be busy and work hard. They live by the saying, "time is money."(Hofstede Insights, 2020)

South Korea can be labeled as one of the most pragmatic long term oriented countries with a score of 100. People in Korean society live their lives guided by virtues and good practical examples. In the business environment, the long term orientation is reflected by a focus on long term growth in market share instead of concentration towards quarterly economic reports. The main view of South Korean businesses is to serve society on a long term basis instead of serving their shareholders' short-term (Hofstede Insights, 2020).

On the final dimension, indulgence, South Korea has a score of 29. With a low score, they can be considered as a restraint society. People in such societies feel that their actions are restrained by social norms and feel that indulging themselves is somewhat wrong. (Hofstede Insights, 2020).

The dimensions presented by Hofstede highlights the potential barriers offered by informal institutions and the underlying culture of South Korea. Lack of knowledge from foreign firms regarding these informal institutions can be damaging. Therefore, it is important to analyze the market and the perceived country risk to find the appropriate entry mode.

4.4 OPPORTUNITIES FOR BECKMANN IN THE SOUTH-KOREAN MARKET

South Korea has experienced a lot of the same changes and developments as China over the last decades. South Korea has changed from being one of the poorest and underdeveloped countries in the mid-1950s to becoming a significant industrial power and the world's 6th largest exporter (OECD, 2018). Among the changes that the South Korean government made to experience this exceptional growth, is the rapid and high investments made in proper policies and high investments in human and physical capital (OECD, 2018). The South-Korean government had a wide range of five year plans that they implemented to boost and develop their economy. Amongst these five-year plans was the plan to develop the educational system (Kim, 2002). The first two five year plans that ranged from 1962-1971 had a high focus on providing an educated workforce to the economy. The policies concentrated on the practicality and diversity of education and provided educational opportunities to all eligible children (Kim, 2002). These five-year plans were highly successful, as, by 2002, nearly 100% of all children attended primary and secondary education, and the educational system had become as large as those in developed countries (Kim, 2002).

The heavy focus on educational development has created what many refer to as an "educational fever" in South Korea (Seth, 2002). According to Seth, South Koreans are obsessed with education, and there are schools everywhere where elementary, middle, and high school students study late every evening as well as on weekends (Seth, 2002). Every neighborhood has a book store that sells textbooks and school supplies, and even real estate prices differ according to the quality of nearby schools (Seth, 2002). South Korean families heavily invest in their children's education, making sure that their children have all the supplies and resources available to ensure their educational success (Seth, 2002). The South Korean government also invests heavily in educational programs by using 7,6% of its GDP (SNL, 2013).

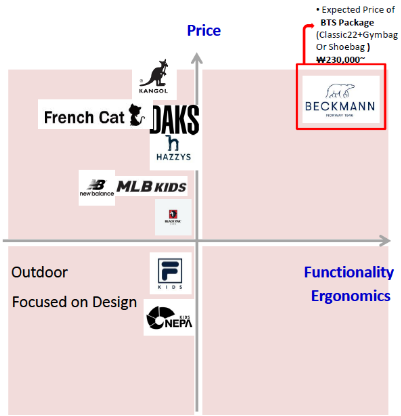
As with the case of China, South Korean school children have been experiencing more and more back pain over the last decades, which could be a result of poorly fitted/ poor ergonomically backpacks that are heavily loaded (Kim & Park, 2011). As Kim and Park state in their study, previous studies conducted in western countries on the same topic of back pain among schoolchildren, have indicated that one of the cheapest and most effective fixes for back pain and poor postural habits among schoolchildren is to invest in proper backpacks to carry the heavy load of school supplies (Kim & Park, 2011). In 2009 the Korean government introduced a new School Health law, that emphasized that elementary, middle and high school were mandated to provide at least 17 hours a year of health education, that should include, amongst other things, knowledge about correct backpack use as well as posture knowledge (Kim & Park, 2011). Together with the substantial investments that Korean families make for the children's education, along with the increasing knowledge about posture and correct backpack use, one could say that the market potential for Beckmann in South Korea is huge.

As the competitor analysis conducted by Beckmann's Korean distributor shows (See Table: 2), the Beckmann brand and products have no real competitors within the same segment, as categorized by price and functionality/ergonomics. The analysis shows that the market has quite a few brands that are more heavily focused on the design and high prices, rather than with functionality/ergonomics. With the new Korean health law of 2009, one could, therefore, assume that along with the new knowledge of proper backpack use, the students and parents would, in the future, choose to prefer a functional and ergonomically correct backpack over the more design-oriented backpacks.

Table: 2. Competitor Brands in the South Korean Market

Review of 2019 Sales - Competitor Brands in the market

KIBOS
KIDS LIFE STYLE LEADER



* Most popular schoolbag brands in Korea (Based on the sales data in D. store)CvCv

Rank 2019	Brand	Image (Best item in 2019)	Price Range (Best item)	Features
1	New Balance Kids		₩ 129,000 ~ 179,000 (179,000)	▪ M.S : 31.3% Package set includes Cross bag (Total 3 items)
2	Daks Kids		₩200,000 ~ 220,000 (210,000)	▪ M.S : 22.2% Classic Check pattern has high customer demands
3	Hazzys		₩ 178,000~ 208,000 (188,000)	▪ M.S : 12.8% Very similar design with Daks Kids products
4	MLB		₩ 129,000~ 178,000 (179,000)	▪ M.S : 11. 8% Simple & Basic design Light Weight (590g)
5	BLACK YAK		₩ 120,000~ 180,000 (144,000)	▪ M.S : 7.6% High customer satisfaction - material, price, design
6	FILA KIDS		₩ 89,000~ 149,000 (129,000)	▪ M.S : 4.7% Light weight / Mint color design sold out nationwide
7	French Cat		₩ 184,000~ 244,000 (216,900)	▪ M.S : 4.3% Its design has high demands from girls (Pink cat character & Enamel material)
8	NEPA Kids		₩ 109,000~ 208,000 (124,600)	▪ M.S : 3.6% Big storage space, Boa dial system for shoulder strap

* In order of sales rank in D. stores in 2019

(Kibos)

5. THEORETICAL FRAMEWORK

5.1 Entry modes

Entry modes need to be considered when we look at a firm's internationalization process, as the choice of entry mode will heavily affect the rate of success in the foreign market (Bruneel & De Cock, 2016). There are two modes of entry, non-equity-based modes of entry, and equity-based modes of entry. Exporting, subcontracting, licensing, and franchising belongs to the first category. Wholly-owned subsidiaries, joint ventures, strategic alliances, and mergers and acquisitions belong to the second category. Shortly described, a firm has to choose the amount of risk they want to take when entering a foreign market. Risk and control are two elements to consider in the internationalization process. The entry mode with the least amount of risk and control is called exporting. Wholly owned subsidiaries belong to the opposite end of the scale with high risk and with a high level of control. This chapter will be dedicated to the different entry modes, and a short analysis and description will be given to each one. Since this thesis aims to generate knowledge about how and why Beckmann chose to enter the emerging markets of China and South Korea, it is vital to understand the different entry modes the company could select from. Knowledge about resources required with the different entry modes is crucial to understand why the company opted for a particular entry mode.

5.1.1 NON-EQUITY BASED MODES OF ENTRY

5.1.1.1 EXPORTING (DIRECT AND INDIRECT)

Exporting can be defined as the process of selling goods and services produced in one country to other countries (Yadong, 1999). Exporting can be divided into two different forms, direct and indirect exporting. Direct exporting can be described as a basic form of export where a company produces its products in their home country, mostly based on economies of scale where excess products are exported and sold in a foreign market. Direct exporting will give the company a higher level of control regarding distribution, and it is usual for a firm to set up a sales company in the foreign market. A sales company is a "business established to market goods and services, not producing them” (Ball, McCulloch, Geringer, Minor & McNett, 2008, p. 427).

The second form of exporting is indirect. According to Cullen and Parboteeah (2011), it can be described as the process of exporting through domestically based intermediaries in the foreign market, which the company chooses to enter. This means that the control is turned over to distributors once the products have been shipped to the foreign market (Cullen & Parboteeah, 2011). Exporting requires limited resources and is associated with low level of control and a high level of risk.

5.1.1.2 LICENSING

According to Ball. et al., licensing can be described as an agreement where *"One firm (the licensor) will grant to another firm (the licensee) the right to use any expertise, such as manufacturing processes (patented or unpatented), marketing procedures, and trademarks for one or more of the licensor's products."* (Ball et al., 2008, p. 428). The licensee firm will usually pay the licensor a fixed fee upon the contract's agreement, and a royalty will be paid according to sales. Licensing agreements frequently occurred within IT, and in recent years the trend has begun to appear within the fashion industry as well. (Ball et al., 2008, p. 430). Due to laws and regulations regarding patents and trademark, the use of licensing has become more favorable. The arrangement leaves moderate risk, but also a limited degree of control for the licensor. Resources required are limited.

5.1.1.3 FRANCHISING

The final mode of entry within non-equity-based modes of entry is franchising. Franchising is *“ [...] a form of licensing in which one firm contracts with another to operate a certain type of business under an established name according to specific rules.”* (Ball et al., 2008, p. 430). Franchising is a popular mode of entry into a new market if a brand name is viewed as strong, and the firm would like to limit their risk. The entry mode is quite similar to licensing, but the franchisee adopts the same standards as the regular firm and operates independently in a market. The franchisee pays a royalty to the franchisor to operate with the same benefits, and parts of the revenue will also be transferred to the franchisor. Under this entry mode, there are limited resources required. However, it would require a company to invest more when franchising compared to exporting. The level of control is considered to be higher than with exporting, and companies take on a bit more risk if they opt for this entry mode (Ball et al., 2008).

5.1.2 EQUITY-BASED MODES OF ENTRY

5.1.2.1 WHOLLY OWNED SUBSIDIARIES

Equity-based modes of entry can also be described as a foreign direct investment. (Ball et al., 2008, p. 431). This means that a company injects money into the foreign market in the form of investment into shares, manufacturing plants, property, etc. According to Ball et al. (2008), a company that wishes to own a foreign subsidiary have three choices. Option one is to start from scratch by building a new plant, also known as a greenfield investment. (Ball et al., 2008, p. 431). Option two is to acquire a going concern, and this can be viewed as a brownfield investment. (Ball et al., 2008, p. 431). Furthermore, the final option is to purchase its distributor, thus obtaining a distribution network familiar with its products. (Ball et al., 2008, p. 431). With the last option, the company gains knowledge and the ability to use an extensive network, which can be very beneficial in a foreign market with no prior connections. Within the second option, a firm eliminates a competitor, making it easier to access the market and gain market share. Those two options can be classified as mergers & acquisitions (Ball et al., 2008, p. 431). When a company opts for a wholly-owned subsidiary, the resources invested in a market entry are significantly higher than those mentioned in non-equity based modes of entry. The risk is higher, but the company secures more control over the operations.

5.1.2.2 JOINT VENTURE

A joint venture can be defined as "a cooperative effort among two or more organizations that share a common interest in a business enterprise or undertaking" (Ball et al., 2008, p. 431). In the book International business - The challenge of global competition, there are four ways to form a joint venture. It can be a corporate entity formed by an international company and local owners. Further, it can be a corporate entity formed by two international players for the sole purpose of doing business in a third (foreign) market. Thirdly, it can be a corporate entity formed by a government agency and an international firm. Alternatively, it can be a cooperative undertaking between two or more firms of a limited-duration project. (Ball et al., 2008, p. 432). A joint venture might damper the financial cost since more than one firm is involved in it. Two firms can also share knowledge and expertise, which otherwise would be costly to acquire. A foreign country will also benefit from this entry mode due to investment and jobs being offered in the market, which otherwise would not occur. A joint venture could require fewer resources invested than a wholly-owned subsidiary. However, the power is now split between multiple players, meaning that the level of control is lower.

5.1.2.3 STRATEGIC ALLIANCES

Strategic alliances can be described as a “partnership between competitors, customers, or suppliers that may take one or more of various forms, both equity and non-equity.” (Ball et al., 2008, p. 435). With growing competition and a global market that moves at a rapid pace, strategic alliances can help reduce costs and help save time. For example, by entering a strategic partnership with suppliers, a company can reduce time, reduce the risk of miscommunication, develop smoother transitions, and reduce turnaround time in the supply chain. Strategic alliances will also require a higher amount of resources invested than exporting, franchising, and licensing. The benefits of a strategic alliance lie with a complex and well-organized business network and the ability to learn and share knowledge within the alliance.

5.1.3 The choice of entry modes

In 1990, the authors Kim, Hill, and Hwang offered some characteristics of the common choices of entry modes, divided into the amount/level of resource commitments, the control levels, and the risk level associated with communication issues. As shown in the table below, Hill, Hwang, and Kim illustrate that licensing offers low levels of control and resource commitments. However, there is a high level of risk associated with a lack of communication, and that the entry mode of wholly-owned subsidiaries offers high levels of control and resource commitments, as well as low risks associated with risks in lack of communication (Hill et al., 1990). Hill et al. further argues that joint ventures are situated with medium levels of all parameters in regards to entry modes and that this shows that the level of resource commitments have high impacts on the flexibility of a company when choosing strategic entry modes, with the flexibility being the highest in the entry mode of licensing, and the lowest in the entry mode of wholly-owned subsidiaries (Hill et al., 1990).

Entry mode		Control	Resource commitment	Risk in lack of communication
Licensing		Low	Low	High
Joint venturing		Medium	Medium	Medium
Wholly owned subsidiaries		High	High	Low

Table: 3. (Hill, Hwang & Kim, 1990)

In their 2007 publication, Brouthers and Hennart offer that theories and literature indicate that there is an apparent difference between two main views on the definition and meaning of entry modes, whereas the first of these views will act as the basis of the entry mode theory of this thesis, as this view is the most theoretically grounded view (Brouthers & Hennart, 2007). This first view offers that export, licensing, franchisees, strategic alliances, joint venturing, and wholly-owned subsidiaries are arranged with a continuum of increase in the level of control, the commitment of resources, and associated risks (Brouthers & Hennart, 2007). Furthermore, in a study from 2002, Randøy and Dibrell studied the activities of Norwegian multinational companies in a range of countries across the world, where one of their main findings was that in the situations when companies sought out to acquire access to capabilities and skills, they were more inclined to opt-out for an entry mode based on high levels of control and high levels of resource commitments (Randøy & Dibrell, 2002). Additionally, Randøy and Dibrell discovered that international experience is a factor that plays a significant role in the choice of entry modes and that in the case of Norwegian multinationals, high levels of resource commitments were found amongst those with substantial international experience compared to companies with less international experience (Randøy & Dibrell, 2002). Randøy and Dibrell further made findings that would suggest that smaller and less experienced companies would suffer in their ability to manage and develop in foreign markets of larger size (Randøy & Dibrell, 2002).

In their 2002 study, Randøy and Dibrell also discovered that in the cases of a perceived cultural distance, it would indicate increased use of high resource commitments in the foreign market. Meaning that if a company chose to operate in a market of great cultural distance, the company would wish to achieve a high level of control, indicating a substantial resource commitment in the foreign market (Randøy & Dibrell). López-Duarte and Vidal-Suárez have also made arguments in their 2013 publication, that increased cultural distance will directly lead to vast differences in cultural norms, values and cultural etiquette, which will offer barriers in searching for partners and negotiating contracts (López-Duarte & Vidal-Suárez, 2013). López-Duarte et al. also argued that if a firm were to choose to work with a local partner, the role that the partner plays in reducing potential external uncertainties and risks heavily depends on the relationship between the firm and the local partner, indicating that if the cultural differences are too big, the firms will choose to establish wholly-owned subsidiaries in order to reduce external risks and uncertainties.

Proposition 1

Due to cost savings, firms are more likely to choose exporting as a mode of entry into new emerging markets.

5.2 INTERNATIONALIZATION

In the context of economics, internationalization can refer to a company that takes steps to increase its footprint or capture a more significant market share outside of its country of domicile by branching out into international markets. The global corporate trend toward internationalization has helped push the world economy into a state of globalization, in which economies throughout the world are highly interconnected due to cross-border commerce. As such, they are greatly impacted by each others' activities and economic well-being (Kenton, 2019).

5.3 ORIGINAL UPPSALA MODEL OF INTERNATIONALIZATION

Before the Uppsala model of internationalization (1977), literature argued that firms choose their mode of entry into a new market based on cost, risk assessment, and an analysis of their own resources. Vahlne and Johanson found that Swedish firms often entered markets with ad hoc exporting instead. (Vahlne & Johanson, 2009, p. 1412). This became the first of four steps in a new model, which explained how firms internationalized. The first step, "market knowledge," consists of experiential knowledge (*Table: 4)*. They argue that the less structured and well-defined activities and the required knowledge are, the more critical is experiential knowledge. (Vahlne & Johanson, 1977, p. 28). The next step introduced the use of intermediaries, often agents in the market in which they entered. These agents know the market and create opportunities that otherwise seem challenging with little or no knowledge about the foreign market. Further, the next step was to replace the agents with the company's own sales organization as sales grew. By introducing its own sales organization, the company gained more control over the operation. Lastly, the final step in the model is to start manufacturing in the foreign market. By starting to manufacture, the company can eliminate specific trade barriers. Such trade barriers could include tariffs (tax) and quotas (Quantity), which would limit the company in gaining a larger market share. (Vahlne & Johanson, 2009, p. 1412).

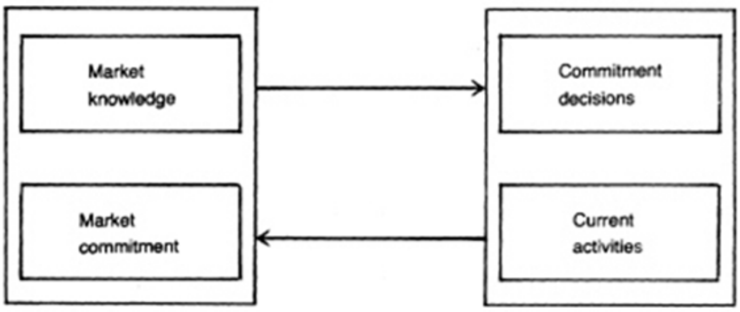


Table: 4 (Vahlne & Johanson, 1977)

5.3 REVISED UPPSALA MODEL OF INTERNATIONALIZATION

In 2009 Vahlne and Johanson agreed that their model from 1977 needed updating due to several new articles regarding the importance of networks in the internationalization process. Findings from their latest research indicate that the importance of mutual commitment between the firm and its counterparts is of great importance. (Vahlne & Johanson, 2009, p. 1414). Research shows that it can take up to 5 years to create a good working relationship.

The process of creating a relationship is mostly done informally. (Vahlne & Johanson, 2009, p. 1414). Meaning that aspects such as culture play an important role when creating a working relationship. The liability of foreignness when it comes to psychic distance creates another challenge in creating good relationships. (Vahlne & Johanson, 2009, p. 1414). Business networks are of great importance. These are connected business relationships where exchange in one relationship is linked to exchange in another. (Vahlne & Johanson, 2009, p. 1414). If a partner of a company gains market knowledge from one of their partners again, our company can access it based on the exchange of information and knowledge within a business network.

The business network view is based on the same assumptions as of the resource-based view. Resources are heterogeneous and *"[...] that these idiosyncratic resource bundles lead to value creation, irrespective of market conditions."* (Vahlne & Johanson, 2009, p. 1414). The business network view *"[...] adds that exchange within a network makes it easier to access knowledge about its relationship partners, which includes knowledge about their resources, needs, capabilities, strategies, and other relationships."* (Vahlne & Johanson, 2009, p. 1414). Being part of a business network indicates that a firm is more engaged in exchange activities than production activities and that the value of production is derived from an exchange. (Vahlne & Johanson, 2009, p. 1414). Johansson and Mattsson (1988) developed a network model of internationalization based on business network research. Based on their model, the firm's business network and the relevant network structure in foreign markets play a part in the firm's internationalization process. The model focuses on specific business relationships in a firm's internationalization, but the model lacks dynamic elements, which is essential in the revised Uppsala model. (Vahlne & Johanson, 2009, p. 1415). Vahlne and Johansson (2009, p. 1415) argue that *" [...] anything that happens, happens within the context of a relationship, and a firm that is well established in a relevant network or networks is an insider."* If the firm ends up as an "outsider," they run the risk of suffering from the liability of outsidership and foreignness in the foreign market. The original Uppsala model of internationalization built on knowledge and learning through experience. (Vahlne & Johanson, 2009, p. 1415). The revised model is showcasing how business networks help the process of sharing knowledge so that learning becomes more effective.

A study of experiential learning in the internationalization process found that the lack of institutional market knowledge and lack of business knowledge require different amounts of time to overcome. They also have different effects on the perceived cost of internationalization. (Vahlne & Johanson, 2009, p. 1416). Vahlne and Johansson now believe that the general internationalization knowledge that encompasses several kinds of experience, including foreign market entry, mode-specific, core business, alliance, an acquisition, and other specific internationalization experiences are probably more important than what they assumed in their first model. (Vahlne & Johanson, 2009, p. 1416). Variations in the character of a relationship may have a positive impact on the development of general relationship knowledge. (Vahlne & Johanson, 2009, p. 1416). Learning how to coordinate sets of relationships can also be of great importance. In small and sometimes new companies, the prior experience with management teams may impact the internationalization process. (Vahlne & Johanson, 2009, p. 1416). The emphasis on management prior network relationships and the knowledge gained through it can be significant. Vahlne and Johansson conclude that experiential learning is a fundamental mechanism in the business network's view of the internationalization process. (Vahlne & Johanson, 2009, p. 1417).

Trust and commitment building has a great emphasis on the revised model. The original model does not include affective or emotional dimensions when it comes to relationships explicitly. Vahlne and Johansson now believe that the dimensions should be explicit and not just implicitly present in the model. (Vahlne & Johanson, 2009, p. 1417). They argue that there are three reasons for including the dimensions in their model: First, social capital, trust, and similar concepts, which include affective and cognitive elements which have been researched heavily. Second, after reviewing empirical observations, they found that affective dimensions are indeed crucial for understanding the relationships that are a critical component of their model. Thirdly, they found that trust played an important part in recent research conducted on relationship development and business networks. (Vahlne & Johanson, 2009, p. 1417). Trust can be viewed as an essential factor for successful learning and the development of new knowledge. Upon the definitions of trust, we can understand that trust implies an ability to predict another´s behavior. Trust can substitute for knowledge. For example, if a company has little or no market knowledge, but they have a trusted "middleman," which helps them conduct business in that market, they have substituted knowledge for trust. (Vahlne & Johanson, 2009, p. 1417). Since trust may develop into commitment, we can view trust as a prerequisite for commitment. (Vahlne & Johanson, 2009, p. 1417). Vahlne and Johansson argue that it is unrealistic to believe that trust is permanent. Many researchers have identified that trust is extra vital in the early phase of a partnership and that trust often leads to commitment. Finally, they argue that trust-building is a time-consuming and costly process. (Vahlne & Johanson, 2009, p. 1418).

Proposition 2

Tariffs, quotas and economic institutions indicates the choice of a cooperative mode of entry.

A BUSINESS NETWORK MODEL: THE INTERNATIONALIZATION PROCESS

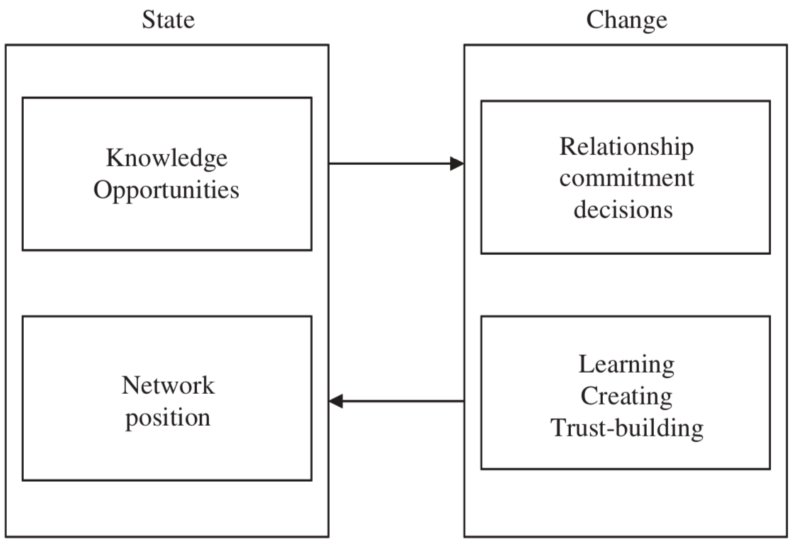


Figure 2 The business network internationalization process model (the 2009 version).

Table: 5. Revised Uppsala Model (Vahlne & Johanson, 2009)

On the left-hand side, we can see state variables, and on the right-hand side change variables. The figure shows Vahlne and Johanson's revised model, which puts much emphasis on business networks. In networks exchange knowledge, the focal company learns from these interrelated networks. As mentioned earlier, trust and commitment have a significant role in the revised model. In the 2009 model, they have added the variable of opportunity in the first step. They consider the opportunity to be an essential part of the body of knowledge. Further, they say that the variable represents the recognition of opportunities. There are also several other essential components of knowledge, such as needs, capabilities, strategies, and networks of directly or indirectly related firms in their institutional context. (Vahlne & Johanson, 2009, p 1424).

The second state variable has now been named "Network Position." In the original model, this state variable was called market commitment, and the new model identifies that the internationalization process is pursued within a network. Vahlne and Johanson said: *"Relationships are characterized by specific levels of knowledge, trust, and commitment that may be unevenly distributed among the parties involved, and hence they may differ in how they promote successful internationalization."* (Vahlne & Johanson, 2009, p. 1424).

Moving over to the right-hand side of the figure, we find the change variables. The second section of the variables was initially labeled "current activities" and changed to "Learning, creating, and trust-building." This is done to make the outcome of current activities more explicit. Vahlne and Johanson mention that *"The speed, intensity, and efficiency of the process of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment, and particularly on the extent to which the partners find given opportunities appealing."* (Vahlne & Johanson, 2009, p. 1424). Opportunity creation, which is a knowledge-producing dimension, has been given more credit because they feel that the development of opportunities is a critical part of any relationship. (Vahlne & Johanson, 2009, p. 1424).

The last variable comes from the top right-hand corner of the figure. The original model had this labeled as "commitment decisions," while the revised model adds relationship on top, turning it into "relationship commitment decisions." The reason for adding relationship to the variable is so that it is clear that commitment is to relationship or networks of relationships. The variable indicates whether the focal firm increases or decreases its commitment to one or several relationships in its network. By changing commitment levels, relationships will either be strengthened or weakened. (Vahlne & Johanson, 2009, p. 1424).

Proposition 3

The level of trust and prior business network relationships impacts the commitment of the internationalizing company.

5.4 OLI PARADIGM: OWNERSHIP, LOCATION & INTERNATIONALIZATION MODEL

The (OLI) model, also known as an eclectic paradigm, was constructed by John H. Dunning in 1979 and can be used by a firm evaluating whether or not to enter a foreign market through foreign direct investment. First, we need to define the word foreign direct investment (FDI). According to John and Kenneth Wild (2019), foreign direct investment can be defined as the *"[...] purchase of physical assets or a significant amount of ownership (stock) of a company in another country to gain a measure of management control."* (Wild & Wild, 2019, p. 176). The investments are considered to be long-term investments. Such investments can be the buying of buildings, machines, property, production plants, or other purchases that tie the company to ownership of something in a foreign country. Next, we need to understand the OLI model. The first letter represents ownership advantages. In the book International Business: the challenges of globalization, John and Kenneth Wild (2009) describe ownership advantages as a company's ownership of some unique assets, such as brand recognition, technical knowledge, or management ability. (Wild & Wild, 2009, p. 180). Ownership advantages are usually considered to be intangible. Further, we have location advantages. This is the advantage of having a distinct economic activity in a specific location due to the characteristics of a set location. These resources can be natural resources that are generally seen as immobile, or it can be a productive workforce that can be acquired. (Wild & Wild, 2009, p. 180). The availability and cost of resources in a country compared to another is of importance in this section. These resources are generally immobile, and a partnership with a local investor is often required to generate full advantage. Lastly, the company needs to consider internalization advantages. This can be an advantage that derives from internalizing a business activity rather than leaving it to a relatively inefficient market. (Wild & Wild, 2009, p. 180). Alan M. Rugman and Collinson also argue that the choice of internalizing or leasing the advantage to another firm is explained in the context of what is known as transaction costs and internalization theory. (Rugman & Collinson, 2009, p. 68). Here the company has to evaluate if it is more cost-efficient to outsource or to keep producing in-house. If they choose to outsource the production, they might also gain more market knowledge through the local partner, which they have decided to work with.

The eclectic paradigm can be used by businesses to understand if it is beneficial to internationalize. According to Investopedia, *"This paradigm assumes that institutions will avoid transactions in the open market if the cost of completing the same actions internally, or* *in-house, carries a lower price."* (Bloomenthal, 2019). Additionally, previous research has emphasized the importance of both location and ownership advantages for SMEs (Bruneel & De Cock, 2016), and further that SMEs who aid from these advantages are more likely to choose entry modes based on high equity investments (Pinho, 2007 in Bruneel & De Cock, 2016), making ownership and location advantages potential factors in SMEs entry mode choices.

5.5 TRANSACTION COST THEORY

The theory is based on the assumption and understanding of governance framework, with the descriptive net effects of internal and external transactions, as opposed to having contractual relationships outside of the firm. Furthermore, the theory has a significant focus on the boundaries of the firm, where the theory aims to answer the question of when decisions should be made to keep transactions within the company or to source it to the market (Williamson, 1991). Williamson emphasized that the transaction cost theory can be used to predict which forms of governance will be used; Hierarchies, markets, or hybrids.
In his article, Williamson further explains how he theorized that the transaction cost's size impacts whether the cost will result in internal or external transactions. Williamson believed that transactions could be characterized with regards to uncertainty, frequency, asset specificity, or the degree to which transaction-specific expenses incurred. The whole concept of the transaction cost theory is built on the premises of rationality and opportunism, as well as it is defined as self-interest with guile.

Williamson theorized that external transactions would occur when a firm is working or dealing with an external company, and most often the transactions will be related to either cost in relation to finding suppliers (Search and info costs), purchasing goods (bargaining and decision) and monitoring quality of goods or services (Enforcement and policing cost).

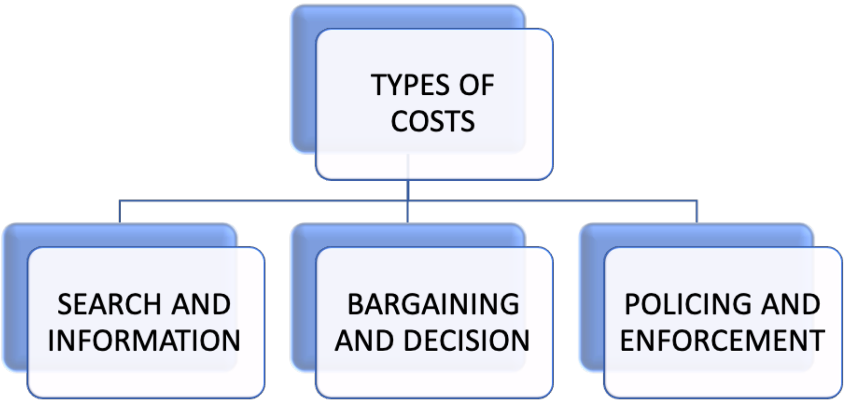


Table: 6 (Williamson, 1991)

The way a company is organized will profoundly impact and determine its control over transactions and the related costs. In order for the company to remove these costs and the risks and uncertainties connected to quality and prices, the management must internalize these transactions as much as they can.

The transaction costs mentioned above can be further impacted by bounded rationality and opportunism (Williamson, 1991). Bounded rationality refers to people's limited capacity to fully understand and cope with business situations, and the mentioned opportunism refers to the actions one takes for their own best interest, which has a high risk of creating uncertainty and mistrust between the dealing parties.

As Williamson theorized, it is the size of the transaction costs that will form the decision of whether the cost will be internalized or dealt with by using an external party. Furthermore, the variables used to dictate the size of the cost are often referred to as frequency, uncertainty, and asset specificity, as portrayed in Table: 7 (Williams, 1991). Frequency refers to how often the transactions are made, and uncertainty is built on the bases that long term and close relationships are closely related to uncertainty, and the fact that lack of trust leads to uncertainty, and lastly we find asset specificity refers to how unique and essential the good is for your firm.

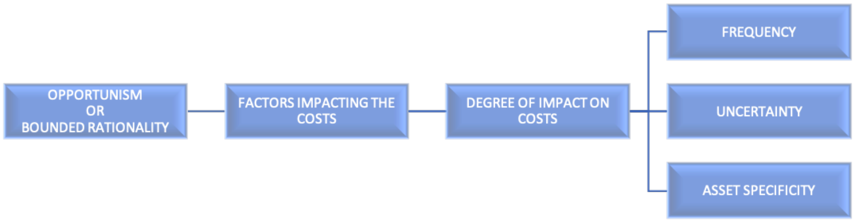


Table: 7. (Williamson, 1991)

In his 1991 paper, Williamson argues that if/when the transaction costs are high, the appropriate decision will be to internalize the transaction within the firm in a hierarchy framework.
As with external transaction costs, Williamson has stated three variables that determine behavior and the decisions related to internalizing transaction costs; Asset specificity (the theoretical amount that the manager will gain personally), Certainty (being caught) and Frequency (How often these actions are present within the corporate culture).
Additionally, Williamson emphasizes that the mentioned variables determine the degree of monitoring and the need for control by senior management of the company (Williamson, 1991).

In a paper from 2015, Gollnhofer and Turkina found that if a firm were to choose their entry mode based on the transaction cost theory, the theory would argue that managers would suffer from rationality and potential partners would suffer from opportunism, as stated by Williamson (1991), which indicates a natural choice for a high control entry mode (Gollnhofer & Turkina, 2015). Furthermore, findings from a foreign investment database with data from 1979-92 showed that foreign investments in China supported the arguments by Gollnhofer and Turkina, in that transaction cost factors indicated entry modes based on high control (Chen & Hu, 2002). The findings further stated that foreign investors in China in the given period were more likely to choose the entry mode of wholly-owned subsidiaries than contract-based entry modes in the cases where the investments were made to last on a long term basis, and the investments involved the use of marketing skills (Chen & Hu, 2002)

As we now have laid the basis of the transaction cost theory, we can draw some conclusions. Firstly, it is safe to say that an individual or a firm could show opportunistic behavior that can lead to severe consequences for the developed strategies and the financing of businesses, resulting in having a negative and discouraging effect on potential investors. Therefore, companies must be strategic and minimize the effect that opportunism has on their business (Williamson, 1991).
Secondly, transaction cost has a way of making the managers seek out lower-risk opportunities in regulated markets.

The transaction cost theory highly emphasizes the impact that opportunism and rationality have on a business and its operations, a basis that is highly correlating to the principal-agent theory.

Proposition 4
High transaction costs are associated with high uncertainty and high risks, indicating the choice of a high control entry mode.

5.6 PRINCIPAL AGENT THEORY

The principal-agent theory is a theory that has been widely used to define and explore a wide range of issues and questions related to opportunistic and rational behavior in business-related situations. The principal-agent theory has, in later years, been reimagined and rewritten by several scholars. However, this thesis will maintain its focus on the orthodox principal-agent theory, as explained by Miller (2005).
Miller explains that the classical view of the Principal-Agent theory has been known to consist of several views (Miller, 2005). The first view elaborates on how the actions of an agent have a significant effect on the principal concerning physical or psychological wealth, i.e., the principal has an expectation that the actions made by the agent will result in either punishment or reward. The second view presented in Miller's publishing refers to the information asymmetries that exist in principal-agent relationships. The information asymmetry consists of the fact that the agent in the relationships obtains some specialized knowledge or ability which the principal doesn't, it keeps the principal from completing the

job him/herself. The third view builds on the assumption that the principal's preferences differ from those of the agent. These preferences could be related to the financial aspect, as the agent would most likely prefer to achieve a high payment for minimum work, whereas the principal would prefer to receive a high reward while paying the agent as little as possible. Fourthly, a single principal will take the initiative to create a contract with the agent, and therefore decides and sets the terms of the contract, while the agent will choose to agree with the terms or not.

The fifth view builds on the basis that both the principal and the agent obtain the knowledge and know-how of the work that must be conducted by the agent. Meaning that even though the principal might not have sufficient time to monitor the engaged agent directly, it is assumed that the principal is aware of the results of the efforts, and therefore assumes that high efforts will result in positive and good results, and low efforts will result in poor results. The last view focuses on the fact that it is the principal that decides the specifics of the contract, and using logic will create incentives that ensure that the agent will act on the principals' preferences (Miller, 2005).

Proposition 5

Local partner contracts are aligned to strengthen the preferences of the principal.

5.7 Hofstede´s Cultural dimensions

A vital factor to consider for businesses wishing to internationalize is cultural differences. Understanding how cultural dimensions differ from country to country can determine whether or not a business is thriving in a foreign market. Geert Hofstede developed a framework that gives an understanding of cultural differences in countries across the world. The framework is used to differentiate between different national cultures, cultural dimensions, and impact on a business setting. Hofstede and his research team introduced six cultural dimensions. According to Hofstede's webpage, which is dedicated to the research, it is stated that "*The cultural dimensions represent independent preferences for one state of affairs over another that distinguish countries (rather than individuals) from each other*" (Hofstede Insights, 2020). Further, they state that *"The country score on the dimensions are relative, in that we are all human, and simultaneously we are all unique."* (Hofstede Insights, 2020).

Since the framework consists of six different dimensions, there will be a short description of each. The first dimension is power distance. This indicates the degree to which the less powerful members of a society accept and expect that power is distributed unequally. Societies with a low degree of power distance look to equalize the distribution of power and demand justification if power is unequally distributed while people from a society with a high degree of power distance accept a hierarchical order where everybody has their allocated place. (Hofstede Insights, 2020).

The next dimension differentiates individualism from collectivism. Societies with a high degree of individualism contain individuals who only take care of themselves and their close family, and have a loose-knit social framework. Societies with a high degree of collectivism prefer a tightly-knit framework in a society where members care for each other, and the main focus is "we" instead of "I." (Hofstede Insights, 2020).

The third dimension focuses on masculinity versus femininity. If a society is characterized as masculine, then they have a preference for achievement, heroism, assertiveness, and material rewards for success. A feminine society is, however, less competitive and emphasizes cooperation, quality of life, and caring for the weak. (Hofstede Insights, 2020).

How societies look at the future is vital in the fourth dimension. This is called uncertainty avoidance. It expresses whether members of a society feel uncomfortable with uncertainty and ambiguity. Societies with a healthy level of uncertainty avoidance maintain rigid codes of belief and behavior, and they are intolerant of unorthodox behavior and ideas. Societies with a weak level of uncertainty avoidance support a more relaxed attitude where practice counts more than principles.

The second to last dimension investigate long term orientation versus short term normative orientation. Societies scoring low on this dimension look at changes in the society with suspicion, and maintain time-honored traditions and norms. Societies scoring high on the dimension encourage thrift and efforts in modern education to prepare for the future and emphasizes a more pragmatic approach. In the business world, we can view it as a short term normative approach versus a long term pragmatic approach. (Hofstede Insights, 2020).

The final dimension is indulgence versus restraint. Indulgence stands for a free society where people enjoy life and have fun. While a restraint society is more suppressed with strict social norms. (Hofstede Insights, 2020).

The cultural dimensions mentioned have been analyzed in the context of China and South Korea to spot differences with Beckmann's home market. Specific cultural differences are essential to understand if a company wishes to succeed in doing business overseas as well as choosing the right mode of entry.

Proposition 6

Increasing cultural distance indicates a higher perceived country risk.

6. METHOD AND DATA COLLECTION

6.1 CONCEPTUAL FRAMEWORK

The main objective of this master thesis is to conduct research that will identify the main overall factors that impact what entry modes are chosen by businesses when internationalizing to emerging markets. Previous literature in the form of secondary data was collected to form the conceptual framework of this thesis. Primary data was then collected through in-depth interviews to extract findings and analyze data. This research has been founded by researching Beckmann's endeavors and experiences when internationalizing to the Chinese and South Korean markets. By using the case of Beckmann, this master thesis has sought to investigate how the cultural implications and local institutions that differ significantly from Beckmann's home country have impacted their decision making, choice of entry modes, and their relations towards business networks when internationalizing to emerging markets.
The research question that forms the basis of this research is as follows:

WHAT ARE THE FACTORS IMPACTING THE CHOICE OF ENTRY MODES FOR BUSINESSES INTERNATIONALIZING TO EMERGING MARKETS?

The following propositions were developed based on the previously presented theoretical framework and literature findings:

P1: *Due to cost savings, firms are more likely to choose exporting as a mode of entry into new emerging markets.*
P2: *Tariffs, quotas and economic institutions indicates the choice of a cooperative mode of entry.*
P3:*The level of trust and prior business network relationships impacts the commitment of the internationalizing company.*
P4: *High transaction costs are associated with high uncertainty and high risks, indicating the choice of a high control entry mode.*
P5: *Local partner contracts are aligned to strengthen the preferences of the principal.*

P6: *Increasing cultural distance indicates a higher perceived country risk.*

The topic of the research conducted in this thesis is quite a hot topic in the global world of economics, as a high number of western companies seek to explore the tremendous economic benefits of internationalizing to emerging markets. Although this is quite a hot topic and has been for years, there has surprisingly been conducted little research that builds on the experiences and effects of the chosen entry modes of SME's (Bruneel & De Cock, 2016) when internationalizing to emerging markets. Therefore, this thesis strives to gain further insight into this topic. As the main objective of this thesis was to get a thorough understanding for the factors impacting the entry mode decision-making process of businesses internationalizing to emerging markets, the data will be collected from the case study of Beckmann's experience from internationalizing to the Chinese and South Korean markets, through in-depth interviews with a key decision-maker and interviews with people of high importance to Beckmann with an abductive approach. As this implies, a qualitative research method has been chosen to get a thorough and adequate understanding of Beckmann's actions.

6.2 QUALITATIVE RESEARCH METHOD

While quantitative research methods are shaped to compute measurable variables with a mathematical or numerical value, with the intentions of creating standardized or generalized results (Gripsrud, Olsson & Silkoset, 2010) (Myers, 2013), the qualitative research methods are generally defined as data in the value of words, usually gathered through the methods of questionnaires, interviews, previously conducted research as well as observations (Sekaran & Bougie, 2013). Furthermore, in 1990, Strauss and Corbin argued that the qualitative method could generally be defined and by the means of that it is any kind of research that where the findings are not produced from any sort of quantification or statistical procedures (Strauss & Corbin, 1990), but rather from real-world settings where the researcher will restrain from manipulating the findings and let the objective unfold in a natural way (Patton, 2001).

The qualitative research method was chosen for this master thesis, as the main objective of this thesis is to get a thorough understanding of the decisions made by companies that choose to internationalize to emerging markets. According to Plakoyiannaki et al. the qualitative research methods are most favorable in complex and broad situations, as the method offers the ability to explore comprehensive and thorough insights as well as computing theories that are specific to the context of the research (Plakoyiannaki, Wei, Hsu, Cassell, & Prashantham, 2017). Furthermore, while quantitative research in these complex situations only would graze the very surface of the research, Plkoyiannki et al. argue that the need for the use of qualitative research within management theories in emerging markets is high (Plakoyiannaki et al. 2017). Furthermore, they argue that the management theories that are and have been developed in western countries may not adapt to the business culture in emerging markets, which is why they suggest that using qualitative research methods will allow building and testing theories, as well as form a more profound understanding for the unique management practice conducted in emerging markets (Plakoyiannaki et al. 2017). The argumentation of Plakoyiannki et al. is further strengthened by Birkinshaw et al. who emphasize that the qualitative research methods play a crucial role in international business research, as qualitative research is crucial to understand and comprehend the cultural, institutional and organizational context that is present in emerging and international markets, and how they interfere with businesses in the internationalization process (Birkinshaw, Brannen, Tung, 2011).

6.3 Case study

In 2013, Myers stated that in a case study, the researcher aims to understand why and how certain decisions were made in a business, as well as why a process within the business works the way that it does (Myers, 2013). Yin further strengthens this statement in the publication from 2014, where Yin states that choosing a case study is most favorable when the target is to ask questions with "how" and "why," in situations where the researcher is not in control, and interviews with people involved in the event are conducted (Yin, 2014). This research aims to examine and get a thorough understanding of the decision-making process related to the choice of entry modes in emerging markets, an aim that fits with the description of Yin and Myers. Accordingly, a case study is chosen.

In their publication from 1998, Darke et al. state that the case study research requires the scope and the design that includes a comprehensive literature analysis that creates a thorough understanding for "the existing body of research literature" within the research area, which will enable the researchers to position their research question within that existing body of literature (Darke, Shanks, and Broadbent, 1998, p. 280).

The case study research offers a range of strengths in the research process, where one of the strengths pointed out by Hartley in 2004, is that the case study gives the opportunity to develop a theory that is fairly grounded in earlier empirical and theoretical research, as well as offer the opportunity to conduct a narrow and defined or broad and open-ended focus of the research (Hartley, 2004). In 2014 Yin argued that an excellent strategy to analyze the findings of case studies is to rely on theoretical propositions, and additionally angle the theoretical framework to guide the analysis of the case, as the propositions will aid the researcher in focusing on the data that is relevant for the case (Yin, 2014). Accordingly, the data obtained for the case study conducted in this thesis will form analysis and discussion that will be based on the six propositions with a reasonable grounding in the theoretical framework presented, as well as evaluated in the aspect of assessing if the research findings are grounded, or if additional research should be conducted.

Furthermore, the research question will form the basis of the number of cases that will be studied, whereas single case studies work well to provide in-depth understandings and investigations of the case object (Darke et al., 1998). A single case study was chosen for this thesis, as this would offer the opportunity to focus the research on acquiring a thorough understanding for the decision making the process of Beckmann, as argued by Darke et al., when they entered markets that had no real competitors within their particular market segment, and how they faced markets with a reasonably low awareness for the segment.

6.4 Qualitative Interview

Since this paper aims to provide an insight into how and why Beckmann internationalized into two emerging markets (China and South Korea), we decided to use qualitative interviews as a tool to collect data. Maccoby and Maccoby defined an interview as *"[...] a face to face verbal exchange in which one person, the interviewer attempts to elicit information from another person or persons."* (Maccoby & Maccoby, 1954, p. 449). According to the Oxford Handbook of qualitative research, the qualitative interview captures how individuals experience the world, act, feel, and develop. (Leavy, 2014, p. 277). Based on the traits a qualitative interview brings, we believe that it will give us meaningful insight into the reasoning behind the decisions which lead to Beckmann internationalizing. Some say that qualitative research is too subjective, but Patricia Leavy argues:

"That qualitative interviewing is, in fact, the most objective method of inquiry when one is interested in qualitative features of human experiences, talk, and interaction because qualitative interviews are uniquely capable of grasping these features and thus of being adequate to their subject matters" (Leavy, 2014, p. 278). By objectifying the qualitative features, we believe that our results become more reliable and generate a deeper understanding of the phenomenons which are being researched.

After discussing with Beckmann, we agreed to conduct three interviews. One of the interviews was organized face-to-face with the CEO of Beckmann. The last two interviewees are stationed in South Korea, so the same questions were sent to the respondents via email. "Structured interviews are employed in surveys and are typically based on the same research logic as questionnaires: standardized ways of asking questions are thought to lead to answers that can be compared across participants and possibly quantified" (Leavy, 2014, p. 286). The purpose of interviewing distributors from South Korea and China was to see whether Beckmann's process of choosing an entry mode was comparable. However, due to the current situation regarding Covid-19, the distributor in China was unable to participate in the research. Therefore we compare the answers from the distributor in South Korea and Innovation Norway in South Korea. Since a structured interview aims to compare answers between participants, we found it fitting to conduct this mode of an interview. Even though the sample size is quite small since the research is based on a single case study, we believe that it is possible to quantify the results towards similar nations in Asia. There are also disadvantages with structured interviews. *"They are passive recordings of people's opinions and attitudes and often reveal more about the cultural conventions of how one should answer specific questions than about the conversational production of social life itself"* (Leavy, 2014, p. 286). This indicates that one cannot gain extra information from the respondent through follow up questions and that the respondent might answer in a way that fits the firm's code of conduct instead of elaborating on his/her's own opinions. Based on the research question: *"What are the factors impacting the choice of entry modes for businesses internationalizing to emerging markets?"* An interview guide was developed, which formed standardized questions for the respondents to answer. The questions comprising the interview guide were developed on the base of the initial research, which lead to the conceptual framework, and the six propositions presented above.

According to Leavy (2014), semi-structured interviews are probably the most widespread form of human and social science, and they are the most common format presented in most textbooks. Further, "Compared to structured interviews, semi-structured interviews can make better use of the knowledge-producing potentials of dialogues by allowing much more leeway for following up on whatever angles are deemed important by the interviewee. Moreover, compared to unstructured interviews, the interviewer has a greater say in focusing the conversation on issues that he or she deems important concerning the research project" (Leavy, 2014, p. 286). When interviewing the CEO of Beckmann, we used questions formed from an interview guide to get answers to specific essential questions, but we also made way for follow up questions so that we could obtain information that otherwise might get lost. Further, by conducting a semi-structured interview, the respondent gets a feel of a more informal interview process, leading to free flow in the conversation where we as interviewers can steer the conversation in a direction that gives us exclusive information to our research project. The personal interview was performed as an individual interview with a slight twist. Since two people produce this research project, both participated in the interview process. Only one person acted as the interviewer, while the other one participated as a listener to see if the answers given could be interpreted in multiple ways, the second person could ask follow-up questions if needed. Leavy argues that individual interviews create an atmosphere of trust and discretion, leading to a more open conversation regarding the research phenomena. (Leavy, 2014, p. 289). By having two "interviewers" present, we risk losing that atmosphere of trust since it is more daunting to open up to two individuals instead of one. However, the pros received from having to separate ways of interpreting the interview wayed up the pros of doing an "old school" individual interview.

6.5 Challenges with the interviews due to Covid-19

This dissertation was conducted during the spring of 2020. Unforeseen obstacles represented by the Covid-19 virus made the interviewing process rather challenging. The virus started to spread globally in late February, early March. Before the period mentioned, we had finalized our theoretical framework and our use of the methodology. Next on the agenda was, therefore, data collecting through interviews. We encountered our first obstacle when we tried to organize the interviews, due to the extreme situation both globally and locally, many SMEs had more than enough on their plate during the weeks in March and April, leading to a substantial delay in our interview process. The planned interview with Beckmann´s distributor in China fell through due to the crisis, with limited time and resources they had to prioritize other activities. Further, restrictions implemented by the government meant that our interviews could not be performed face-to-face as planned. For this reason, the interviews had to be conducted through a video call (Microsoft Teams). By having to shift towards a more distanced form of an interview, we risked losing out on certain advantages that a face-to-face interview brings. It is challenging to create an atmosphere that reflects trust and discretion when the interview has to be executed online. The interviewee might act more restrained in his/her answers simply because the privacy issues that arise online could factor in on issues related to information that is sensitive to Beckmann. As a direct cause of the global pandemic, the interviewees in South Korea had limited time and resources to participate in this thesis and to secure information from these important partners, a decision was made to conduct written interviewees. We acknowledge that utilizing written interviews will result in limited answers and the possibility of missing out on crucial information as a result of misinterpretation of the written questions, which is why the questions were carefully constructed to rule out the possibility of misinterpretation as much as possible.

6.6 Analysis of data

Steven J. Taylor, Robert Bogdan, and Marjorie L. Devault (2016) argue that qualitative data analysis is a process of inductive reasoning, thinking, and theorizing. (Taylor, Bogdan & Devault, 2016, p. 168). The characteristics indicate that we, as researchers have to use logical thinking to form a firm analysis of data collected both through the interviews and secondary data. To perform such an analysis, we need to code our interviews into categories derived from preliminary findings on theory regarding the research subject. “To analyze in qualitative data analysis is to observe and discern patterns within data and to construct meanings that seem to capture their essence and essentials" (Leavy, 2014, p. 584). The data collected through the interviews will be analyzed for patterns and meanings relating to the theoretical framework in which the paper is built on. The interviews have been coded into these categories: *Market Entry*, *Entry Mode - Evaluating Risk and Control*, *Tariffs & Quotas*, *Cultural Differences*, and *Internationalization - Use of Networks*. The interviews were coded with different colors to identify the different categories and separate them. By using different color schemes, it is easier for the audience to understand where our findings generate from. Finally, the different categories were chosen to construct the meaning that Leavy (2014) argued the importance of when analyzing the primary data to the secondary data collected.

6.7 Sampling and Data collection

6.7.1 Sampling

In 2013, Sekaran and Bougie argued that in order to conduct a thorough sampling, one has to, based on specific criteria, select elements out of a particular chosen population (Sekaran & Bougie, 2013). Furthermore, it is eminent that when the interviewees are chosen and sampled, that they represent the opinions of the various stakeholders, and once the various interviewees express the same topics and issues, the sample sizes are sufficient (Boyce & Neale, 2006). The sampling process for this master thesis started through discussions with CEO of Beckmann, Ole Falk Hansen, and supervisor Trond Randøy. The discussions led to the initial plan and joint agreement and understanding that in order to acquire a thorough understanding of the issues presented through the propositions, CEO of Beckmann, their consultant with Innovation Norway and the local Chinese and South Korean distributors, would be sufficient interviewees. However, as a direct result of the global COVID-19 pandemic, the planned interviews with key actors in the Chinese market fell through, which is why the data collected was based on interviews with the Beckmann CEO who would be able to guide the researchers through the decision making process and commitments of Beckmann when they entered the Chinese and South Korean markets, as well as present the issues and obstacles that they faced in the process. The data collected was additionally based on the local distributors as well as consultants from Innovation Norway, who would be able to present their point of view when interacting with SME's that are in the process of internationalizing to these emerging markets, and further, create a picture of their experiences with western companies entering the markets.

6.7.2 Validity and Reliability

6.7.2.1 Reliability

The concept of reliability is most commonly present in the testing and evaluation of quantitative research. However, the concepts are widely used in a vast range of research (Golafshani, 2003). In the year 2000, Joppe defined the concept of reliability as:

"[…]The extent to which results are consistent over time, and an accurate representation of the total population under study is referred to as reliability, and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable" (Joppe, 2000, p.1).

Golafshani argues that: *"If we see the idea of testing as a way of information elicitation, then the most important test of any qualitative study is its quality."* (Golafshani, 2003, p. 601). Golafshani further builds on the study of Stenbacka, who argues that when reliability is introduced as a concept for evaluating the degree of quality of quantitative research, it explains it. In contrast, the concept of evaluating quality in qualitative research has the purpose of generating an understanding (Stenbacka, 2001). From this, Golafshani draws that the concept of reliability is irrelevant in qualitative studies when considering the differences in purposes for evaluating the quality of research (Golafshani, 2003). Furthermore, Stenbacka argues that the concept of reliability is misleading if presented in qualitative research and that if reliability is presented as a criterion for the qualitative research, the research will be "no good" (Stenbacka, 2001, p.552).
However, as a contrast, Patton in 2001 argues that the concepts of validity and reliability are two factors that every researcher should include in their qualitative study, and further that one could conclude that reliability is a direct consequence of validity in any qualitative study (Patton, 2001, in Golafshani, 2003).

6.7.2.2 Validity

In the publication from 2003, Golafshani offers the definition of validity presented by Joppe in 2000:
"Validity determines whether the research truly measures that which it was intended to measure or how accurate the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions and will often look for the answers in the research of others." (Joppe, 2000, p.1)
In 2003 Golafshani argues that although some qualitative study researchers have stated that the concept of validity does not apply to qualitative research, most have a shared understanding of the need for some qualitative measure of their research (Golafshani, 2003). Some suggest that the concept of Validity in research is profoundly affected by the researcher's perception of the concept and the researcher's choice of paradigm assumptions (Creswell & Miller, 2000). Furthermore, Stenbacka argues that in the case of qualitative research, the concept of Validity would have to undergo a redefinition (Stenbacka, 2001), where Mishler (2000) argues that in the idea of discovering truth through measuring validity and reliability, should be replaced by the concept of trustworthiness (Mishler, 2000 in Golafshani, 2003), that will form the basis of confidence in the research findings (Lincoln & Guba, 1985). Golafshani (2003) further builds on these arguments and states that the measured quality of a given research is related to the generalizability of the given results, and therefore related to the testing and the increase in trustworthiness of the research (Golafshani, 2003). Patton (2001) further argues that the generalizability in qualitative studies is not as easy as in quantitative studies, and is rather heavy reliable of the cases chosen and studied (Patton, 2001 in Golafshani, 2003).

As previous authors have stated, the testing of validity and reliability will not be as smooth in qualitative case studies as opposed to quantitative studies. However, it will nevertheless be relevant to include validity and reliability in this thesis. As this is a qualitative single case study, the probability of result reproductions is hard to estimate, as it is not guaranteed that the experiences of Beckmann will be generalizable for companies that have undergone the same endeavors. In order to strengthen the reproduction levels, Innovation Norway South Korea was chosen as interviewees. They would be able to provide thorough information about their experiences in assisting and aiding companies internationalizing to the respective countries. Additionally, Beckmann's local partner in South Korea was chosen as an interviewee, as they would be able to provide the researchers with valuable insight into their experiences with acting as a local partner for foreign SMEs.

7. PRESENTATION OF DATA

The three actors that participated in the case study of this thesis will now be introduced and presented, followed by a presentation of their most relevant statements from the various interviews conducted.

7.1 Beckmann

Beckmann was founded in 1946 in Kristiansand, Norway. Olav Beckmann started the company as a family company to produce backpacks. In early 1970 the first leather backpack was introduced to the Norwegian market, and sales proliferated. Beckmann's primary focus is to produce backpacks that are ergonomically right for children to use so that children do not suffer back injuries due to poorly produced backpacks. Beckmann is today the market leader in backpacks in Norway, and they are now present in several countries in Europe, Asia, and South America. To begin with, Beckmann only produced for the Norwegian market, but due to interest from distributors in foreign markets, the company started to investigate market opportunities outside of Norway in 2015 slowly. The company was bought in 2017 by Hercules Capital. Under new ownership, the company started to expand further and look for opportunities in the international market (Beckmann, 2020)

Beckmann has been present in the Chinese market for 4-5 years, with production tracking back even further. There is much potential in the Chinese market due to many children within Beckmann's target segment. Urbanization is leading to density in the cities, meaning that retail stores (distributors) can reach a lot more customers than before.
Further, Beckmann has been present in the South Korean market for a little more than a year. They had to start from scratch in this market, but the potential is again massive due to a culture that is heavily focused on excellent education. The focus on education leads to a vast

market potential for Beckmann's backpacks. The government is also focused on students' health and are investing in proper education in this regard. Students are taught to buy proper backpacks to ensure that they carry their books in a healthy manner.

Interview with the CEO of Beckmann AS

An interview was conducted with the CEO of Beckmann to create an understanding of how Beckmann moved from being a small family-run company to an SME in the international market. He describes how Beckmann entered the Chinese and the South Korean market. He further explains why the company chose to use distributors to enter the mentioned markets and what benefits it brings to Beckmann. Distributors contacted Beckmann to investigate the possibility of selling their products in foreign markets, to begin with. However, nowadays, the company seeks to locate suitable distributors to sell their products in markets with prospering potential for growth and sales.

Market Entry

After Beckmann was sold to Hercules Capital in 2017, the company changed its focus from being a player in the Norwegian market to a player on the international market. By building a team with competence and knowledge about foreign markets, they started to be more proactive in their search for international opportunities. The CEO explains that the company researched markets based on criteria such as purchasing power, backpack culture, and the interest for western/Scandinavian products. Beckmann decided to employ sales managers for the Asian and European markets when it comes to follow-up and contact with the international markets.

The CEO points out that the company had some prior operations in China before they were sold to Hercules Capital. They produced their goods in China, and a Chinese distributor with roots in Kristiansand had contacted them with a request to sell and distribute Beckmann's products in the Chinese market.

The case was quite different when Beckmann entered the South Korean market. Here they started with a screening process to evaluate whether the market was worth investing in. High purchasing power in the big cities, together with a culture of investing in proper quality products for children, made the market very interesting. After the screening process, they decided to move on with a selection process to look for a suiting partner. With help from Innovation Norway, they found a partner and began their adventure in the South Korean market in 2019. The CEO describes that there were no typical competitors in the market, so Beckmann had to build a customer base and educate the population. The closest competitors were large and well-known fashion brands that only produced regular backpacks with no ergonomic support.

Entry Mode - Evaluating Risk and Control

The CEO stated that Beckmann chose to work with local distributors in China and South Korea. These distributors get the exclusive rights to sell and market the Beckmann brand. He further explained the importance of finding an experienced and reliable partner with both faith and trust since their success relies on the competence and achievement of their partner. By choosing to have a partnership with a distributor, they hand over most of the control to the other party. The way the distribution agreement is designed makes the partner buy Beckmann's products, meaning that the risk element for sales is removed from Beckmann. The CEO explains that the partner does not pay any fee for the contract and distribution rights, they only purchase the products. However, there are still some risks associated with this form of entry mode. Beckmann is dependent on the distributor to market the brand in the right way to keep their brand image. The CEO of Beckmann further emphasized the importance of having a proper distribution agreement in place. The CEO explained that they spent a great deal of time early on to construct a comprehensive distribution agreement. The agreement limits certain rights, instructs specific commitments, and builds incentive mechanisms for the distributor. The agreement covers everything from what the distributor can and cannot do, and how cash should flow. The CEO explained the importance of agreeing on common goals and working together to achieve such goals. He further described that by entering the market with local distributors, they have low entry costs. The only form of entry cost is related to the screening and selection process.

When asked whether the choice of entry mode is directly linked to the risk connected to possible gains and losses, he confirmed this and added that they, as an SME have limited options and opportunities if they were to operate alone in foreign markets far from their home market.

Tariffs & Quotas

By producing their products in China, Beckmann reduces time to market with short transportation distances, and they save cost on the toll of goods on shipments to the Chinese market, according to the CEO. He added that the company often calculates a landed cost on products in a country, this consists of transportation, tariffs, and VAT. He referred to an example in Japan where it is common to have many participants in the supply chain, meaning that each player in the hierarchy adds cost to the landed cost.

Further, it was mentioned that the company had little to no problems with declaring goods in China or South Korea, it works as smoothly as it does in Norway or the EU. The CEO points out that they sometimes use consultants in China for guidance to questions related to tariffs and quotas. He also illustrates that several transaction costs are crucial in evaluating new markets. This includes toll barriers, which can make importing of goods expensive. For example, in several Latin American countries, they operate with a 20% toll on imported goods.

Cultural Differences

Due to cultural differences, Beckmann chose to seek alliances or distributor partnerships. Marketing is, for example, conducted in a very different way in China compared to Norway. "Cartoons, music, and activities are heavily used and portrayed in a childish sense in The Chinese market." By having a distributor with a high level of market knowledge, they know how to reach the right customer segment in each country based on cultural preferences. The CEO explains that it can be difficult for employees in Norway to understand cultural dimensions in Germany and Denmark. Therefore, they have sales personnel living and being exposed to the cultures in these countries. When it comes to negotiations with players in a foreign market, it is also seen as an advantage to have a local distributor with market and business knowledge on a cultural level.

Internationalization - Use of networks

In the process of being proactive, The CEO explained that Beckmann decided to employ an international sales team, and employ sales managers for the Asian and European markets. In the beginning, there were various international companies aware of Beckmann's existence, who reached out with a request to sell Beckmann's products in their respective markets. He points out that they made contact with locals in South Korea to understand how the current market was before entering. Further, they were assisted by Innovation Norway to find a fitting partner. In other countries, they have been in contact with 2-3 different distributors which they had prior contact with or companies that their employees knew about. On questions asked whether knowledge about markets or networks to markets was the most essential factor for success when internationalizing, he illustrated that the process becomes easier with a network and some prior competence. The company needs to evaluate candidates for new positions on their network in the countries they will work as well as their skills and knowledge. The CEO also argues that the use of business networks such as Innovation Norway and chambers of commerce is of importance when internationalizing.

7.2 Innovation Norway

Innovation Norway is the most important instrument for innovation of Norwegian businesses and industries, run by the Norwegian Government (Innovation Norway, 2020). The main task of Innovation Norway is to support companies to enhance their competitive advantage, and innovation one of the main goals of Innovation Norway is to aid and assist Norwegian entrepreneurs and investors that aims to focus on future-oriented business activities (SNL, 2018). Besides, Innovation Norway also focuses on stimulating foreign investors to invest in Norway (SNL, 2018). Innovation Norway aids companies in offering counseling and financial support, with the goal of creating profitable Norwegian businesses worldwide (SNL,2018).

Innovation Norway is 51% owned by the Norwegian Ministry of Trade, Industry, and Fisheries, as well as 49% owned by Norwegian counties (SNL, 2018). Innovation Norway is represented in all Norwegian counties, as well as in more than 30 countries worldwide, where China and South-Korea are among these countries (Innovation Norway, 2020).

Interview with Innovation Norway

An interview in the form of written questions sent by e-mail was conducted with Elin Sagbråten, the department manager of the Seol office, as well as Dooseok Kim, a senior advisor at the Seol office. As Innovation Norway assist and aid a wide range of companies from every imaginable industry to enter emerging markets, such as South-Korea, the researchers of this thesis found it to be engaging and educating to research Innovation Norway's point of view of the case of Beckmann and other companies going through the same process of entering a new emerging market.

Interview with department manager, Elin Solbråten, and senior advisor, Dooseok Kim, at Innovation Norway's Seol Office.

In a written interview with the department manager, Elin Solbråten, and the senior advisor, Dooseok Kim at Innovation Norway's Seoul Office, they talk about their experience with advising and aiding Beckmann in their process of entering the South Korean market, as well as their experiences and knowledge about the market situation and common barriers for foreign companies that aim at entering the market. According to Solbråten and Kim, many companies are met with both cultural and lingual challenges in their efforts to enter the market, which is why information and knowledge about the market are crucial.

Market Entry

Solbråten and Kim explained that Innovation Norway is the Norwegian Government's most important instrument for innovation and development of Norwegian enterprises and industry and that they support companies in developing their advantage and to enhance innovation. They further explain that Innovation Norway in Seoul works to support Norwegian businesses in their internationalization process through various services such as market research, local partner search, or networking events.

Solbråten and Kim further elaborate that Beckmann and Innovation Norway Seol came in contact in May 2018, with a request from Beckmann to receive aid in locating a local partner in South Korea. Innovation Norway presented a list of 11 possible local partners, from which Beckmann chose four to investigate further. In cooperation with Innovation Norway, Beckmann interviewed these four companies and ended up choosing one of them to be Beckmann's South Korean importer and distributor.

Kim and Solbråten further explained that the backpack market in South Korea was estimated at 300 billion Won in 2017, with the major suppliers categorized as (1) local fashion companies in relation to domestic children's clothing brand, (2) sports & outdoor kid's brands and finally (3) imported brands, resulting in excellent market opportunity for Beckmann.

Entry Mode - Evaluating Risk and Control

Solbråten and Kim state that there are several challenges that foreign companies meet when entering South Korea, and that some of the most significant challenges include a poor understanding of the local market in relation to inadequate information about the market size, the major players and competitors, as well as a poor understanding for the local business culture of sales and distribution channels.
Kim and Solbråten further explained that the South Korean society is heavily focused on relationship building and the level of contact as well as being aware of the historical issues and conflicts amongst Asian nationalities, and a thorough understanding for this is essential for any company that wishes to succeed in the South Korean market.
Furthermore, Kim and Solbråten elaborate on the topic of the high level of South Korean bureaucracy, and how the country follows a “top-down policy approach” where strong chaebols have a strong influence on the economic development of the country. Kim and Solbråten further explain that if there is a field of specific interest, South Korea can make fast changes and speed through the bureaucracy if of high importance, also referred to as a “bali-bali” (fast-fast) approach. Kim and Solbråten state that in order to overcome these barriers, cultural and bureaucratic differences, and language barriers, a solution is to enter the market by utilizing local employees or a local business partner. They emphasize the importance of using various advertising methods to raise awareness during the initial period of new market development, as the brand awareness of the South Koreans influences the success of the entry modes chosen.

When asked which entry modes that are recommended for and used by foreign companies entering the South Korean market, Kim and Solbråten states that in the very early stages of market development, a mode centered on reducing risk is recommended. Most commonly, the method used is to partner up with a local South Korean partner that can import and distribute the goods. Kim and Solbråten explained that if the given company wanted to develop the market smoothly and make a higher leap forward, they would recommend the challenge of establishing a branch office in Korea, and from there, import and distribute directly or partly combined with an existing partner.

Tariffs & Quotas

Upon being asked how South Korean laws are in regards to tariffs and quotas, Kim and Solbråten explained that customs clearance procedures are governed by the Customs act and trade laws. There are customs duties based on the commodity's CIF value and 10 % value-added tax (VAT). The VAT is applied on imports based on customs value plus duties. The two also stated that Korea has extensive free trade agreements with a wide range of countries and regions, including Europe.

Cultural Differences

Kim and Solbråten state the importance of understanding the local culture, the cultural differences, and language barriers, challenges that should be overcome by utilizing a local business partner. They further refer to the Santander Bank report on South Korean business culture, which states how the South Korean business culture is heavily influenced by confucian principles, meaning the respect for authority and elders, harmony, and the importance of tradition, family, friends, and ancestors. The report also states that in the South Korean business culture, the Koreans must maintain "Kibun" (Face, dignity) and always avoid confrontation, as once "kibun" has been lost, it can never be regained. Koreans also prefer doing business with people whom they know, therefore, building a personal relationship and trust is crucial to succeeding in establishing a successful business partnership.

Internationalization - Use of networks

On the topic of using networks as a part of internationalizing, Solbråten and Kim explain that using networks and local partners is crucial to overcome the risks and barriers one would encounter when entering foreign markets. If the company wishes to make a higher leap in development in the market, using local networks and internal employees will be the best approach.

7.3 Kibos Co Ltd

Kibos is Beckmann's partner in the South Korean market with a long experience in distributing and selling products for children, and has an exclusive contract to sell, market and distribute the Beckmann brand within the South Korean market.

Interview with Kibos Co Ltd

An interview in the form of written questions sent by e-mail was conducted with Alicia Ki, the Overseas Manager at Kibos. As Kibos Co Ltd is Beckmann's exclusive partner in the South Korean market and has been with Beckmann since they entered the market in late 2018, the researchers of this thesis found it interesting to get an understanding of how Kibos views the market and how they have experienced their introduction of Beckmann to the South Korean market.

Interview with Overseas Manager, Alicia Ki

In a written interview with the Overseas Manager, Alicia Ki, she writes about her experiences with aiding Beckmann in entering the South Korean market, as well as the current and future situation for Beckmann in the South Korean market. Ki also writes about how consumer awareness and cultural preferences affect the entry modes and barriers of internationalizing firms.

Market Entry

Ki explained that after Beckmann and Kibos had conducted mutual reviews of each other, they formed a partnership to introduce Beckmann to the South Korean market by distributing through both online and physical stores.
Ki further explained that the online sales in South Korea are continually growing, and it is expected that over 50% of all backpack sales will originate from online sales within a decade, which is why it is crucial for foreign businesses entering the South Korean market to focus on online distribution.

Entry Mode - Evaluating Risk and Control

Ki stated that in order to enter the South Korean market and succeed, it is crucial to evaluate and understand the Korean culture and the tendency of its customers, and further explained that Koreans are especially sensitive to the "hottest trend" when it comes to the fashion industry, more sensitive than other countries. Furthermore, Ki explained that as Beckmann is categorized as a functional backpack brand with products that have a marketable difference and a strong selling point, overcoming entry barriers like customer brand awareness is much easier than for other companies.

Tariffs & Quotas

Upon being asked how tariffs and quotas in the South Korean market impact businesses like Beckmann, Ki answers that according to the FTA (Free Trade Agreement) between China and South Korea, Kibos and Beckmann can have their backpacks produced in China and imported to South Korea with a beneficial tariff rate of 6,4%, compared to a non-FTA rate of 8% on the same products.

Cultural Differences

In the interview answers, Ki stated that understanding the South Korean culture, as well as the South Korean customer tendencies, is crucial for succeeding in the market. Ki also emphasizes that the Koreans are very sensitive and aware of what "hot" and the latest fashion, which is crucial for companies to understand and therefore make sure that their products stand out in the market.

8. ANALYSIS AND DISCUSSION

The chapter below will discuss and analyze the findings presented in the previous chapter. The analysis and discussion will be further based in accordance with the theory and previous empirical findings presented in the theoretical framework chapter and the Chinese and South Korean contextual chapters. The analysis and discussion will be presented in relation to the propositions presented in the Method and Data collection chapter.

8.1 Proposition 1

Due to cost savings, firms are more likely to choose exporting as a mode of entry into new emerging markets.

In the case of Beckmann, they decided to enter both the Chinese and the South Korean market with local distributors. Both exporting and the use of a licensing agreement require limited financial resources, but both of the entry modes leave a company with a low level of control. When a company chooses to enter a market with a low level of control, there is a certain risk that their brand might get blemished. Beckmann falls in between these two modes of entry. It was defined in the theoretical framework that indirect exporting, according to Cullen and Parboteeah (2011), can be described as the process of exporting through domestically based intermediaries in the foreign market, which the company chooses to enter. While licensing is described by Ball. et al. (2008)., as an agreement where one firm (the licensor) will grant to another firm (the licensee) the right to use any kind of expertise, such as manufacturing processes (patented or unpatented), marketing procedures, and trademarks for one or more of the licensor's products. It is common that the licensee firm pays a fee, and, or a royalty to the licensor with this agreement. The CEO of Beckmann, however, explained that they do not charge any fee from the distributors. They only pay for the products which they intend to sell in the foreign market. Most of the financial risk is eliminated from Beckmann's perspective when the distributors pay for the products. However, control over their brand name is now turned over to the distributors. The CEO of Beckmann argued the importance of having a solid distributor agreement in place, and if the distributor breached the agreement, they could get out of the agreement before there is too much harm inflicted. He further argued that low costs related to their entry mode was significant since Beckmann does not have unlimited financial resources.

Innovation Norway argues that an entry mode favoring reduced risk is recommended for foreign businesses. However, they also explain that high levels of bureaucracy and a need for market knowledge and cultural understanding favors an entry mode where a foreign company leaves marketing responsibilities and sales to local partners. This is further supported by the data presented on China's and South Korea's institutions. With a high score on the Transparency International's corruption index in China, the need for market and institutional knowledge is therefore high. (Transparency International, 2020). Furthermore, with a lack of trust in institutions in South Korea, making the market more complex, an understanding of business procedures is recommended. With a society focused on relationship building, they favor an entry mode where partners have a great understanding of the local market and a robust business network in South Korea. According to theory, reduced risk is an entry mode with a high level of control (Joint venture or wholly-owned subsidiary). Since the South Korean market can be viewed as an open and well-established market, as argued in the chapter regarding the South Korean context. Cultural understanding and the importance of knowledge about how to conduct business in the market are essential, the use of local distributors is, therefore, an appropriate strategy. Even though the risk is higher, the benefits gained in such a well-established market weighs up for it.

Kibos, Beckmann's distributor in South Korea also argued the importance of evaluating and understanding the South Korean culture and the tendency of its customers. These remarks do not necessarily indicate the need for cost-saving, but they state that an entry mode with low level of control is recommended.

The CEO of Beckmann explained that SMEs have limited options and opportunities if they were to operate alone in foreign markets. This indicates that cost saving is a priority for businesses of the same size as Beckmann. Furthermore, by linking cost saving to the transaction cost theory of Williamson (1991), it is clear that Beckmann chooses to use external transactions due to the low amount of resources invested required compared to if they were to internalize the process and establish a complete Beckmann branch in South Korea and China.

Since the last interview with the distributor in China fell through, the primary country, we can link this proposition to is South Korea. The data collected from Beckmann back the proposition: *Due to cost savings, firms are more likely to choose exporting as a mode of entry into new emerging markets*. Previous research indicates that businesses entering a risky market often enter it with a high level of control. The transaction cost theory argues the same concept. However, these theories mention that this is the case if all options are available, meaning that resources are not a problem. The luxury of having unlimited resources is something that most small/medium-size enterprises do not have. Therefore, we wish to argue that this is a deciding factor for a company with the size of Beckmann when choosing an entry mode. As Randøy & Dibrell (2002) argued in their paper, distance to markets indicates that businesses choose an entry mode with a high level of control, this contradicts with what the CEO of Beckmann explained in their case. Beckmann chose an entry mode with low level of control because of the distance to the new market. With little or no market knowledge about the foreign market, they saw it fitting to use local distributors with prior competence and knowledge regarding the business culture in the respective markets.

8.2 Proposition 2

Tariffs, quotas and economic institutions indicates the choice of a cooperative mode of entry.

The interview respondents express that in general, tariffs and quotas in both China and South Korea do not offer barriers that influence the entry modes of Beckmann into these markets, contradicting the findings of (Kolter, 2003) and (Hollensen, 2011), who argued that most risks of internationalizing are related to external factors like tax. The CEO of Beckmann stated that in the cases of their operations in China and South Korea, they save costs on shipping and tolls on products, as a direct result of the free trade agreements and the short distance between China and South Korea, and that the shipping and importing of goods in China and South Korea work as smooth as in Norway or any other European country. This is further backed up by the Kibos Co Ltd representatives in their interview. Ki offers that according to the FTA (Free Trade Agreement) between China and South Korea, Kibos and Beckmann can have their backpacks produced in China and imported to South Korea with a beneficial tariff rate of 6,4%, compared to a non-FTA rate of 8% on the same products, which suggests that in the case of these markets, tariffs and quotas does not impact the internationalization process in the form of a barrier, but rather in the form of an opportunity.

The literature presented in the chapter of "China's institutions" states that the Chinese economic institutions are characterized by substantial regional disparity and that these institutions are enforced and sanctioned differently across the Chinese regions (Julan, 2008). The literature states that this offers uncertainty and risks for foreign companies, especially as the Chinese governments in specific regions and markets treat Chinese and foreign companies differently in favor of Chinese companies. This would indicate that foreign companies should align their businesses to center on regions with low government interventions. As CEO of Beckmann responds in his interview, Beckmann has not experienced any economic institutional barriers in their Chinese operations. However, it is essential to point out that Beckmann has never operated and distributed in the Chinese market by themselves, but in partnership with a Chinese distributor. This could indicate that Beckmann has overcome the barriers that would be present as a direct result of unstable and uncertain Chinese institutions, by entering the market through a local Chinese partner that has the knowledge and experience to overcome these barriers.

Additionally, the literature presented in the chapter: "South Korean Institutions," offers that after the Asian economic crisis in the late 1990s, several public agencies that were supposed to function as independent, specialized financial institutions were established, however, this financial supervisory system has not seemed to have the wished-for effect (Kim & Lee, 2006). Kim and Lee's findings showed that both formal and informal institutions had constrained the success of these supervisory systems. Therefore, the economic institutions of South Korea are still heavily influenced by informal institutions and therefore offer risks for inexperienced firms entering the market.

While the information gathered from the interviews would indicate that tariffs, quotas, and economic institutions have not influenced the choice of entry modes for Beckmann in the Chinese and South Korean markets. However, the literature presented in this thesis indicates the opposite in the case of economic institutions. The reason for this contradiction could be that several informal institutions in place profoundly affect the economic institutions in forms of cultural differences, chaebols, or historical political issues. As Beckmann has chosen to work with local partners instead of entering the market on their own, they might not have been exposed to the challenges offered by the economic institutions, as their local partners have had the knowledge to overcome these potential barriers. The latter could argue that tariffs, quotas, and economic institutions indicate a cooperative entry mode choice.

8.3 Proposition 3

The level of trust and prior business network relationships impacts the commitment of the internationalizing company.

In the conceptual framework, we discovered that the revised Uppsala model of internationalization emphasizes trust regarding network relationships as well as prior business network relationships. Compared to the original model developed by Vahlne and Johansson (1977), the focus has shifted from cost and risk assessment on markets towards the importance of business networks and learning through internationalization.

Beckmann's use of business networks, such as Innovation Norway, was necessary when they entered the South Korean market. Innovation Norway could use their networks to gather information regarding potential distributors, which made it easier for Beckmann to find a suitable and trustworthy partner. The CEO of Beckmann explained how they used the chamber of commerce in Japan to help with their initial entrance into the Japanese market. The internationalization process in China was, however, quite different. Beckmann was contacted by a distributor who requested to sell their products in the Chinese market. The Chinese distributor used their network to get in touch with Beckmann, showing the importance of business networks in today's global market. Furthermore, Vahlne and Johansson (2009) stated that management prior networks and knowledge gained through these networks and experience are of great support, especially for small and new businesses entering foreign markets, as also argued by Rugman & Collinson (2009), stating that small businesses are able to obtain new and useful market knowledge from working with a local partner. The CEO of Beckmann explained that members of the board and the management was formed with the intent of having senior representatives with extensive business networks and with prior work experience from industries related to Beckmann's in Asian countries. These statements back the revised Uppsala model of internationalization and illustrate that the internationalization process has been transformed over time. Vahlne and Johansson (2009) emphasize trust in their new model. They also believe that the process of building trust can be time-consuming and costly. The CEO of Beckmann believed that commitment and trust towards local distributors were a key factor in success in foreign markets. By using Innovation Norway in the process, they eliminate certain transaction costs linked with research on distributors. There are some costs linked with the process of building trust and commitment, but by using networks, these costs are heavily reduced.

Innovation Norway stated that the use of networks in the internationalization process is crucial when a business wants to overcome risks and barriers when entering a new market. Innovation Norway is part of a professional network since they are a third party facilitator for Beckmann. Innovation Norway did not have any direct business with Beckmann, but they helped them to look for a suiting distributor and to create a deeper understanding of the South Korean market. In the chapter on cultural dimensions in South Korea, we discovered that there are some distinct differences in the South Korean culture compared to the Norwegian. With a hierarchical and collectivistic society, the use of a trustworthy local distributor that practices these traits is essential to fit into the market. The local partner has prior business knowledge, which is useful in understanding and respecting the cultural preferences in a new foreign market. Cultural dimensions are even more different in China compared to Norway. This indicates that the use of local distributors with business and cultural understanding regarding the Chinese market is extra important when internationalizing to this market. Through the interview with the CEO of Beckmann, we get the sense that they have a trustworthy relationship with their distributor in China, and they have just prolonged their agreement with them, meaning that they will continue to distribute Beckmann's products and that Beckmann is more committed than ever to the relationship.

The data collected from Kibos does not say anything regarding the level of trust and network relationship. The analysis is, therefore, solely based on the data collected from Beckmann and Innovation Norway. Being a case study of Beckmann, we find that there is enough data to draw a meaningful conclusion to our proposition.

Based on the answers we received and data collected on cultural dimensions, there is a clear backing of the proposition *"The level of trust and prior business network relationships impact the commitment of the internationalization process."* By adding trust and prior business network relationships into an internationalization model, the importance of market knowledge is reduced. "*Trust can substitute for knowledge*" was mentioned by Vahlne and Johansson (Vahlne & Johanson, 2009, p. 1417). The element of knowledge is not eliminated. However, the business acquires market knowledge through its networks, which is much easier in today's market due to improved technological infrastructure and a fast-paced global market.

8.4 Proposition 4

High transaction costs are associated with high uncertainty and high risks, indicating the choice of a high control entry mode.

The overall findings suggest that there is a difference in opinion between the theory presented earlier in this thesis and the respondent's opinions.

Williamson (1991) argued that when the transaction costs are high, the appropriate decision would be to internalize the transactions within the firm in order to remove risks and uncertainties, whereas these uncertainties usually are built on the bases that long term and close relationships are likely to create lack of trust leading to uncertainty. Furthermore, the literature presented earlier in this thesis seems to make the same assumptions as Anderson and Gatignon (1986), in that the internationalizing firms can make a free choice of entry modes as well as have the sufficient funds and goal of entering a market with a volume of business that is sufficient to carry out the high-control entry modes. However, the CEO of Beckmann stated that they, as an SME have limited options and resources when entering a foreign market far from home and that internalizing the high transaction costs has to be weighed up against the pros and cons of the internalizing process. The actions of Beckmann has been confirmed in recent research, where Bruneel & De Cock (2016) have compared the research done on the entry mode choices of SMEs and found that literature on the topic argues that SMEs have limited resources which heavily impacts their choice of entry modes in their internationalization process. The research of Bruneel & De Cock further found that the limited resources of SMEs tend to indicate the choice of low control and inexpensive entry modes, such as exporting or agents (Bruneel & De Cock, 2016).

The respondents answer that there are plenty of cultural barriers to overcome, and to face these alone without the proper knowledge would offer high uncertainty and a range of risks. Beckmann has, therefore, chosen to build a strong and trustworthy relationship with a local partner to reduce/remove financial risks and uncertainties related to the financial risks of overspending in the attempt to succeed in the market. The CEO of Beckmann states that it is costly and risky for a small company to enter the market alone and that by choosing not to internalize the costs, they are left with little to no entry costs, as the costs are mainly related to finding and securing local partners. The choice of not internalizing the costs offers risks regarding building trust with the partner and the uncertainties of not having control over sales, marketing, and presentation of the brand in the markets as well as a high risk of the brand being damaged beyond repair. The latter is a topic that is well documented in research on SME's choice of entry modes, according to Bruneel and De Cock (2016). Bruneel and De Cock found that previous research argues that SMEs will prefer to utilize cooperative entry modes, which in turn will offer different challenges for SMEs in the internationalization process, as well as the utilization of partnership methods, will spread and reduce the risks and uncertainties that SMEs usually are exposed to when entering foreign markets (Bruneel & De Cock, 2016). The findings of Bruneel and De Cock (2016) and the statements made by Beckmann would, therefore, indicate that when SMEs choose to utilize partnership entry modes, they will remove certain risks and uncertainties but, in return, face new challenges related to the relationship with the local partner.

The literature presented earlier in this thesis has argued that that increased cultural distance will directly lead to vast differences in cultural norms, values, and cultural etiquette, which will offer barriers in searching for partners and negotiating contracts (López-Duarte & Vidal-Suárez, 2013). Arguments have also been made that the role that a local partner plays in reducing potential external uncertainties and risks heavily depends on the relationship between the firm and the local partner (López-Duarte & Vidal-Suárez, 2013). If a firm were to choose their entry mode based on the transaction cost theory, the theory would argue that a natural choice for a high control entry mode (Gollnhofer & Turkina, 2015) and that wholly-owned subsidiaries are chosen when the investments are made for the long term and would include the use of marketing skills (Chen & Hu, 2002). The findings of this thesis contradict the arguments made by these authors, as findings show that South Korean business culture is heavily focused on building good and close relationships between business partners as well as that the South Koreans are not particularly happy to do business with unfamiliar firms, and that both South Koreans and the Chinese are greatly focused on long term goals (Hofstede Insights, 2020). This would, therefore, indicate that even though the cultural distance is significant, there are cultural qualities present that would benefit from choosing to partner up with local firms and choosing a low control entry mode.

The Beckmann CEO also stated that in the process of establishing a close partnership with local firms, they had invested a great deal of time and resources in constructing a comprehensive distribution agreement, that specifies the limits of the contract as well as incentives for the local partner to excel, in the form of a contract extension and better deals if the local partner reaches certain goals. By investing in establishing this specific contract and working together with the local partners to achieve common goals, Beckmann has made an effort to remove the possible opportunism that Williamson (1991) argued could be present in local partners.

It is, therefore, visible that high transaction costs lead to a range of various uncertainties and risks. However, these high costs do not automatically indicate the choice of a high control entry mode. Factors like the size of the internationalizing company as well as local culture and the way business are conducted must be recognized and evaluated in the process of internalizing the costs.

8.5 Proposition 5

Local partner contracts are aligned to strengthen the preferences of the principal.

When analyzing this proposition, we need to state the principal and the agent in the Beckmann case. Beckmann will, therefore, be referred to as the principal and the distributors in South Korea and China as the agents in this chapter. The main objective for the principal is to set common goals and targets with the agent through a well-formulated contract with the intent to strengthen their position in the relationship.

During the interview with the CEO of Beckmann, he explained that they form a comprehensive distribution agreement to have a legal framework in place to protect their interests. When Beckmann has a solid distribution agreement in place, the principal eliminates the third view in Miller's principal-agent theory (Miller, 2005) and supports the sixth view, since the agreement now covers all financial aspects. If the agent reaches specific goals, then incentives are in place to reward them, while if they do not reach these goals, then the principal can terminate the contract, meaning that the principal and agent should have the same preferences. By forming this type of a contract, Beckmann is able to reduce or even remove the opportunism of the local partner, as presented by Williamson (1991), as well as reduce the risks and challenges that are present in low control entry modes (Bruneel & De Cock, 2016). The agreement further links to Miller's (2005) fourth view that the principal will take the initiative to make a contract with the agent consisting of terms to the contract, which the agent can agree to or reject. Further, we need to analyze information asymmetry in the relationship between the principal and the agent. The theory states that the agent generates specialized knowledge or expertise which the principal does not. Therefore the principal cannot complete the job due to this information asymmetry. In the case of Beckmann, this phenomenon can be excluded since the principal uses the agent for sales in a market where they otherwise would not have any form of presence. However, if the principal were to conduct business in China or South Korea with their own employees, then information asymmetry regarding market knowledge, knowledge about business procedures and regulations in the respective markets could lead to a challenge. In regards to the contracts, the CEO of Beckmann also explained how the agent in China always tries to renegotiate terms of the deal in their favor. This reflects the cultural implications presented earlier in the thesis (Hofstede, 2020), a highly collectivist and a masculine society in China is represented by a will to do whatever it takes to be successful, and that loyalty lies with groups in a company, not with the organization itself (Hofstede, 2020).

Data collected from Innovation Norway does not say much in regards to our sixth proposition. Since they were used as a facilitator for the principal when entering South Korea, they have limited information on the contract signed between the two parties. Innovation Norway supports the arguments made about cultural implications in the South Korean market, meaning that it is possible to link theory regarding information asymmetry if the principal were to enter the market with their own employees and use the agent for a different purpose than selling backpacks directly to the South Korean market. The same conclusion can be drawn from the data collected from Kibos, even though they are the agent in this case, the answers lack relevance to our proposition.

When it comes to the Chinese market, we were unable to obtain any data from the agent. Therefore the analysis made above on answers received from Beckmann must be regarded as sufficient enough to conclude the final part of the paper.

As discussed in this chapter, it is clear that Beckmann invests resources in forming a contract with their local partners that aims at pleasing both parties, while lowering risks and removing uncertainties for Beckmann in the market. These findings would, therefore, suggest that a well-formed partner contract will aid in removing the risk of opportunism from local partners, a risk that Williamson (1991) argued would indicate the need for a high control entry mode.

8.6 Proposition 6

Increasing cultural distance indicates a higher perceived country risk.

The findings suggest that the respondents argue that overcoming cultural barriers is crucial for reducing risk and ensuring a successful business endeavor in the Chinese and South Korean markets. The CEO of Beckmann states that marketing in China is done differently from Norway, as marketing in China includes various cartoons, music, and an overall layout that is portrayed in a childish sense. He then argues that by acquiring the right local distributor with a high level of market and cultural knowledge will help reach the right customers within the right market segment, based on cultural preferences.
Recent literature presented earlier in this thesis argues that the previous differences between developed countries and emerging markets are diminishing, as living standards and income levels have resulted in higher rates of materialism, consumerism, and overlapping of cultures as well as a noticeable rise in the number of middle-class consumers (Sharma, 2011) (Jeon et al., 2016). This literature would indicate that culture is not as big of a problem in the internationalization process as it used to be, and therefore might not offer the same barriers as earlier. The Hofstede 6-D model updates their scores regularly, and still offer scores that indicate substantial differences between developed western countries and emerging markets. As presented earlier, the Hofstede 6-D model states that China ranks on a level of 80 and South Korea a level of 60 concerning power distance, as opposed to the Norwegian rank of 31

(Hofstede Insights, 2020). This would indicate that the Chinese and South Koreans accept vast inequalities, which could offer barriers when doing business for western countries who value equality and a low power distance. Furthermore, the Hofstede 6-D model offers a rank of 87 for China and 100 for South Korea in terms of Long term orientation, compared to the Norwegian rank of 35 (Hofstede Insights, 2020). This could offer cultural barriers in terms of goals and effectiveness when doing business. Norwegian companies could wish for efficient and quick results, while these emerging markets would instead prioritize goals and results in the long term. As Kim and Solbråten elaborated on in their interview, they argued that South Korea has a high level of bureaucracy and that the country follows a "top-down policy approach" where strong chaebols influence the economic development of the country, which could indicate that doing business in South Korea might not be as efficient as one can expect in western countries. Solbråten and Kim further state that one can overcome and speed through the oppressive bureaucracy if South Korea or the chaebols find the field interesting, also referred to as a "bali-bali" approach. Kim and Solbråten further argue that in order for internationalizing firms to overcome these cultural and bureaucratic differences, a solution is to enter the market by utilizing local employees or a local business partner. The statements offered by Kim and Solbråten and the rankings offered by Hofstede indicates that cultural implications are still very relevant and still offer complex barriers for internationalizing firms.

Furthermore, the findings suggest that cultural preferences in emerging markets would offer the internationalizing firm a barrier to overcome. Ki offers that in order to enter the South Korean market and succeed, it is crucial to evaluate and understand the Korean culture and the tendency of its customers, as she further stated that Koreans are especially sensitive to the "hottest trends" when it comes to the fashion industry, more sensitive than other countries. This is further confirmed in the findings from the interview with Innovation Norway, where the respondents emphasized the importance of using various advertising methods to raise awareness during the initial period of new market development, as the brand awareness and sensitiveness of South Koreans influences the success of the internationalizing firm. Previous research and literature presented earlier in this thesis elaborates on the customer preferences of Asian consumers and makes arguments suggesting that the customer preferences and brand awareness in South Korea are also present in the Chinese market. PwC China states that consumers are continually expecting more in regards to product quality, trends, and customer service (PwC China, 2017), whereas a report from McKinsey (2019) also finds expectations of a drastic and continuous increase in consumption of high end and luxury goods in the

Chinese market. The findings of PwC China (2017) and McKinsey (2019) is further confirmed by the Beckmann CEO, as he explained how Beckmann has come to learn that Asian consumers, and especially the Chinese consumers, are very sensitive to the presentation of the products. Which is why Beckmann has chosen to exclude any Chinese texting or visuals that can be linked to China, as the Chinese are very fond of Scandinavian brands as they believe them to portray quality and luxury, as opposed to their view of Chinese products to be linked to poor quality.

Song (2018) also discovered that Chinese parents from high-income families were more inclined to invest heavily in and favor their sons as this gender portrays status in Chinese culture and that low-income families were more inclined to invest in their daughters, showing a visible gender preference among Chinese parents. Moreover, Seth (2002) found that South Koreans are obsessed with education and has what Seth refers to as "educational fever," and that South Koreans heavily invest in the education of their children, making sure that their children have all the best supplies and resources available to ensure their educational success. Additionally, Yao et al. (2011) and Kim and Park (2011) found in their research that Chinese and South Korean school children are suffering from lower back pain, and that incorrect use of backpacks with poor back support is one of the reasons for the back pain. The studies found that one of the easiest and most efficient ways to improve lower back pain is the use of proper ergonomically produced backpacks. Kim and Park (2011) also found that the Korean government introduced a new School Health law, that emphasized that elementary, middle and high school were mandated to provide at least 17 hours a year of health education, that should include, amongst other things, knowledge about correct backpack use as well as posture knowledge. Seen together with the culture of heavily investing in South Korean school children, this would offer great opportunities for a company like Beckmann. However, as Kim and Solbråten, Gaur et al. (2018) and Lim & Jang stated (2006), Chaebols have a stronghold on the economic development in both South Korea and China, and therefore will act as entry barriers for internationalizing companies, as these Chaebols have a significant market share within a wide range of markets, and therefore can fight off most competition if they choose to. Ki further states that it is easier for Beckmann to overcome the entry barriers of the high brand awareness and sensitiveness of South Koreans, as Beckmann products have a great marketable difference and strong selling points, as they are categorized as a functional backpack brand with no real competitors offering the same quality.

The CEO of Beckmann states that it is hard for Norwegian employees to understand Germany and Denmark's cultural dimensions, which is why Beckmann has sales personnel living and being exposed to the culture in these markets. He explains that it is easier to work with and have personnel living and being exposed to culture in countries that are "close to home," however, this is not the case in the Asian countries that are so far from the home market in terms of both physical and psychic distance. Additionally, he explains that in order for the company to face these cultural challenges, members of the board and the management was formed with the intent of in addition to having local partners, they would also have senior representatives with extensive business networks and with prior work experience and cultural knowledge from industries related to Beckmann's in Asian countries.

The findings in this thesis further suggest that it is not only the cultural preferences, brand awareness, and lingual barriers that affect the success rate of entry modes into emerging markets. Kim and Solbråten explained that the South Korean society is heavily focused on relationship building and the level of contact as well as being aware of the historical issues and conflicts amongst Asian nationalities, which was further confirmed by CEO of Beckmann who stated that in their South Korean operations they had to take into consideration the historical conflict between South Korea and Japan. As a direct result of this conflict, they had to remove specific backpacks from their lineup in South Korea due to cultural issues with the design. Kim and Solbråten also referred to a report by Santander Bank (2020) about South Korean business culture that stated how heavily the South Korean culture is influenced by Confucian principles, respect for elders and authority, harmony, the importance of tradition, family, and ancestors. The report also showed that in the South Korean business culture, it is important for Koreans to maintain their "Kibun" (Face, dignity) and always avoid confrontation. The report further stated that Koreans prefer to mainly do business with people whom they know, therefore building a personal relationship with partners is crucial in order to succeed, as also emphasized by Vahlne and Johanson (2009), who states the importance of a strong and mutual commitment to the relationship. CEO of Beckmann adds to this report in his statement that there exists a considerable risk that their brand can easily be damaged if not handled adequately in the market. It is, therefore, crucial that Beckmann and their business partners maintain a close relationship. Kim and Solbråten further stated that the South Korean culture offers a range of risks for the internationalizing firm that could be overcome by utilizing a local business partner, therefore indicating the choice of a low control entry mode, , as also argued by Helleiner and Lavergne (1979) and Lall (1978) who found that low-control entry modes are able to efficiently market valuable brands. These findings contradict the findings of Randøy and Dibrell (2002), who discovered that firms wanted to achieve a high level of control and commit substantial resources in the foreign market in the cases of increased perceived cultural distance. Randøy and Dibrell (2002) further found that smaller and less experienced companies would suffer in their ability to manage and develop in large foreign markets. However, the findings of this thesis suggest that small and less experienced companies entering foreign markets with high perceived cultural distances can overcome risks by utilizing low resource and low control, committing cooperative entry modes, and still be able to develop in the market.

As the discussion above suggests, culture still offers a wide range of risks for internationalizing companies that wish to enter emerging markets. The culture of these emerging markets offers excellent opportunities for foreign firms. However, it is clear that, along with these opportunities, follow significant risks for the internationalizing firms. These risks would involve that the internationalizing firm won't have the right or sufficient knowledge about the culture of the emerging market, and therefore won't be able to spot and work around the entry barriers offered by the local culture. Therefore, one of the real risks offered by cultural distance is that the firm will not be able to take advantage of the opportunities offered by local culture. Culture offers both opportunities and risks, the findings in this thesis therefore argue in favor of utilizing local business partners with a high level of cultural and business knowledge to overcome the entry barriers.

9. CONCLUSION

As portrayed in this thesis, the researchers have investigated the process of a Norwegian SME internationalizing to emerging markets and found several factors that play a role in the choice of entry mode. Certainly, the findings that were continuous throughout the thesis showed that having local partners with sufficient market and cultural knowledge could overcome most barriers and even tap into the potential benefits offered by informal institutions in the market. Furthermore, by analyzing the findings of previous empirical studies, as well as the literature presented in the theoretical framework of this thesis, and comparing these to the findings made in this thesis, the researchers have found that the factors that have had the greatest impact on entry modes are *cultural difference compared to the home market, physical distance to markets, knowledge,* and *experience* gained through networks and *resources available upon internationalizing*.
This thesis found that the direct impact quotas and tariffs have on the choice of entry modes is somewhat unclear, which might be the result of the contradiction between the presented literature and the experience of Beckmann in their endeavors in these markets. However, the findings seem to suggest that tariffs, quotas, and economic institutions would indicate the choice of a cooperative entry mode choice. This thesis found the impact that cultural differences, national informal institutions, and business networks have on the success of entry modes were far greater than earlier anticipated, as well as the impact that these factors had on the economic institutions that are present in these markets.

Moreover, through the analysis and discussion chapters of this thesis, findings showed that an SME like Beckmann could not relate to the principles presented by the transaction cost theory, as Beckmann had chosen to enter high risk and high uncertainty markets far away from their home markets by utilizing entry modes based on low control and limited risk. Findings presented in this thesis portrayed that the reason for this choice was that Beckmann has limited resources, experience, and limited knowledge about the market. Therefore they chose a low control and low-cost entry mode to overcome entry mode barriers, where they exchanged the financial risks of the market with new risks and challenges related to the potential opportunism and trust issues of local partners, as also confirmed in the findings of Bruneel and De Cock (2016). Bruneel and De Cock found that research on the topic of entry mode choices by SMEs argued that SMEs usually utilized low control cooperation entry modes as a direct result of limited resources, which led to reduced risk and uncertainty as well as new challenges related to the relationship with local partners.

As presented and portrayed in the "Discussion" chapter of this thesis, a number of the propositions were found to be empirically grounded in regards to their impact on the choice of entry modes by Beckmann internationalizing to the respective markets. However, there are nonetheless some limitations present in this thesis. Possibly one of the most considerable limitations to this research and this thesis is that it is predominantly based on a single case study, which barely grazes the surface of the entry mode topic. Furthermore, the authors acknowledge that this thesis shows signs of shortage in regards to some findings, which bears root in the current ongoing pandemic, resulting in limited opportunities to acquire information and participation from companies based in the hardly affected countries of China and South Korea. Further research should include additional cases of SMEs with limited resources, limited knowledge, and limited international experiences in the potential emerging markets to improve and overcome these limitations and perhaps acquire a broader and more generalizable view of the topic. Further research would also benefit from an increase in credibility and an increase in collected information if personal interviews were to take place, as opposed to the virtual and written interviews completed in this thesis.

Additionally, the authors of this thesis would find it interesting if further research would investigate how the use of business networks impacts relationships between principals and agents in highly complex emerging markets. Our thesis explores the use of business networks in markets where relationship building is essential, however, it lacks insight into the trust-building aspect in a market where such relationship building is less important. In such a case, is it more beneficial to use entry modes with a higher level of control?

Although some of the researchers' findings contradict previous research, it is interesting to look at the case from the perspective of an SME with unlimited market opportunities and limited resources. The authors believe that it is important to showcase that not every business can choose freely from all of the entry modes introduced in this thesis. In the future, we might even see new hybrids of the mentioned entry modes which fit SMEs attempting to internationalize into markets far from their home markets. Lastly, the authors of this thesis are eager to see what future research holds, in regards to the true effect that COVID-19 will have on the development and opportunities in emerging markets, as well which entry modes will prove to offer the highest rate of survivability through this crisis.

"It's only when the tide goes out that you discover who's been swimming naked"

- *Warren Buffet*

10. REFERENCES

Aiyar, S., Duval, R., Puy, D., Wu, Y. and Zhang, L. (2018). Growth slowdowns and the middle-income trap. *Japan and the World Economy*, *48*, 22-37. https://www.sciencedirect.com/science/article/pii/S0922142518300823

Alon, I., Banai, M. (2000), "Executive insights: franchising opportunities and threats in Russia", *Journal of International Marketing, Vol. 8 No.3*, pp.104-20.

Alon, I. (2006), "Executive insight: evaluating the market size for service franchising in emerging markets", *International Journal of Emerging Markets, Vol. 1 No. 1*, pp. 9-20.

Anderson, E., Gatignon, H. Modes of Foreign Entry: A Transaction Cost Analysis and Propositions. *J Int Bus Stud* 17, 1–26 (1986). https://doi.org/10.1057/palgrave.jibs.8490432

Argote, L., & Greve, H.R. (2015) International Encyclopedia of the Social & Behavioral Sciences (Second Edition)

Bajpai, P. (2020, 22. January). The 5 Largest Economies in The World and Their Growth in 2020. Retrieved from https://www.nasdaq.com/articles/the-5-largest-economies-in-the-world-and-their-growth-in-2020-2020-01-22

Ball, D, A., McCulloch, W, H, Jr., Geringer, J, M., Minor, M, S. & McNett, J, M. (2008). *International Business: The Challenge of Global Competition* (11). New York: McGraw-Hill/Irwin.

Beckmann. Beckmanns Historie. Retrieved 1. February 2020 from: https://beckmann.no/om-oss/historie/

Bloomenthal, A. (2019, 13. May). Eclectic Paradigm. Retrieved from https://www.investopedia.com/terms/e/eclecticparadigm.asp

Brouthers, Keith D., Hennart, Jean-Francois. (2007) Boundaries of the Firm: Insights From International Entry Mode Research. *Journal of Management*, Vol. 33 No. 3

Bruneel, J., & De Cock, R. (2016). *Entry mode research and SMEs : A review and future research agenda*. Journal of small Business Management, 54(S1), 135-167.

Bryman, A. & Bell, E. (2011). *Business Research Methods*. 3 red. New York: Oxford University Press Inc.

Caves, Richard E. (1971), *International Corporations: The Industrial Economics of Foreign Investment*. Economica (ed. 38) 1-27.

Caves, Richard E. (1982), *Multinational Enterprise and Economic Analysis*, Cambridge:Cambridge University Press.

Chen, Haiyang & Hu, Michael Y. (2002) *An analysis of determinants of entry mode and its impact on performance*. International Business Review, Vol. 11 No. 2

Creswell, J. W. & Miller, D. L. (2000). Determining validity in qualitative inquiry. *Theory into Practice, 39*(3), 124-131.

Cullen, John B., Parboteeah, Praveen K. (2011) *Strategic international management* (5th ed.). Australia: South-Western Cengage Learning.

Du, J., Lu, Y. & Tao, Z. (2008). Economic institutions and FDI location choice: Evidence from US multinationals in China. *Journal of Comparative Economics, 36,* 412-429. https://www.sciencedirect.com/science/article/pii/S014759670800022X

Garvik, Olav: Innovasjon Norge. *Store norske leksikon*. Retrieved from https://snl.no/Innovasjon_Norge

Golafshani, Nahid (2003) *Understanding Reliability and Validity in Qualitative Research.* The Qualitative Report, 8 (4), pp. 597-606.

-

Golesorkhi, S., Mersland, R., Randøy,T., Shenkar. O., (2019). *The performance impact of culture and formal institutional differences in cross-border alliances: the case of the microfinance industry*. Int. Bus. Rev., 28 (1)

Gollnhofer, Johanna F. & Turkina, Ekaterina. (2015) *Cultural distance and entry modes: implications for global expansion strategy.* Cross Cultural Management, Vol. 22

Gripsrud, G., Olsson, U. H., & Silkoset, R. (2010). *Metode og dataanalyse: Beslutningsstøtte for bedrifter ved bruk av JMP* (2. ed.). Oslo: Cappelen Damm akademisk.

Hannan, S. (2017). The drivers of capital flows in emerging markets post global financial crisis. IMF Working Papers, IMF Working Papers, March 13, 2017.

Hill, Charles W.L., Hwang, Peter. & Kim, Chan W. (1990) An eclectic theory of the choice of international entry mode. *Strategic management journal*, 11, p. 117.

Hofstede Insights (2020). Country Comparison. Retrieved from: https://www.hofstede-insights.com/country-comparison/china,norway,south-korea/
Hofstede Insights. (2020). National Culture. Retrieved from https://hi.hofstede-insights.com/national-culture

Hollensen. S., 2011. *Global marketing: a decision-oriented approach / Harlow*: Financial Times Prentice Hall.

IMF, 2019, "Growth Slowdown, Precarious Recovery," *World Economic Outlook,* International Monetary Fund, April 2019.

IMF, 2020, "The Great Lockdown," *World Economic Outlook,* International Monetary Fund, Chapter 1, April 2020.

Innovation Norway (2020). Our mission. Retrieved from: https://www.innovasjonnorge.no/en/start-page/about-innovation-norway/our-mission/

Ishiyama, J. T., & Breuning, M. (2010). *21st Century Political Science: A Reference Handbook*. Thousand Oaks: SAGE Publications, Inc. Retrieved from http://search.ebscohost.com/login.aspx?direct=true&db=nlebk&AN=481101&site=ehost-live

Jeon. H, Meiseberg. B., Dant. R., M.Grünhagen (2016) *Cultural convergence in emerging markets: The case of McDonald's in China and India.* Journal of Small Business Management, 54 (2), pp. 732-749

Johanson, J., & Mattsson, L.-G. 1988. Internationalisation in industrial systems: A network approach. In N. Hood & J.-E. Vahlne (Eds), *Strategies in global competition*: 468–486. London: Croom Helm.

Joppe, M. (2000). The Research Process. Retrieved from http://www.ryerson.ca/~mjoppe/rp.htm

Kenton, W. (2019). Internationalization. Retrieved from: https://www.investopedia.com/terms/i/internationalization.asp

Kim, H, B. & Lee, C, H. (2006). Financial Reform, Institutional Interdependency, and Supervisory Failure in Postcrisis Korea. *Journal of East Asian Studies, 6,* 409-431. http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=1&sid=1414c263-d59a-4166-bf89-6f358bf27d57%40sdc-v-sessmgr01

Kolter. P, 2003. *Marketing Management 11th edition*. NJ, USA: Northwestern university

Leavy, P. (2014). *The Oxford Handbook of Qualitative Research.* New York: Oxford University Press.

Lei, X., Shen, Y., Smith, J. P. and Zhou, G. (2017). Life satisfaction in China and consumption and income inequalities. *Review of Economics of the Household, 16(75-95)*, 1. https://link.springer.com/article/10.1007/s11150-017-9386-9

Li, S. and Alon, I. (2019). China's intellectual property rights provocation: A political economy view. *Journal of International Business Policy, 3,* 60-72. https://link.springer.com/article/10.1057/s42214-019-00032-x

Lim, Hyun-Chin & Jang, Jin-Ho (2006). Neo-Liberalism in post crisis South Korea: Social conditions and outcomes. *Journal of Contemporary Asia, 36. No:4*

Lincoln, Y. S., & Guba, E. G. (1985). *Naturalistic inquiry*. Beverly Hills, CA: Sage.
López-Duarte, Cristina & Vidal-Suárez, Marta M. (2013) *Cultural distance and the choice between wholly owned subsidiaries and joint ventures.* Journal of Business Research, Vol 66, Issue 11

Maccoby, E. E., & Maccoby, N. (1954). The interview: A tool of social science. In G. Lindzey (Ed.), *Handbook of social psy-chology*. (pp. 449–487). Cambridge, MA: Addison-Wesley.

Majaski, C. (2019, 24. April). Developed Economy. Retrieved from https://www.investopedia.com/terms/d/developed-economy.asp

McKinsey (2019). China Luxury Report 2019 - How young Chinese consumers are reshaping global luxury. Retrieved from: https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx

McKinsey (2019). The tougher competitors in emerging markets. Retrieved from: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-tougher-competitors-in-emerging-markets

Miller, G. J. (2005). The political evolution of principal-agent models. *Annual Review of Political Science, 8, 203-225*

Myers, Michael D. (2013) *Qualitative Research in Business and Management.* (2nd Edition). London, United Kingdom: Sage.

Ministry of Commerce of the People's Republic of China (2017). 2016 E-commerce in China reports. Beijing: China Commerce and Trade Press.

Mody, A. (2004). What is an emerging market? *IMF working papers, (04/177),* 4-5. Retrieved from https://www.imf.org/en/Publications/WP/Issues/2016/12/31/What-is-An-Emerging-Market-17598

MSCI (2020) MSCI Emerging markets Index. Retrieved from https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111

MSCI, (2020) MSCI Market classification. Retrieved from https://www.msci.com/market-classification

Myers, Michael D. (2013) *Qualitative Research in Business and Management.* 2nd Edition. London, United Kingdom: Sage

Nolan, P., Zhang, J. (2003), "Globalization challenge of large firms from developing countries: China's oil and aerospace", *European Management Journal*, Vol. 21 No.3, pp.285-99.

North, D. (1991). Institutions. *Journal of Economic Perspectives, 5(1),* 97-112 https://pubs.aeaweb.org/doi/pdfplus/10.1257%2Fjep.5.1.97

OECD Better Life Index. (2020). Korea. Retrieved from http://www.oecdbetterlifeindex.org/countries/korea/

O. Kravets, O. Sandikci (2014)
Competently ordinary: New middle-class consumers in the emerging markets
Journal of Marketing, 78 (4), pp. 125-140

Pae. P. (2018) South Korea's chaebol, bloomberg quicktake. Retrieved from https://www.bloomberg.com/quicktake/republic-samsung

Park, N, Y. (2020) Trust and trusting behavior in financial institutions: Evidence from South Korea. *International Review of Economics & Finance, 67*, 408-419. https://www.sciencedirect.com/science/article/pii/S1059056020300447

Park, J.-h. and Kim, J.-S. (2011), Effects of spinal health educational programs for elementary school children. *Journal for Specialists in Pediatric Nursing*, 16: 121-129. doi:10.1111/j.1744-6155.2011.00278.x

Patton, M. Q. (2002). *Qualitative evaluation and research methods* (3rd ed.). Thousand Oaks, CA: Sage Publications, Inc.

Pattnaik, C., Lu, Q. & Gaur, A.S. (2018) *Group Affiliation and Entry Barriers: The Dark Side Of Business Groups In Emerging Markets*. J Bus Ethics 153, 1051–1066. https://doi.org/10.1007/s10551-018-3914-2

Pinho, J. C. (2007). *The Impact of Ownership: Location-Specific Advantages and Managerial Characteristics on SME Foreign Entry Mode Choices*, International Marketing Review 24(6)

PwC China – Michael Cheng, 2017. eCommerce in China – the future is already here https://www.pwccn.com/en/industries/retail-and-consumer/publications/total-retail-survey-2017-china-cut.html#luxury

Randøy, Trond & Dibrell, Clay C. (2002) *How and Why Norwegian MNCs Commit Resources Abroad: Beyond Choice of Entry Mode.* Management International Review, Vol. 42, No. 2 (2002 2nd Quarter), pp. 119-140.

Rugman, A, M. & Collinson, S. (2009). *International Business* (5). Essex: Pearson Education.

Santander Bank (2020) South Korea: Business Practises. Retrieved from: https://santandertrade.com/en/portal/establish-overseas/south-korea/business-practices

Sekaran, U., & Bougie, R. (2013). *Research Methods for Business: A skill building approach* (Sixth ed.). The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom: John Wiley & Sons Ltd.

Sharma. P. (2011) *Country-of-origin effects in developed vs. emerging markets: Exploring the contrasting roles of materialism and value-consciousness.* Journal of International Business Studies, 42 (2)

Song, S. (2018). Spending patterns of Chinese parents on children's backpacks support the Trivers-Willard hypothesis: Results based on transaction data from China's largest online retailer: Queens College & CUNY Institute for Demographic Research, The City University of New York, United States. Retrieved from https://www.sciencedirect.com/science/article/pii/S1090513816303713?via%3Dihub

Stenbacka, C. (2001). Qualitative research requires quality concepts of its own. *Management Decision, 39*(7), 551-555

Taylor, S, J., Bogdan, R. & Devault, M, L. (2016). *Introduction to Qualitative Research Methods: A Guidebook and Resources* (4). New Jersey: John Wiley & Sons Inc.

The Economist. (2020). Defining emerging markets. Retrieved from https://www.economist.com/special-report/2017/10/05/defining-emerging-markets

The World Bank. (2020). Exports of goods and services. Retrieved from https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=US-CN-RU-IN-EU

The World Bank (2008). China’s Rapid Urbanization: Benefits, Challenges & Strategies. Retrieved from https://www.worldbank.org/en/news/feature/2008/06/19/chinas-rapid-urbanization-benefits-challenges-strategies

The World Bank (2020). China Overview. Retrieved on 13. February 2020 from: https://www.worldbank.org/en/country/china/overview#1

The World Bank (2020). GDP per capita - China. Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN

The World Bank (2020). GDP per capita - South Korea Retrieved from https://data.worldbank.org/country/korea-rep

Tian, X. (2007). *Managing international business in China*. Cambridge, UK: Cambridge University Press.

Transparency International. (2020). China. Retrieved from https://www.transparency.org/en/countries/china

Transparency International. (2020). South Korea. Retrieved from https://www.transparency.org/en/countries/south-korea

Vahlne, J, E. & Johanson, J. (1977). The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitment. *Journal of International Business Studies,* 23-32. https://link.springer.com/content/pdf/10.1057/palgrave.jibs.8490676.pdf

Vahlne, J, E & Johanson, J. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies, 40,* 1411-1431. https://link.springer.com/content/pdf/10.1057/jibs.2009.24.pdf

Welle-Strand. A (2013): Skole og utdanning i Kina. *Store norske leksikon.* Retrieved from https://snl.no/Skole_og_utdanning_i_Kina

Werner, S. (2002). Recent developments in international management research: A review of 20 top management journals*. In Journal of Management, Vol 28*, pp. 277–305.

Wild, J, J. & Wild, K, L. (2019). *International Business: The Challenges of Globalization* (9). New York: Pearson.

Williamson, O.E., 1991. Comparative economic organization: the analysis of discrete structural alternatives. *Administrative Science Quarterly* 36, 269–296.

Yadong, Luo. (1999) *Entry and Cooperative Strategies in International Business Expansion Age*. Santa Barbara, USA: Greenwood Publishing Group.

APPENDIX

Interview Guides

Beckmann AS

1. Hvordan startet Beckmann, og hvordan har bedriften utviklet seg fra å være en lokal familiebedrift til en liten/mellomstor bedrift på det internasjonale markedet?
2. Hvorfor har Beckmann valgt å etablere seg i Kina og Sør-Korea?
3. Hvordan er Beckmann organisert i Kina og Sør-Korea?
4. Hvor lenge har Beckmann operert i Kina og Sør-Korea?
5. Hvilke faktorer førte til at dere valgte å internasjonalisere? (Var det noen spesielle utenforliggende faktorer?)
6. Kulturelle forskjeller fører ofte til større transaksjonskostnader, noe som igjen fører til at risikoen for å entre et marked blir større. Er det noe Beckmann evaluerer før dere går inn i nye markeder?
7. Hvilke forberedelser gjorde dere før dere valgte å gå inn i disse markedene?
8. Hvilken fremgangsmåte hadde dere da dere gikk inn i Kina og Sør-Korea?
9. Brukte dere de samme teknikkene og fremgangsmåtene i begge disse markedene?
10. Har dere brukt de samme fremgangsmåtene i andre land?
11. Økonomiske og legale institusjoner fungere ganske annerledes i Kina og Sør-Korea i forhold til i Norge, har dette ført til noen problemer for Beckmann?
12. Vil du si at outsourcing av produksjon og bruk av distributører fører til at dere kan fjerne barrierer som gjør adgangen inn på et fjernt marked lettere?
13. Vil du betegne kunnskap om markeder, eller nettverk til markeder som den viktigste faktoren for suksess under en internasjonaliseringsprosess?

14. Hadde lover som omhandler tariff og kvoter innflytelse på valg av inngangsstrategi?
15. I hvilken grad bruker ansatte i Beckmann personlige og organisasjonsnettverk for å tilegne seg informasjon angående markeder?
16. Hva gjør Beckmann som en prinsipal i et prinsipal - agent forhold for å sikre at deres interesser ivaretas?
17. Hadde Beckmann noen form for eksport til markedene før dere valgte å gå inn med større ressurser?
18. Sammenlignet med Norge, hvordan føler dere at ledelse i Kina og Sør-Korea har behov for kontroll?
19. Hvilke kulturelle utfordringer har dere møtt i Kina og Sør-Korea?
20. Fører kulturforskjeller til at Beckmann muligens velger inngangsstrategier som gir en høyere grad av kontroll? (Som en strategisk allianse med distributører)

Innovation Norway

1. What is Innovation Norway´s connection to Beckmann AS?
2. How did your company come in contact with Beckmann AS?
3. What is Innovation Norway´s main task in South-Korea?
4. How would you describe the South-Korean market?
5. How would you describe the business culture in South-Korea?
6. Which challenges does foreign companies entering the South-Korean market encounter?
7. Is there a difference for Asian businesses entering South-Korea compared to businesses from the west?
8. How are laws in regard to tariffs and quotas in the South-Korean market?
9. Which entry barriers do you see as the hardest to overcome for foreign companies in the South-Korean market?
10. How would you describe the South-Korean bureaucracy?
11. How would you describe Beckmann´s position in the South-Korean market?
12. Would you characterize South-Korea as an emerging market?
13. How has Covid-19 impacted the market in South-Korea?

14. Does brand-awareness affect the entry modes of companies in South-Korea?
15. Which entry mode is most commonly used for foreign companies entering the South-Korean market?

Kibos Co. Ltd.

1. What is your company's connection to Beckmann AS?
2. How did your company encounter Beckmann AS?
3. How would you describe the South-Korean backpack market?
4. How would you describe the business culture in South-Korea?
5. Which challenges do foreign companies entering the South-Korean market encounter?
6. Is there a difference for Asian businesses entering South-Korea compared to businesses from the west?
7. How are laws regarding tariffs and quotas in the South-Korean market impacting businesses like Beckmann?
8. Which entry barriers do you see as the hardest to overcome for foreign companies in the South-Korean market?
9. How would you describe the South-Korean bureaucracy?
10. How would you describe Beckmann´s position in the South-Korean market?
11. Would you characterize South-Korea as an emerging market?
12. How has Covid-19 impacted the market in South-Korea?
13. Does brand-awareness affect the entry modes of companies in South-Korea?

Reflection notes

Reflection Note - Aleksander Møller-Hansen

1. Brief summary of thesis and main findings

The main topic of this master thesis was the factors impacting the choice of entry modes for businesses internationalizing to emerging markets: A case study of Beckmann Internationalizing to China and South Korea. Jostein Bjørnsen and I wrote the thesis. The topics of entry mode and emerging markets are highly relevant, in my opinion. With more and more Scandinavian companies seeking to enter foreign markets, it is essential to research different factors that might impact their choices. In this thesis, the markets of China and South Korea were in focus. China is, according to Nasdaq, considered to be the second-largest economy in the world with a GDP of $ 14.14 trillion and with expected GDP growths of 6.0% in 2020. While South Korea is considered to be the twelfth largest with a GDP of $ 1.63 trillion and expected growths of 2.2% in 2020. Even though both of these nations are amongst the largest in the world, they are still considered to be emerging markets. This indicates that Scandinavian companies have tremendous opportunities in these markets. Adding the fact that both countries have excessive growth in the urbanization of their population shows that there is demand for products and job opportunities.

Internationalizing into emerging markets has become a goal for many companies wishing to expand, however, recent research from IMF shows that the latest financial crisis has slowed down this willingness to expand. Add to that the current Covid-19 crisis, and we get some unstable and volatile markets. Some companies might see this as an opportunity to enter emerging markets at lower costs due to these crises, while others act more cautiously. We know that when the markets are volatile, the choice of entry mode becomes even more appropriate to research. It is then essential to weigh up the level of risk a firm is willing to take compared to the financial resources required for different entry modes. Both China and South Korea have struggled when it comes to the reputation of formal institutions. If more foreign companies enter these markets, then the global economy might have the power to force institutional change, which would both benefit foreign companies and locals.

The thesis also emphasizes the importance of cultural knowledge when entering foreign markets. Cultural differences can be viewed as barriers for companies to overcome. The cultural differences can form informal institutions, which can be difficult for foreigners to understand and might cause companies to struggle when entering new markets. Therefore, it is essential to link cultural distance to entry modes. Our thesis finds that SMEs prefer entry modes requiring low investment, with higher risk. Since most SMEs do not always have unlimited resources, they opt for cooperative entry modes. When choosing these entry modes, they often form a partnership or distributor agreement with local firms. This causes them to be able to utilize cultural and market knowledge from their distributor or partner. Even though such modes as considered of higher risk, they eliminate the risk of not understanding informal institutions, which can be vital for success.

When conducting a single case study, it is not easy to generalize the findings. Due to Covid-19, we were unable to interview the distributors in China. They had to prioritize other business. We believe the findings would have been more reliable if the distributors in China would have had the opportunity to answer our questions so we could have compared the two markets. However, we found the findings interesting.

To conclude this section, we will take a closer look at our main findings. The factors that had the most significant impact on entry modes are Cultural differences compared to the home marker, physical distance to markets, knowledge, and experience gained through networks and resources available upon internationalizing.

2. International trends and forces in relation to the thesis

In today's fast-paced global economy the influence of international finance, politics, world health, and natural crisis affect not only business in one country but all over the world. When businesses are interconnected, and supply chains can go from one end of the world to the other, consequences reach their surroundings further than ever. Take, for example, the trade war between China and the USA. One might think that the trade war would only influence products being transferred between the two countries, but in fact it influences markets all over the world. When the two countries enforce higher tariffs, they might look to markets around the world to find products at lower prices. China imports most of its coal from the USA, but if the tariffs are too high, they might look to a different market for that specific product, causing the price of coal to fluctuate. Fluctuations in Oil and Coal prices further influence the Norwegian economy.

International trends and forces that are relevant in this thesis revolve around consumer goods. Since the thesis is a single case study on Beckmann, a producer of backpacks, international politics regarding trade agreements is of relevance. Trade agreements between countries and unions affect tariffs and quotas on products that are shipped from one market to another. However, findings from the thesis indicated that it is unclear how much of an impact tariffs and quotas have on foreign firms internationalizing to emerging markets, this might be the case because it is a single case study of only one company. It should be mentioned, nonetheless, that tariffs were lower for Beckmann products in South Korea, due to the fact that they are shipped from China compared to products shipped from different nations since the two countries have a trade agreement. It is indicating an effect of international trends and forces.

Further, the thesis's findings showed that cultural difference plays a significant part in marketing. The CEO of Beckmann pointed out that marketing in China requires knowledge about cultural preference. Chinese enjoy marketing, which includes cartoons, and music which are often portrayed in a childish sense. The same form of marketing would not be appropriate to the Norwegian market, strengthening international forces in the case of Beckmann.

3. Innovation in relation to the thesis

Emerging markets possess a magnitude of opportunities for improvement regarding technology, infrastructure, healthcare, and business procedures. With Norwegian companies present in the Chinese and South Korean markets, the exchange of knowledge and innovative solutions can travel between and benefit the respective countries.

Findings from the thesis show that the ordering of products online is increasing drastically in the South Korean market. Beckmann´s distributor estimates that more than 50% of all backpacks will be sold through online channels within the decade. It is, therefore, important for both the distributor and Beckmann to be innovative and follow the trends forming in online sales in South Korea. Furthermore, Beckmann can utilize possible technological innovations from South Korea in their home market to further strengthen their presence in the online market in Norway.
Furthermore, technological innovations can benefit Beckmann when they allocate resources in their internationalization process. Findings from the thesis indicate that *resources available upon internationalizing* are an essential factor when choosing an entry mode. Innovations

such as Zoom and Microsoft Teams generate possibilities to communicate across borders without the need for physical presence. By utilizing such technical tools, Beckmann can save travel costs and allocate resources in other areas of their internationalization process.

4. Responsibility in relation to the thesis

Responsibility regarding ethical questions and the triple bottom line (People, planet, profit) is a hot topic in society today. Businesses have to take responsibility concerning more than just their own profits. How they treat the planet during the production and sales process and how they act on ethical dilemmas regarding employees has become part of any international business's daily operations. For Norwegian businesses, it is extremely important to note that they have to act by laws and regulations in the operating countries. Further, if some laws do not apply in a particular country, but are part of Norwegian laws, they can still be prosecuted on breaches of set laws in Norway.

Findings from the thesis show that a weak rule of law in China in regard to private property protection can lead to bribery. If Beckmann were to find themselves in a position where bribery is an option, they have to consider both the ethical dilemmas in play and that Norwegian laws are extremely strict on bribery. Further, Beckmann produces their products in China. Low labor costs in China have raised a question of whether textile workers in low-cost countries are underpaid and if they work under unsanitary and extreme conditions. In recent years, production facilities of big corporations such as Nike have had to address situations regarding these dilemmas. Organizations fighting for human rights have a lot of power in today's society, and they use their channels effectively to harm brands that do not follow strict standards on human rights issues in low labor cost countries. A lot of questions regarding ethical dilemmas are bound to corporate social responsibility (CSR). Companies can, for example, increase labor costs in emerging markets and help struggling families in the society with low income. Furthermore, by doing "good deeds," companies have the opportunity to generate a favorable reputation and positive associations with their brand.

Reflection note – Jostein Sunde Bjørnsen

Thesis summary

My thesis was written with the intent of exploring and adding findings to the topic of international management, and specifically to the topic of entry modes in emerging markets. My co-writer and I wanted to center our research around businesses internationalizing to emerging markets, and SMEs in particular, which is why we chose our research problem to be: *Factors impacting the choice of entry modes for businesses internationalizing to emerging markets.* With a case study based on Beckmann AS's endeavors and experiences in the South Korean and Chinese markets. The thesis is built on a set of classical international management theories, including: Transaction cost theory, Uppsala internationalization model, Principal-agent theory, and Hofstede's dimensions. Furthermore, the thesis was built on reports and research of the current situation in these markets and previous research on the topic of entry modes, as well as specific market opportunities for Beckmann. After performing a set of interviews with the Beckmann CEO, their consultants from Innovation Norway South Korea, and their local partner in South Korea, the findings show that having a local partner with sufficient knowledge and experience in the market will aid the internationalizing company in overcoming specific barriers. The findings also show that the factors that have the most significant impact on entry mode choice are cultural differences, physical distance to markets, knowledge, and experience gained through networks and the level of resource commitment. Although the thesis offers conclusions to empirically grounded propositions, the thesis also offers limitations in regards to the lack of data collected as a direct result of the current global pandemic. We, the authors of the thesis, suggest that future research would focus on other SMEs with limited possibilities in regards to resource commitments in foreign markets and conduct additional in-depth interviews with key people in managerial positions.

International:

My cowriter, Aleksander Møller-Hansen, and I have now completed two years of our Master of Science specializing in International Management. Through these last two years, we have had the opportunity to develop our international business knowledge through a wide range of courses focusing on various aspects of international business. Through our master's program, we found great interest in how international forces impact businesses, and especially small and medium firms who wish to enter the international market. My thesis finds that traditional research, as presented by authors like Kotler (2003), argues that firms operating in the international market are constantly faced with challenges regarding cultural differences and the barriers offered by formal and informal institutions. Other authors like Sharma (2011) and Jeon, Meiseberg, Dant, & Grünhagen (2016) further argue that the vast differences between emerging markets and developed countries are diminishing, as cultures are overlapping and economic growth has led to higher living standards as well as increased consumerism in emerging markets. Additionally, other research has found that firms internationalizing to foreign markets are now starting to face strong local actors, which offers higher competition in international markets. These are forces and trends that profoundly affect the business conducted by Beckmann, both domestically and internationally. This thesis discovers that even in markets close to home, Beckmann faces cultural forces and trends that are hard to work around and understand. These forces include marketing trends and even the constantly developing consumer trends. Beckmann faces these trends by either having their employees live in the market to adopt and earn knowledge about the forces that act as barriers or engaging local partners to handle these trends and forces. This thesis also finds how international markets are influenced by political forces and sanctions offered by disputes between nations, such as free trade agreements or the trade sanctions between China and the US. These are forces that could have a great impact on the business of Beckmann. However, they utilize the knowledge and expertise of local business partners that can work around these barriers. My thesis focuses heavily on factors that impact the choice of entry modes in order to overcome potential international and local barriers and succeed in emerging markets. Recent reports from the IMF of April 2020 presents expectations that emerging markets will suffer from a 1% decrease in growth in 2020 as a result of the current global pandemic. However, they also report that if COVID-19 offers further waves, emerging markets are the markets that will experience the greatest consequences. As this thesis has focused on reduction of risks and uncertainty when entering emerging markets, the future will offer evidence to which entry modes that offer the highest level of survivability through this crisis, and if the findings of this thesis will continue to be relevant.

Innovation:

As presented in the thesis, authors like Bruneel and De Cock (2016) researched the findings on previous research on the topics of entry mode choices, and especially the choices of SMEs. Bruneel and De Cock found that there was a lack of research conducted on results and thought processes of these SMEs, which this thesis aimed to add to. Through our findings, we found that as emerging markets and the global economy is in constant change, with new challenges, risks and uncertainties in constant development. Findings also showed that theories and literature presenting the various entry mode choices does not always apply to the choices made by SMEs, as they were found to utilize hybrids of these entry modes, indicating the need for further research on these hybrids and the innovation of new theories. The thesis also researches business networks and relationships in markets where a close business relationship is considered to be a huge part of doing business in these markets and crucial for businesses who want to succeed. We, the authors find the need for further research in markets where business relationships are not considered to be as important, where SMEs can penetrate the market on their own, as this will add important knowledge to factors that impact the choice of entry modes.

Responsibility:

There is no question that the topic of ethical standards and ethical responsibility is a hot topic on a global basis, topics that force global, local, and international companies to align their business operations in order to present themselves as ethical and contributing to the society (CSR). This thesis does not put any focus on these types of responsibilities, however, it is something that is highly relevant, and especially as Beckmann resides in the segments of fashion production. Recent years have shown the commitment of consumers who are starting to question the ethical standards of companies, usually in regards to their production, as portrayed in the "Sweatshop" documentary investigating the production process and working conditions in Asian textile factories. Major companies have also in recent times started to emphasize their focus on ethical production, reassuring their consumers that workers are producing their products in acceptable working conditions and suitable salaries. Consumers and companies are not only focusing on the ethical standards of working conditions, but also in social responsibility and the carbon footprint of businesses. These topics have resulted in an increase in businesses that work to ensure their customers that they are investing in local communities and working hard to reduce their carbon footprint, altering their products to become more environmentally friendly, and investing in improving the communities where they are present.

Reflection note summary:

In summing up, it is clear that my thesis has touched on a wide range of international trends and forces, and how the case company has worked to overcome or take advantage of these trends. The discussion in this reflection note also provides arguments and evidence for how international markets are changing and how businesses work to adapt to these changes. Furthermore, the discussion also reflects on how my thesis provides evidence and findings that indicate the need for further research and the need to add and update old theories and concepts of entry modes. Additionally, this reflection note touches on the fact that my thesis did focus on the topic of ethical responsibilities, however, the topic is highly relevant and important for businesses to implement in their business.